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

	<b>March 31, 2007 (unaudited)</b>	December 31, 2006 (audited)
<b>ASSETS</b>		
<b>CURRENT</b>		
Accounts receivable	<b>12,746</b>	15,308
Prepaid expenses and deposits	<b>1,152</b>	1,089
	<b>13,898</b>	16,397
Property and equipment (Note 4)	<b>153,538</b>	135,427
Goodwill (Note 3)	<b>15,034</b>	15,034
	<b>182,470</b>	166,858
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	<b>31,583</b>	30,286
Bank debt (Note 5)	<b>48,249</b>	35,651
	<b>79,832</b>	65,937
Asset retirement obligations (Note 6)	<b>1,905</b>	1,785
Future taxes	<b>11,016</b>	10,567
	<b>92,753</b>	78,289
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	<b>84,710</b>	84,710
Contributed surplus (Note 9)	<b>2,585</b>	2,159
Retained Earnings	<b>2,422</b>	1,700
	<b>89,717</b>	88,569
	<b>182,470</b>	166,858

Commitments (Note 11)  
*See accompanying notes.*

**APPROVED BY THE BOARD**

**“Signed” Paul R. Baay, Director**

**“Signed” Douglas J. Bartole, Director**

## VERO ENERGY INC.

### Statement of Operations, Comprehensive Income and Retained Earnings

For the three months ended March 31,

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

	2007	2006
<b>REVENUE</b>		
Production revenue	20,407	7,096
Royalties	(5,645)	(1,633)
Interest and other	-	89
	<b>14,762</b>	<b>5,552</b>
<b>EXPENSES</b>		
Operating	2,512	813
Transportation	375	134
General and administrative	694	293
Stock-based compensation (Note 8(c))	426	372
Interest and bank charges	677	162
Depletion, depreciation and accretion	8,907	3,389
	<b>13,591</b>	<b>5,163</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,171</b>	<b>389</b>
<b>INCOME TAX EXPENSE</b> (Note 7)		
Current	-	16
Future	449	120
	<b>449</b>	<b>136</b>
<b>NET EARNINGS AND COMPREHENSIVE INCOME</b>	<b>722</b>	<b>252</b>
<b>RETAINED EARNINGS, BEGINNING OF PERIOD</b>	<b>1,700</b>	<b>665</b>
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>2,422</b>	<b>917</b>
<b>NET EARNINGS PER SHARE</b> (Note 10)		
Basic	0.03	0.01
Diluted	0.03	0.01

See accompanying notes.

# VERO ENERGY INC.

## Statement of Cash Flows

For the three months ended March 31,

(in thousands of dollars) (unaudited)

	2007	2006
<b>CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:</b>		
<b>OPERATING</b>		
Net earnings	722	252
Adjustments for:		
Depletion, depreciation and accretion	8,907	3,389
Future income taxes	449	120
Stock-based compensation	426	372
	<b>10,504</b>	4,133
Changes in non-cash working capital (Note 12(a))	(4,393)	(4,757)
	<b>6,111</b>	(624)
<b>FINANCING</b>		
Increase in bank debt	12,598	6,779
Share issue costs	-	(41)
	<b>12,598</b>	6,738
<b>INVESTING</b>		
Corporate acquisition (Note 3)	-	(18,887)
Additions to petroleum and natural gas properties	(24,412)	(10,948)
Purchase of petroleum and natural gas properties	(2,478)	
Additions to administrative assets	(8)	(76)
Changes in non-cash working capital (Note 12(a))	8,189	11,274
	<b>(18,709)</b>	(18,637)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	-	(12,523)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	-	12,523
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	-	-

Supplementary cash flow information (Note 12(b))

See accompanying notes.

**Notes to the Interim Financial Statements**  
**For the three months ended March 31, 2007 and 2006**  
*(thousands, except per share data) (unaudited)*

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**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). Subsequently, Ledge’s name was changed to Vero Resources Inc.

Effective January 1, 2007 Vero and Vero Resources Inc., a wholly-owned subsidiary of the Company were amalgamated under the Alberta Business Corporations Act and will continue under the name Vero Energy Inc.

