
VERO ENERGY INC.**Consolidated Balance Sheets***(in thousands of dollars)*

	March 31, 2006 <i>(unaudited)</i>	December 31, 2005 <i>(audited)</i>
ASSETS		
CURRENT		
Cash and cash equivalents	-	12,523
Accounts receivable	9,292	6,013
Prepaid expenses and deposits	1,021	156
	10,313	18,692
Property and equipment (Note 4)	107,670	34,207
Goodwill (Note 3)	14,804	-
Future income tax benefit (Note 7)	-	232
	132,787	53,131
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	20,474	9,988
Taxes payable	308	292
Bank debt (Note 5)	25,299	-
	46,081	10,280
Asset retirement obligations (Note 6)	1,136	380
Future taxes	11,894	-
	59,111	10,660
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	72,284	41,703
Contributed surplus (Note 9)	475	103
Retained Earnings	917	665
	73,676	42,471
	132,787	53,131

Commitments (Note 12)

*See accompanying notes.***APPROVED BY THE BOARD****“Signed” Paul R. Baay, Director****“Signed” Douglas J. Bartole, Director**

VERO ENERGY INC.

Consolidated Statement of Operations and Retained Earnings

For the three months ended March 31,

(in thousands of dollars, except per share data)(unaudited)

	<u>2006</u>
REVENUE	
Production revenue	7,096
Royalties	(1,633)
Interest and other	89
	<u>5,552</u>
EXPENSES	
Operating	813
Transportation	134
General and administrative	293
Stock-based compensation (Note 8(c))	372
Interest and bank charges	162
Depletion, depreciation and accretion	3,389
	<u>5,163</u>
INCOME BEFORE INCOME TAXES	389
INCOME TAX EXPENSE (Note 7)	
Current	16
Future	120
	<u>136</u>
NET EARNINGS	252
RETAINED EARNINGS, BEGINNING OF PERIOD	665
	<u>917</u>
RETAINED EARNINGS, END OF PERIOD	917
NET EARNINGS PER SHARE (Note 11)	
Basic	<u>0.01</u>
Diluted	<u>0.01</u>

See accompanying notes.

VERO ENERGY INC.

Consolidated Statement of Cash Flows

For the three months ended March 31,

(in thousands of dollars) (unaudited)

	<u>2006</u>
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:	
OPERATING	
Net earnings	252
Adjustments for:	
Depletion, depreciation and accretion	3,389
Future income taxes	120
Stock-based compensation	372
	<u>4,133</u>
Changes in non-cash working capital (Note 13(a))	<u>(4,757)</u>
	<u>(624)</u>
FINANCING	
Increase in bank debt	6,779
Share issue costs	(41)
	<u>6,738</u>
INVESTING	
Corporate acquisition	(18,887)
Additions to petroleum and natural gas properties	(10,948)
Additions to administrative assets	(76)
Changes in non-cash working capital (Note 13(a))	11,274
	<u>(18,637)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(12,523)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>12,523</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>-</u></u>

Supplementary cash flow information (Note 13(b))

See accompanying notes.

Notes to the Interim Financial Statements**For the three months ended March 31, 2006***(thousands, except per share data) (unaudited)*

1. INCORPORATION AND NATURE OF BUSINESS

Vero Energy Inc. (“Vero or “the Company”) was incorporated on September 23, 2005 and commenced oil and gas operations on November 2, 2005 after the closing of a Plan of Arrangement between Vero, True Energy Inc. (“True”), and TKE Energy Trust (“TKE”). Under the Arrangement Vero acquired certain producing and non-producing oil and gas assets. Vero is engaged in the exploration, development and production of crude oil and natural gas in the province of Alberta.

On February 24, 2006 the Company acquired all of the issued and outstanding shares of Ledge Resources Limited (“Ledge”), a private Alberta oil and gas exploration and development company (Note 3).

2. FINANCIAL PRESENTATION AND POLICIES

The Consolidated Financial Statements of Vero have been prepared by management in accordance with Canadian generally accepted accounting principles. The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiary. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the fiscal period ended December 31, 2005, except as described below. The disclosures included below are incremental to those included with the annual financial statements. The interim statements should be read in conjunction with the financial statements and the notes thereto in the Company’s annual report for the period ended December 31, 2005.

Goodwill is the excess purchase price over the fair value of identifiable assets and liabilities acquired. Goodwill is not amortized. However, goodwill impairment will be assessed annually at December 31, or as economic events dictate, by comparing the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit is less than its carrying value, the fair value of the reporting unit’s goodwill is compared with its carrying value to measure the amount of goodwill impairment loss.

