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

	<b>March 31, 2009 <i>(unaudited)</i></b>	December 31, 2008 <i>(audited)</i>
<b>ASSETS</b>		
<b>CURRENT</b>		
Accounts receivable	<b>20,514</b>	29,218
Prepaid expenses and deposits	<b>6,764</b>	5,294
Loans receivable	<b>4,023</b>	350
	<b>31,301</b>	34,862
Property and equipment (Note 4)	<b>313,398</b>	297,697
Goodwill	<b>19,913</b>	19,913
	<b>364,612</b>	352,472
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	<b>52,826</b>	63,354
Bank debt (Note 5)	<b>102,448</b>	75,419
	<b>155,274</b>	138,773
Asset retirement obligations (Note 6)	<b>5,703</b>	5,570
Future taxes	<b>21,208</b>	17,416
	<b>182,185</b>	161,759
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	<b>155,184</b>	160,103
Contributed surplus (Note 9)	<b>6,098</b>	4,759
Retained Earnings	<b>21,145</b>	25,851
	<b>182,427</b>	190,713
	<b>364,612</b>	352,472

Commitments (Note 11)  
*See accompanying notes.*

**APPROVED BY THE BOARD**

*“Signed”* Paul R. Baay, Director

*“Signed”* Douglas J. Bartole, Director

**VERO ENERGY INC.****Consolidated Statements of Operations, Comprehensive (Loss) Income and Retained Earnings****For the three months ended March 31,***(in thousands of dollars, except per share data)(unaudited)*

	2009	2008
<b>REVENUE</b>		
Production revenue	22,135	31,168
Royalties	(5,257)	(8,492)
Unrealized loss on risk management activities	-	(3,468)
Interest & other income	21	-
	<b>16,899</b>	<b>19,208</b>
<b>EXPENSES</b>		
Operating	5,821	2,694
Transportation	864	626
General and administrative	1,197	892
Stock based compensation (Note 8(f))	1,339	186
Interest and bank charges	816	622
Depletion, depreciation and accretion	12,609	8,753
	<b>22,646</b>	<b>13,773</b>
<b>(LOSS) INCOME BEFORE INCOME TAXES</b>	<b>(5,747)</b>	<b>5,435</b>
<b>INCOME TAX (RECOVERY) EXPENSE</b> (Note 7)		
Future	(1,052)	1,652
	<b>(1,052)</b>	<b>1,652</b>
<b>NET (LOSS) EARNINGS AND COMPREHENSIVE (LOSS) INCOME</b>	<b>(4,695)</b>	<b>3,783</b>
<b>RETAINED EARNINGS, BEGINNING OF PERIOD</b>	<b>25,851</b>	<b>4,864</b>
<b>REPURCHASE OF SHARES</b> (Note 8(d))	<b>(11)</b>	<b>-</b>
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>21,145</b>	<b>8,647</b>
<b>NET (LOSS) EARNINGS PER SHARE</b> (Note 10)		
Basic	(0.13)	0.13
Diluted	(0.13)	0.13

*See accompanying notes.*

# VERO ENERGY INC.

## Consolidated Statements of Cash Flows

For the three months ended March 31,

(in thousands of dollars) (unaudited)

	2009	2008
<b>CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:</b>		
<b>OPERATING</b>		
Net (loss) earnings	(4,695)	3,783
Adjustments for:		
Unrealized loss on risk management activities	-	3,468
Depletion, depreciation and accretion	12,609	8,753
Future income taxes	(1,052)	1,652
Stock based compensation	1,339	186
	8,201	17,842
Changes in non-cash working capital (Note 12(a))	(14,050)	(2,465)
	(5,849)	15,377
<b>FINANCING</b>		
Increase (decrease) in bank debt	27,029	(9,935)
Proceeds from issuance of commons shares, net of share issue costs	-	16,761
Repurchase of shares (Note 8(d))	(86)	-
Loans to officers/directors (Note 14)	(3,673)	-
	23,270	6,826
<b>INVESTING</b>		
Additions to petroleum and natural gas properties	(28,317)	(19,883)
Additions to administrative assets	(5)	(5)
Proceeds on Sales of Property/Equipment	145	-
Changes in non-cash working capital (Note 12(a))	10,756	(2,315)
	(17,421)	(22,203)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	-	-
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	-	-
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	-	-

Supplementary cash flow information (Note 12(b))

See accompanying notes.