**2. FINANCIAL PRESENTATION AND POLICIES**

The Financial Statements of Vero have been prepared by management in accordance with Canadian generally accepted accounting principles. 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, 2006, 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, 2006. Preparation of the Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

**Notes to the Interim Financial Statements**  
**For the three months ended March 31, 2007 and 2006**  
*(thousands, except per share data) (unaudited)*

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**2. FINANCIAL PRESENTATION AND POLICIES (Continued)**

**Financial Instruments**

Effective January 1, 2007 the Company adopted the new recommendations from the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments - Recognition and Measurement; Section 1530, Comprehensive Income; Section 3861, Financial Instruments - Disclosure and presentation; Section 3251, Equity and Section 3865, Hedges. The adoption of these new financial instruments standards resulted in changes in the accounting for financial instruments as well as the recognition of certain transitional adjustments that have been recorded in opening accumulated other comprehensive income as described below. The components of equity and changes thereto have been disclosed. The standards are applied retroactively with prospective presentation except for adjustments relating to cumulative translation adjustments to account for foreign self-sustaining subsidiaries which are applied and presented retroactively. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

*(a) Financial assets and financial liabilities*

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently measured based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. The classification generally cannot be changed subsequent to the designation at the initial recognition of the instruments.

Held for trading

Financial assets that are purchased and held with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in fair value recognized in net earnings during the period. Cash and cash equivalents were classified as held for trading, these instruments are highly liquid are readily convertible to known amounts of cash and are so near maturity that there is no significant risk of changes in value due to rate changes.

Held-to-maturity

Securities that have a fixed maturity date and which the Company has positive intention and the ability to hold to maturity are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method. No investments were classified as held-to-maturity on March 31, 2007.

**Notes to the Interim Financial Statements**  
**For the three months ended March 31, 2007 and 2006**  
*(thousands, except per share data) (unaudited)*

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**2. FINANCIAL PRESENTATION AND POLICIES (Continued)**

Available-for-sale

Financial assets designated to be available-for-sale or not designated as one of the above categories are classified as available-for-sale. These assets are accounted for at fair value, with changes in fair value recognized in other comprehensive income. When a decline in fair value is determined to be other-than-temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in net earnings. Gains and losses realized on disposal of available-for-sale securities are recognized in other income in net earnings. No investments were classified as available-for-sale on January 1, 2007.

*(b) Comprehensive Income and equity*

The Canadian Institute of Chartered Accountants (CICA) issued section 1530 of the CICA Handbook, comprehensive income during the year, effective for fiscal years beginning on or after October 1, 2006. Comprehensive income is described as the change in a company's net assets that results from transactions, events and circumstances related to sources other than the company's shareholders. The CICA also made changes to section 3250 of the CICA Handbook, Surplus, and reissued it as section 3251, Equity. The section is also effective for fiscal years beginning on or after October 1, 2006. The Company has adopted this policy effective January 1, 2007, but the results of both comprehensive income and accumulated comprehensive income are not material to the financial statements and therefore no additional disclosure has been included.

**Notes to the Interim Financial Statements**  
**For the three months ended March 31, 2007 and 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 operating results and corresponding cash flow and earnings related to the acquisition were included in the Company’s consolidated financial statements effective February 25, 2006. The acquisition was accounted for using the purchase method and the purchase price was allocated based on fair values as follows:

**Consideration paid:**

Cash paid to Ledge shareholders	<b>18,261</b>
Issuance of 4,754,945 common shares (Note 8(a))	<b>30,622</b>
Transaction costs	<b>626</b>
	<b>49,509</b>

**Allocation of purchase price:**

Current assets	<b>3,837</b>
Current liabilities	<b>(3,678)</b>
Debt assumed	<b>(18,520)</b>
	<b>(18,361)</b>
Property, plant and equipment	<b>65,738</b>
Goodwill	<b>15,034</b>
Asset retirement obligations	<b>(666)</b>
Future income taxes	<b>(12,236)</b>
	<b>49,509</b>

**4. PROPERTY AND EQUIPMENT**

	<b>March 31, 2007</b>		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	185,123	(31,708)	<b>153,415</b>
Administrative assets	177	(54)	<b>123</b>
	<b>185,300</b>	<b>(31,762)</b>	<b>153,538</b>

**Notes to the Consolidated Financial Statements****For the three months ended March 31, 2007 and 2006***(thousands, except per share data) (unaudited)***4. PROPERTY AND EQUIPMENT (continued)**

	December 31, 2006		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	158,150	(22,846)	135,304
Administrative assets	169	(46)	123
	158,319	(22,892)	135,427

Undeveloped land costs and salvage values excluded from the depletion calculation as at March 31, 2007 were \$10,467 (2006 - \$9,480). Future development costs on proved undeveloped reserves of \$1,460 (2006 - \$7,291) were included in the depletion calculation. During 2007, the Company capitalized \$108 (2006 - \$56) in general and administrative expenses directly related to exploration and development activities.

**5. BANK DEBT**

The Company has a \$70,000 revolving credit facility with a Canadian Chartered Bank. The advances bear interest at bank prime. The authorized limit is subject to an annual review and potential revision of the borrowing base by the bank. The next borrowing base review is scheduled for July, 2007. The facility is secured with a \$125,000 floating charge debenture over the assets of the Company.