Notes to the Financial Statements
For the three months ended March 31, 2006
(thousands, except per share data) (unaudited)

3. ACQUISITION OF LEDGE RESOURCES LIMITED

Effective February 24, 2006 Vero acquired all of the outstanding common shares of Ledge Resources Limited (“Ledge”). Ledge shareholders received \$1.90 and 0.49473 Vero common shares for each Ledge share held. A total of 4,754,945 Vero shares were issued. The price ascribed to the common shares of \$6.44 was based on the trading prices of Vero common shares on the five days prior, the day of, and the five days following the announcement of the purchase. The acquisition may be subject to adjustments if additional information related to the company during the pre-acquisition periods becomes known. The acquisition was accounted for using the purchase method of accounting as follows:

Consideration paid:

Cash	18,261
Common shares	30,622
Transaction costs	626
	49,509

Allocation of purchase price:

Current assets	3,837
Current liabilities	(3,678)
Debt assumed	(18,520)
	(18,361)
Property, plant and equipment	65,738
Goodwill	14,804
Asset retirement obligations	(666)
Future income taxes	(12,006)
	49,509

4. PROPERTY AND EQUIPMENT

	March 31, 2006		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	111,812	(4,240)	107,572
Administrative assets	104	(6)	98
	111,916	(4,246)	107,670

Notes to the Consolidated Financial Statements**For the three months ended March 31, 2006***(thousands, except per share data) (unaudited)***4. PROPERTY AND EQUIPMENT (continued)**

	December 31, 2005		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	35,050	(870)	34,180
Administrative assets	28	(1)	27
	35,078	(871)	34,207

Undeveloped land costs and salvage values excluded from the depletion calculation as at March 31, 2006 were \$9,480. Future development costs on proved undeveloped reserves of \$7,291 were included in the depletion calculation. During 2006, the Company capitalized \$56 in general and administrative expenses directly related to exploration and development activities.

5. BANK DEBT

The Company has a \$30,000 revolving credit facility with a Canadian Chartered Bank. The advances bear interest at bank prime. The facility is secured with a \$75,000 floating charge debenture over the assets of the Company. During 2006, \$122 in interest was incurred on this facility.

Notes to the Financial Statements
For the three months ended March 31, 2006
(thousands, except per share data) (unaudited)

6. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from the ownership interests it has in petroleum and natural gas assets, including well sites, gathering systems, batteries and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at March 31, 2006 to be \$2,423, which will be incurred at various times between 2006 and 2021. The fair value of the asset retirement obligations incurred in the period ended March 31, 2006 was calculated using a credit-adjusted risk free rate of 8.0% and an inflation factor of 2.4%. Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at March 31, 2006, no funds have been set aside to settle these obligations. Changes to asset retirement obligations during the period were as follows:

	2006
Asset retirement obligations at beginning of period	380
Liabilities assumed on the corporate acquisition	666
Liabilities incurred during the period	76
Liabilities settled during the period	-
Accretion	14
Asset retirement obligations at end of period	1,136

7. INCOME TAXES

The provision for income tax differs from the amounts that would have resulted from the combined federal and provincial rate had it been applied for the period ended March 31, 2006:

	2006
Income before income taxes	389
Expected income tax recovery at the statutory rate of 35.6%	139
Tax effect of non-deductible and non-taxable amounts related to:	
Non-deductible crown payments	166
Resource allowance	(164)
Stock-based compensation and other non-deductible	133
Alberta Royalty Tax Credit and Attributed Canadian	
Royalty Income	(29)
Capital tax	16
Other	(125)
	136

Notes to the Financial Statements
For the three months ended March 31, 2006
(thousands, except per share data) (unaudited)

8. SHARE CAPITAL

	Shares (000's)	Amount
Authorized		
Unlimited number of common shares		
Unlimited number of first preferred shares		
Issued		
<i>Common shares</i>		
Balance September 23, 2005	-	-
Shares issued pursuant to the Plan of Arrangement	9,836	21,313
Private placements	2,726	6,052
Conversion of warrants to common shares	6,459	14,338
Balance December 31, 2005	<u>19,021</u>	<u>41,703</u>
Issuance of shares on corporate acquisition (note 8(a))	4,755	30,622
Share issue costs (net of related tax effect)	-	(41)
Total share capital at March 31, 2006	<u><u>23,776</u></u>	<u><u>72,284</u></u>

a) Acquisition of Ledge Resources Limited

On February 24, 2006 the Company acquired all of the outstanding shares of a private company. At closing, Vero issued 4,755 common shares at a deemed value of \$30,622 (see note 3).