**Notes to the Interim Consolidated Financial Statements****For the three months ended March 31, 2009 and 2008***(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.

**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 interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year period ended December 31, 2008, except as described below. The disclosures included below are incremental to those included with the annual consolidated financial statements. The interim statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Company’s annual report for the year ended December 31, 2008. 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.

These financial statements do not include all the information and disclosure required by GAAP for annual financial statements, and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2008.

**Notes to the Interim Consolidated Financial Statements****For the three months ended March 31, 2009 and 2008***(thousands, except per share data) (unaudited)*

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**3. CHANGES IN ACCOUNTING POLICIES**

Effective January 1, 2009, the Company adopted the new Canadian standard, Handbook Section 3064, Goodwill and Intangible Assets, which replaced Handbook Section 3062, Goodwill and Other Intangible assets. The new standard introduces guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. The standard also harmonizes Canadian standards with IFRS and applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. There was no material impact to the consolidated financial statements as a result of the implementation of the new standard.

Recent accounting pronouncements issued and not yet adopted

The following accounting standards will apply to future fiscal periods:

In January 2006, the CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards (“IFRS”) effective January 1, 2011. The Corporation has completed its initial phase of the implementation which included conceptual application of the new rules, diagnostic analysis of Vero’s accounting data and a high-level assessment of key areas that may be impacted by the adoption of IFRS. The next phase, will include the analysis of accounting policy alternatives available under IFRS as well as the determination of changes required to existing information systems and business processes. Vero continues to assess the impact of the conversion on internal controls over financial reporting and disclosure controls and procedures and will continue to invest in training and resources throughout the transition period.

The CICA issued Handbook Section 1582 *Business Combinations*, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2011. The adoption of the revised standard is expected to impact Vero’s financial statements only to the extent that business combinations are entered into after the effective date.

**Notes to the Interim Consolidated Financial Statements****For the three months ended March 31, 2009 and 2008***(thousands, except per share data) (unaudited)***4. PROPERTY AND EQUIPMENT**

	<b>March 31, 2009</b>		
	Cost	Accumulated depletion, depreciation and accretion	<b>Net Book Value</b>
Petroleum and natural gas properties and facilities	424,983	(111,737)	<b>313,246</b>
Administrative assets	289	(137)	<b>152</b>
	<b>425,272</b>	<b>(111,874)</b>	<b>313,398</b>
	<b>December 31, 2008</b>		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	396,785	(99,246)	297,539
Administrative assets	284	(126)	158
	<b>397,069</b>	<b>(99,372)</b>	<b>297,697</b>

Undeveloped land costs and salvage values excluded from the depletion calculation as at March 31, 2009 were \$24,293 (December 31, 2008 - \$24,428). Future development costs on proved undeveloped reserves of \$49,766 (December 31, 2008 - \$59,931) were included in the depletion calculation. During the three months ended March 31, 2009, the Company capitalized \$230 (March 31, 2008 - \$134) in general and administrative expenses directly related to exploration and development activities.

**5. BANK DEBT**

The Company has a \$115,000 revolving credit facility with a syndicate of banks. The authorized limit is subject to a semi-annual, borrowing base review by the bank. The facility is available to the Company at their discretion until March 31, 2010. At that date Vero may request a renewal for a period of up to 364 days from that date. The facility is secured by a \$300,000 floating charge debenture over all the assets of the Company. Interest on the outstanding advances is calculated using a pricing grid that escalates as the net debt to cash flow ratio increases. Any unutilized portion of the credit facility is subject to a standby fee. For the period ended March 31, 2009 the effective interest rate was 3.8% (March 31, 2008 - 5.8%).