**Notes to the Financial Statements****For the three months ended March 31, 2007 and 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, 2007 to be \$3,975 (2006 - \$2,423), which will be incurred at various times between 2007 and 2021. The fair value of the asset retirement obligations incurred in the period ended March 31, 2007 was calculated using a credit-adjusted risk free rate of 8.0% (2006 - 8.0%) and an inflation factor of 2.3% (2006 - 2.4%). Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at March 31, 2007, no funds have been set aside to settle these obligations. Changes to asset retirement obligations during the periods ended March 31 were as follows:

	2007	2006
Asset retirement obligations at January 1	1,785	380
Liabilities assumed on the corporate acquisition	-	666
Liabilities incurred during the period	118	76
Liabilities settled during the period	-	-
Change in estimated future cash flows	(36)	-
Accretion	38	14
Asset retirement obligations at March 31	1,905	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, 2007:

	2007	2006
Income before income taxes	1,171	389
Expected income tax recovery at the statutory rate of 32.1% (2006 - 35.6%)	376	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 Alberta Royalty Tax Credit and Attributed Canadian Royalty Income	184	133
Capital tax	-	16
Other	(111)	(125)
	449	136

**Notes to the Financial Statements****For the three months ended March 31, 2007 and 2006***(thousands, except per share data) (unaudited)***8. SHARE CAPITAL**

	<b>Shares (000's)</b>	<b>Amount</b>
Authorized		
Unlimited number of voting common shares		
Unlimited number of first preferred shares		
Issued		
<i>Common shares</i>		
<b>Balance December 31, 2005</b>	19,021	<b>41,703</b>
Issuance of shares on corporate acquisition (a)	4,755	<b>30,622</b>
Private placement, net of share issue costs (b)	2,131	<b>12,061</b>
Adjustment for tax benefits from share issue costs	-	<b>324</b>
<b>Balance December 31, 2006</b>	<b>25,907</b>	<b>84,710</b>
<b>Total share capital at March 31, 2007</b>	<b>25,907</b>	<b>84,710</b>

## 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, 2007 and 2006**  
*(thousands, except per share data) (unaudited)*

**8. SHARE CAPITAL (continued)**

b) Private Placement

On April 13, 2006 the Company closed a private placement for the issuance of 2,131 common shares at a price of \$6.10 per share. The net proceeds of the issuance of \$12,061 are comprised of gross proceeds of \$13,000 less expenses of the issue of \$939.

c) 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 March 31, 2007 there were 2,591 (2006 – 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. As at March 31, the following stock options were outstanding:

	2007		2006	
	Stock Options	Weighted Average Exercise Price \$	Share Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	2,321	5.14	1,600	4.87
Granted	70	5.58	74	5.35
Exercised	-	-	-	-
Cancelled	-	-	-	-
Outstanding, end of period	2,391	5.15	1,674	4.89
Exercisable, end of period	558		-	

Options Outstanding						
		2007			2006	
Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price \$	Weighted Average Years to Expiry	Number of Options Outstanding	Weighted Average Exercise Price \$	Weighted Average Years to Expiry
\$4.87 - 5.61	1,926	4.93	3.8	1,674	4.89	4.7
\$6.00 - 6.31	465	6.08	4.1	-	-	-
	2,391	5.15	3.9	1,674	4.89	4.7

**Notes to the Financial Statements****For the three months ended March 31, 2007 and 2006***(thousands, except per share data) (unaudited)***8. SHARE CAPITAL (continued)**

## d) 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 options have an exercise price equal to the fair value of the security at the date of grant. The fair value of each option granted is estimated on the date of grant using a modified Black-Scholes option-pricing model. The following assumptions have been used:

	<b>2007</b>	2006
Risk free rate (%)	<b>4.0</b>	4.1
Expected life (years)	<b>5</b>	5
Expected volatility (%)	<b>53</b>	34
Expected dividends	-	-

For the period ended March 31, 2007, 70 (2006 – 74) stock options were granted to employees, officers and directors were outstanding. During the period, \$426 (2006 - \$372) was recorded as stock compensation expense with respect to the options outstanding with a corresponding credit to contributed surplus (Note 9). The option grants during the period had a weighted average fair value expense attributed to them of \$2.08 (2006 - \$1.93) per share.