Notes to the Financial Statements
For the three months ended March 31, 2006
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8. SHARE CAPITAL (continued)

b) Stock options

The Company has a stock option plan under which options to purchase common shares may be granted to officers, directors, employees and consultants. The Board has approved a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. As at December 31, 2005 there were 1,902 shares reserved for issuance under the plan. All options awarded have a maximum term of five years and vest in equal one-third increments on each anniversary of the grant.

	March 31, 2006	
	Stock Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of period	1,600	4.87
Granted	74	5.35
Exercised	-	-
Cancelled	-	-
Outstanding, end of period	1,674	4.89
Exercisable, end of period	-	-

	March 31, 2006		
Range of Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Years to Expiry
\$4.87 - \$5.35	1,674	\$4.89	4.7

Notes to the Financial Statements
For the three months ended March 31, 2006
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8. SHARE CAPITAL (continued)

c) Stock-based compensation

The Company accounts for its stock options granted to employees, officers, and directors using the fair value method. In accordance with the Company's incentive stock plan, these warrants and options have an exercise price equal to the fair value of the security at the date of grant. The fair value of each warrant or option granted is estimated on the date of grant using a modified Black-Scholes option-pricing model. The following assumptions have been used:

	2005
Risk free rate (%)	4.1
Expected life (years)	5
Expected volatility (%)	34
Expected dividends	-

For the period ended March 31, 2006, 74 stock options were granted to employees, officers and directors. During the period \$372 was recorded as stock compensation expense with respect to the options with a corresponding credit to contributed surplus (Note 9). The option grant during the period had a weighted average fair value expense attributed to them of \$1.93 per share.

9. CONTRIBUTED SURPLUS

The following table reconciles the Company's contributed surplus:

	March 31, 2006
Balance at beginning of period	103
Stock-based compensation	372
Balance at end of period	475

Notes to the Financial Statements
For the three months ended March 31, 2006
(thousands, except per share data) (unaudited)

10. RELATED PARTY TRANSACTIONS

Pursuant to a Transitional Services Agreement (Note 12(a)) an aggregate of \$90 was incurred during the period to a related party for the provision of technical services and office space. The party is related due to common ownership. The amount agreed upon has been determined by management to be similar as to what would be paid to an arm's length party. None of this amount had been paid by the end of the period.

11. NET EARNINGS PER SHARE

The following table summarizes the shares used in calculating net earnings per share as at March 31, 2006:

	<u>2005</u>
Weighted average shares outstanding - basic	20,870
Effect of stock options	<u>23</u>
Weighted average shares outstanding - diluted	<u><u>20,893</u></u>

There were no options excluded from the diluted earnings per share calculations at the end of the period.

12. COMMITMENTS

Vero is committed to the following payments at the end of the period:

a) Transitional Services Agreement

The Company entered into a Transitional Services Agreement with True on November 2, 2005 for the provision of office space, use of certain employees of True and other administrative costs based on a proportionate share of operating costs for the next year. The agreement expired on April 1, 2006.

Notes to the Financial Statements
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12. COMMITMENTS (continued)

b) Head office lease

The Company has entered a lease agreement for its head office which commenced on April 1, 2006. The lease commitments are the same amounts as the related party pays the arms length landlord. The minimum future costs as at March 31, 2006 are as follows:

2006	206
2007	274
2008	274
2009	274
2010	274
2011	69
	<hr/>
Total minimum payments	1,371
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c) Transportation obligations

The Company has entered into firm-service contracts for the transportation of its natural gas. The amounts below are the minimum cash obligations that the Company must pay under the terms of the contract. The combined minimum future costs as at March 31, 2006 are as follows:

2006	23
2007	8
	<hr/>
Total minimum payments	31
	<hr/> <hr/>

Notes to the Financial Statements
For the three months ended March 31, 2006
(thousands, except per share data) (unaudited)

13. SUPPLEMENTARY INFORMATION

a) Changes in non-cash working-capital

	<u>2005</u>
Accounts receivable	(3,279)
Prepaid expenses and deposits	(865)
Accounts payable and accrued liabilities	10,486
Taxes payable	16
Change in non-cash working capital (accounts payable) from investing	(11,274)
Corporate acquisition of working capital	159
	<u>(4,757)</u>

b) Supplementary cash flow information

	<u>2005</u>
Interest received	89
Interest paid	124
Taxes paid	-

14. SUBSEQUENT EVENT

On April 13, 2006 the Company closed a private placement for the issuance of 2,131,150 common shares at a price of \$6.10 per share. The Company received gross proceeds of \$13,000 and paid \$884 in transaction costs to net \$12,116.