**Notes to the Interim Consolidated Financial Statements****For the three months ended March 31, 2009 and 2008***(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, which include: 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, 2009 to be \$14,061 (March 31, 2008 - \$6,767), which will be incurred at various times between 2010 and 2023. The fair value of the asset retirement obligations incurred in the period ended March 31, 2009 was calculated using a credit-adjusted risk free rate of 7.7% (March 31, 2008 – 8.1%) and an inflation factor of 1.9% (March 31, 2008 – 1.4%). Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at March 31, 2009, no funds have been set aside to settle these obligations. Changes to asset retirement obligations during the periods were as follows:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
Asset retirement obligations at January 1	<b>5,570</b>	2,641
Liabilities incurred during the period	<b>28</b>	20
Liabilities settled during the period	-	-
Change in estimated future cash flows	<b>(1)</b>	1
Accretion	<b>106</b>	53
Asset retirement obligations at March 31	<b>5,703</b>	2,715

**7. INCOME TAXES**

The provision for income tax reflects an effective rate which differs from the expected, statutory, federal and provincial tax rates. Differences for the periods ended March 31, 2009 and 2008 are accounted for as follows:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
(Loss) income before income taxes	<b>(5,747)</b>	5,435
Expected income tax (recovery) expense, at the statutory rate of 29.0% (2008 – 29.5%)	<b>(1,667)</b>	1,603
Tax effect of non-deductible and non-taxable amounts related to:		
Stock-based compensation and other non-deductible	<b>390</b>	55
Changes in expected timing of reversals of temporary differences	<b>238</b>	-
Other	<b>(13)</b>	(6)
	<b>(1,052)</b>	1,652

**Notes to the Interim Consolidated Financial Statements****For the three months ended March 31, 2009 and 2008***(thousands, except per share data) (unaudited)***8. SHARE CAPITAL**

	Shares (000's)	\$000's
Authorized		
Unlimited number of voting common shares		
Unlimited number of first preferred shares		
Issued		
<i>Common shares</i>		
<b>Balance December 31, 2007</b>	28,915	103,077
Private placement, net of share issue costs (a)	1,940	16,759
Issued on corporate acquisition (b)	1,835	15,087
Issued on corporate acquisition (c)	3,816	23,659
Exercise of stock options (e)	871	5,787
Normal course issuer bid (d)	(408)	(1,715)
Adjustment for tax benefits from share issue costs	-	356
Adjustment for tax cost of flow-through shares (a)	-	(2,907)
<b>Balance December 31, 2008</b>	36,969	160,103
Normal course issuer bid (d)	(17)	(75)
Adjustment for tax cost of flow-through shares (a)	-	(4,844)
<b>Total share capital at March 31, 2009</b>	36,952	155,184

## a) Private placement

On February 28, 2008 the Company closed a private placement for the issuance of 1,940 Flow-Through Common Shares at a price of \$9.25 per share. The net proceeds of issuance of \$16,759 were comprised of gross proceeds of \$17,945 less expenses of the issue of \$1,186. The tax effect of the tax benefits renounced to subscribers in respect of the flow-through shares was recognized in the current period which is when the renouncement documents were filed with the taxation authorities. This renunciation resulted in \$4,844 in future tax liability being offset to share capital. Using a combination of the regular, and the "look-back" flow-through share provisions of the Income Tax Act, the Company was required to incur eligible expenditures in the amount of \$17,945 prior to December 31, 2009 (Note 11(e)).

**Notes to the Interim Consolidated Financial Statements****For the three months ended March 31, 2009 and 2008***(thousands, except per share data) (unaudited)*

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**8. SHARE CAPITAL (continued)**

## b) Acquisition of Dorian Energy Inc.

On April 15, 2008 the Vero acquired all of the outstanding shares of a private company. Upon closing of the acquisition, 1,835 common shares were issued at a deemed value of \$15,087.

## c) Acquisition of Revolve Energy Inc.

On November 10, 2008 the Vero acquired all of the outstanding shares of a private company. Upon closing of the acquisition, 3,816 common shares were issued at a deemed value of \$23,659 or \$6.20 per share.

## d) Normal Course Issuer Bid

In August of 2007, the Toronto Stock Exchange approved the Company's application to initiate a Normal Course Issuer Bid ("Bid"). The Bid is renewable on a yearly basis. In August of 2008 the Company renewed its Bid for an additional year. Under each Bid, Vero is entitled to purchase up to 5% of its outstanding common shares. During the period ended March 31, 2009, the Company purchased and subsequently cancelled 17 common shares pursuant to its Normal Course Issuer Bid. The aggregate cost of the purchases was \$86 (March 31, 2008 – Nil) of which \$75 (March 31, 2008 – Nil) was charged to share capital based on the average book value per share as of the date of repurchase, and the balance of \$11 (March 31, 2007 – Nil) was charged to retained earnings. The average per share cost of the repurchase in 2009 was \$4.95.