**9. CONTRIBUTED SURPLUS**

The following table reconciles the Company's contributed surplus as at March 31,

	<b>2007</b>	2006
Balance at January 1	<b>2,159</b>	103
Stock-based compensation expense	<b>426</b>	372
Balance at March 31	<b>2,585</b>	475

**Notes to the Financial Statements****For the three months ended March 31, 2007 and 2006***(thousands, except per share data) (unaudited)***10. NET EARNINGS PER SHARE**

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

	<b>2007</b>	2006
Weighted average shares outstanding - basic	<b>25,907</b>	20,870
Dilutive stock options outstanding	<b>1,856</b>	1,674
Shares notionally repurchased with proceeds from dilutive stock options and returned to treasury	<b>(1,856)</b>	(1,651)
<b>Weighted average shares outstanding - diluted</b>	<b>25,907</b>	20,893

During the first quarter of 2007, 465 (2006 – Nil) of the issued stock options were excluded from the calculation of diluted weighted average shares outstanding as to include them would be anti-dilutive.

**11. COMMITMENTS**

In addition to the commitments listed below, the Company has various indemnifications in place in the ordinary course of business, none of which, as assessed by management, are expected to have a significant impact on the Company's financial statements.

*a) Transportation costs*

The Company has committed to 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, 2007 are as follows:

	<b>2007</b>	2006
2006	-	23
2007	<b>17</b>	8
2008	<b>23</b>	-
2009	<b>23</b>	-
2010	<b>12</b>	-
2011	<b>8</b>	-
2012	<b>2</b>	-
<b>Total minimum payments</b>	<b>85</b>	31

**Notes to the Financial Statements****For the three months ended March 31, 2007 and 2006***(thousands, except per share data) (unaudited)***11. COMMITMENTS (Continued)***b) Office lease costs*

The Company has committed to future minimum payments under an operating lease that covers the rental of office space and a proportionate share of operating costs as follows:

	<b>2007</b>	2006
2006	-	206
2007	<b>682</b>	274
2008	<b>910</b>	274
2009	<b>910</b>	274
2010	<b>910</b>	274
2011	<b>531</b>	69
<b>Total minimum payments</b>	<b>3,943</b>	1,371

*c) Indemnifications*

From time to time, the Company may become involved in litigation or have claims sought against it in the normal course of business operations. Management of the corporation is not currently aware of any claims or actions that would materially affect the Corporation's reported financial position or results from operations.

Under the terms of certain agreements and the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The Company has no outstanding claims having a potentially material adverse effect on the Company as a whole.

*d) Drilling commitments*

As at March 31, 2007 Vero had committed to drill a total of five wells in Alberta with varying commencement dates in 2007 pursuant to farm-in agreements with industry partners. The Company expects to satisfy their net portion of these drilling commitments at an estimated cost of \$2,600.

**Notes to the Financial Statements**  
**For the three months ended March 31, 2007 and 2006**  
*(thousands, except per share data) (unaudited)*

**12. SUPPLEMENTARY INFORMATION**

*a) Changes in non-cash working-capital*

	<b>2007</b>	<b>2006</b>
Accounts receivable	<b>2,562</b>	(3,279)
Prepaid expenses and deposits	<b>(63)</b>	(865)
Accounts payable and accrued liabilities	<b>1,297</b>	10,486
Taxes payable	-	16
Corporate acquisition of working capital (Note 3)	-	159
Net change in non-cash working capital	<b>3,796</b>	6,517
Investing activities	<b>(8,189)</b>	(11,274)
Operating activities	<b>(4,393)</b>	(4,757)

*b) Supplementary cash flow information*

	<b>2007</b>	<b>2006</b>
Interest received	-	89
Interest paid	<b>675</b>	124

**13. FINANCIAL INSTRUMENTS**

Financial instruments consist primarily of accounts receivable, prepaid expenses, accounts payable and accrued liabilities and bank debt. There are no significant differences between the carrying value of these instruments and their estimated fair value.

A substantial portion of the Company's accounts receivable are with customers and joint-venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchaser's of the Company's oil, natural gas and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

The Company is exposed to interest rate risk to the extent that changes in the market interest rates will impact the Company's cash and cash equivalents that have a floating interest rate. The bank facility is also based on a floating interest rate. The Company had no interest rate swaps or hedges at March 31, 2007.

During the period ended March 31, 2007 the Company entered into the following commodity contract:

<b>Type</b>	<b>Amount</b>	<b>Term</b>	<b>Price (\$/gj)</b>	<b>Type</b>
Costless collar	5,000 gj/day	April 1 – October 31, 2007	\$7.00 - \$8.80	Financial

**Notes to the Financial Statements****For the three months ended March 31, 2007 and 2006***(thousands, except per share data) (unaudited)*

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**14. SUBSEQUENT EVENT**

On April 5, 2007 the Company closed a private placement for the issuance of 1,500,000 common shares at a price of \$5.55 per share and 1,500,000 flow-through common shares at a price of \$7.25 per share. The Company received gross proceeds of \$19,200 and paid \$1,264 in transaction costs to net \$17,936.