## e) 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, 2009 there were 3,695 (March 31, 2008 – 3,086) 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. The following stock options were outstanding at the end of the respective periods:

**Notes to the Interim Consolidated Financial Statements**

For the three months ended March 31, 2009 and 2008

*(thousands, except per share data) (unaudited)***8. SHARE CAPITAL (continued)**

	March 31, 2009		March 31, 2008	
	Stock Options	Weighted Average Exercise Price \$	Share Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	3,085	6.69	2,434	5.18
Granted	61	4.72	6	5.90
Outstanding, end of period	3,146	6.66	2,440	5.18
Exercisable, end of period	1,278		1,338	

Options Outstanding						
Exercise Price	Number of Options Outstanding	March 31, 2009			March 31, 2008	
		Weighted Average Exercise Price \$	Weighted Average Years to Expiry	Number of Options Outstanding	Weighted Average Exercise Price \$	Weighted Average Years to Expiry
\$4.02 - 5.65	1,273	4.95	2.1	1,909	4.93	2.8
\$5.90 - 7.71	1,315	7.14	3.8	531	6.08	3.3
\$8.34 - 10.80	558	9.41	4.3	-	-	-
	3,146	6.66	3.2	2,440	5.18	2.9

## f) 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:

**Notes to the Interim Consolidated Financial Statements**  
**For the three months ended March 31, 2009 and 2008**  
*(thousands, except per share data) (unaudited)*

**8. SHARE CAPITAL (continued)**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	2008
Risk free rate (%)	<b>1.9</b>	3.5
Expected life (years)	<b>5</b>	5
Expected volatility (%)	<b>84</b>	61
Expected dividends	-	-

For the period ended March 31, 2009, 61 (March 31, 2008 – 6) stock options were granted to employees, officers and directors were outstanding. During the period, \$1,339 (March 31, 2008 - \$186) 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 \$3.14 (March 31, 2008 - \$3.22) per share.

**9. CONTRIBUTED SURPLUS**

The following table reconciles the Company's contributed surplus as at:

	<b>March 31,</b>	March 31,
	<b>2009</b>	2008
Balance at January 1	<b>4,759</b>	3,593
Stock-based compensation expense	<b>1,339</b>	186
Balance at March 31	<b>6,098</b>	3,779

**10. PER SHARE AMOUNTS**

The following table summarizes the shares used in calculating net (loss) earnings per share for the periods ended:

	<b>Three months ended,</b>	
	<b>March 31</b>	
	<b>2009</b>	2008
<b>Basic (loss) earnings per share computation</b>		
Net (loss) earnings	<b>(4,695)</b>	3,783
Weighted average shares outstanding - basic	<b>36,955</b>	29,597
Basic (loss) earnings per share	<b>(0.13)</b>	0.13

**Notes to the Interim Consolidated Financial Statements**  
**For the three months ended March 31, 2009 and 2008**  
*(thousands, except per share data) (unaudited)*

**10. PER SHARE AMOUNTS (CONTINUED)**

	<b>Three months ended,</b>	
	<b>March 31</b>	
	<b>2009</b>	2008
<b>Diluted (loss) earnings per share computation</b>		
Net (loss) earnings	<b>(4,695)</b>	3,783
Weighted average shares outstanding - basic	<b>36,955</b>	29,597
Dilutive stock options outstanding	-	2,440
Shares notionally repurchased with proceeds from dilutive stock options and returned to treasury	-	(1,883)
Weighted average shares outstanding - diluted	<b>36,955</b>	30,154
Diluted (loss) earnings per share	<b>(0.13)</b>	0.13

During the first quarter of 2009, 3,146 (March 31, 2008 – Nil) of the issued stock options were excluded from the calculation of diluted weighted average shares outstanding as to include them would have been 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 are as follows:

	<b>As at March 31,</b>	
	<b>2009</b>	2008
2008	-	269
2009	<b>319</b>	358
2010	<b>410</b>	346
2011	<b>406</b>	343
2012	<b>268</b>	228
2013	<b>14</b>	12
Total minimum payments	<b>1,417</b>	1,556

**Notes to the Interim Consolidated Financial Statements**  
**For the three months ended March 31, 2009 and 2008**  
*(thousands, except per share data) (unaudited)*

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**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>As at March 31,</b>	
		<b>2009</b>	2008
	2008	-	698
	2009	<b>913</b>	928
	2010	<b>1,045</b>	918
	2011	<b>651</b>	531
<b>Total minimum payments</b>		<b>2,609</b>	3,075

*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, 2009 Vero is committed to drill and complete a total of 1 (March 31, 2008 – 4) wells in Alberta with a commencement date in 2009 pursuant to farm-in agreements with an industry partner. The Company expects to satisfy their net portion of this commitment at an estimated cost of \$1,300 (March 31, 2008 – \$7,100).

**Notes to the Interim Consolidated Financial Statements****For the three months ended March 31, 2009 and 2008***(thousands, except per share data) (unaudited)***11. COMMITMENTS (Continued)***(e) Flow-through shares*

Pursuant to the flow-through share private placement entered into on February 28, 2008, the Company was obligated to incur \$17,945 in eligible costs by December 31, 2009. As at March 31, 2009 Vero had incurred all costs and satisfied this commitment in full.

Pursuant to the flow-through share private placement entered into on April 5, 2007, the Company was obligated to incur \$10,875 in eligible costs by December 31, 2008. As at March 31, 2008 Vero had incurred all costs and satisfied this commitment in full.

**12. SUPPLEMENTARY INFORMATION***a) Changes in non-cash working-capital*

	<b>2009</b>	<b>2008</b>
Accounts receivable	<b>8,704</b>	(2,327)
Prepaid expenses and deposits	<b>(1,470)</b>	(95)
Accounts payable and accrued liabilities	<b>(10,528)</b>	(2,358)
Change in non-cash working capital	<b>(3,294)</b>	(4,780)
Relating to:		
Investing activities	<b>(10,756)</b>	2,315
Operating activities	<b>(14,050)</b>	(2,465)
	<b>(3,294)</b>	(4,780)

*b) Supplementary cash flow information*

	<b>Three months ended, March 31</b>	
	<b>2009</b>	2008
Interest paid	<b>784</b>	620

**Notes to the Interim Consolidated Financial Statements****For the three months ended March 31, 2009 and 2008***(thousands, except per share data) (unaudited)***13. FINANCIAL INSTRUMENTS**

The Company holds various forms of financial assets and liabilities. The fair values of financial assets and liabilities and a discussion of the risks associated with these assets and liabilities are presented as follows:

**A) Fair Value of Financial Assets and Liabilities**

The carrying value of financial instruments, which include accounts receivable, prepaids and deposits, loans receivable, derivative financial instruments, accounts payable and accrued liabilities approximates amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties. The fair value of accounts receivable, deposits, accounts payable and accrued liabilities approximates their carrying amounts due to their short term nature. The fair value of derivative financial instruments is determined by calculating the difference between the contracted price and published forward price curves as at the balance sheet date, and then multiplying this price differential by the contracted commodity volumes. As at December 31, 2008 and 2007 no risk management contracts were outstanding. Vero's bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

The carrying and fair values of the Company's financial instruments as at March 31, 2009 were as follows:

	<b>Carrying Value</b>	<b>Fair Value</b>
<b><u>Financial Assets</u></b>		
Held-for-trading:		
Prepaid and deposits	<b>6,764</b>	<b>6,764</b>
Loans and receivables:		
Accounts receivable	<b>20,514</b>	<b>20,514</b>
Loans receivable	<b>4,023</b>	<b>4,023</b>
<b><u>Financial Liabilities</u></b>		
Held-for-trading:		
Risk management liabilities	-	-
Other financial liabilities		
Accounts payable and accrued liabilities	<b>52,826</b>	<b>52,826</b>
Credit facility	<b>102,448</b>	<b>102,448</b>

As at each reporting period the Company will assess whether a financial asset, other than those classified as held-for-trading is impaired. Any impairment loss will be included in earnings for the period.

**Notes to the Interim Consolidated Financial Statements**  
**For the three months ended March 31, 2009 and 2008**  
*(thousands, except per share data) (unaudited)*

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**13. FINANCIAL INSTRUMENTS (CONTINUED)**

**B) Risks Associated with Financial Assets and Liabilities**

The nature of these instruments and the Company's operations expose the Company to commodity price, credit and interest rate risks. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure.

*Market risk*

Market risks are generally those risks that are outside of the control of the Company. These are: commodity prices, foreign exchange rates and interest rates. The objective of the Company is to mitigate exposure to these risks, while maximizing returns to the Company.

*Commodity price risk*

Due to the volatility of commodity prices the Company is exposed to adverse consequences of declining prices. The Company may enter into future related oil and natural gas contracts in order to protect its cash flow on future sales from the potential adverse impact of declining prices. The contracts reduce the fluctuation in sales revenue by locking in prices with respect to future deliveries of oil and natural gas. The use of these risk management contracts is governed by a formal policy and is subject to maximum limits established by the Board of Directors. From time to time, the Company has entered into a variety of risk management contracts. As at March 31, 2009, the Company did not have any of these contracts outstanding.

*Credit risk*

Credit risk arises from the potential loss resulting from a counterparty failing to meet its obligations in accordance with the agreed terms. Substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence. Receivables related to the sale of the Company's petroleum and natural gas production are mainly from major marketing companies who have excellent credit ratings. These revenues are normally collected on the 25<sup>th</sup> day of the month following delivery.

**Notes to the Interim Consolidated Financial Statements****For the three months ended March 31, 2009 and 2008***(thousands, except per share data) (unaudited)*

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**13. FINANCIAL INSTRUMENTS (CONTINUED)**

The counter-party with which the Company maintains its risk management contracts (hedges) is a major Canadian chartered bank, which has an investment grade rating.

*Liquidity risk*

Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. The Company has established a standard of ensuring that it has enough resources available to withstand any downturn in the industry. As our industry is very capital intensive, the majority of our spending is related to our capital programs. See Note 15 for disclosure related to the management of Vero's overall debt position. The Company's goal is to prudently spend its capital while maintaining its credit reputation amongst its suppliers. All of the financial liabilities of the Company are estimated to be settled within one year of the balance sheet date. The Company will manage its capital spending to stay within its expected and revised borrowing base limits for 2009.

*Interest rate risk*

Interest rate risk arises from changes in market interest rates that may affect the future cash flows from the Company's financial assets or liabilities. The Company's revolving demand loan facility is subject to floating rates and is therefore exposed to fluctuations in the market rates of interest. The Company had no interest rate swaps or financial contracts in place at March 31, 2009.

*Foreign currency exchange risk*

Even though all of Vero's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices for these commodities are impacted by the exchange rate between Canada and the United States. In addition, the fair value of our risk management contracts will fluctuate as a result of changes in foreign exchange rates as most derivative contracts are denominated in US dollars. As the effects of foreign exchange fluctuations are imbedded in the Company's results from operations, the aggregate effect of foreign exchange rate fluctuations are not separately identifiable. As at March 31, 2009 the Company had no forward, foreign exchange contracts in place.

**Notes to the Interim Consolidated Financial Statements****For the three months ended March 31, 2009 and 2008***(thousands, except per share data) (unaudited)*

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**14. RELATED PARTY TRANSACTIONS**

Three officers and one director of the corporation received demand loans during the three months ended March 31, 2009 totaling \$3,673. This brings the total principal amount receivable from related parties at March 31, 2009 to \$4,023. The loans bear interest at the company's rate of borrowing from its chartered bank plus 25 basis points. Included in the accounts receivable balances is \$21 (March 31, 2008 – Nil) of interest receivable from these related parties.

Two officers and one director of the Company subscribed for 16 flow-through common shares at a price of \$9.25 per share in the February 28, 2008 private placement (note 8(a)). The price at which the shares were issued were the same as those used in the subscription agreements entered into with non-related parties.

**15. CAPITAL DISCLOSURES**

The Company considers its capital structure to include shareholders' equity, bank debt and working capital. The Company will adjust its capital structure to manage its current and projected debt through the issuance of shares, increasing its bank line of credit and/or adjusting its capital spending. Vero continually monitors its capital structure and makes adjustments to it primarily in light of a combination of, its drilling successes, the general economic conditions in the petroleum industry and global events that may affect commodity prices.

Vero's objectives in managing its capital structure are to:

- 1) create and maintain flexibility so that Vero can continue to meet its financial obligations; and
- 2) finance its growth either through internally generated projects, joint venture relationships or asset/corporate acquisitions.

The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including acquisitions, financing arrangements, transactions with related parties, and the purchase of Vero shares for cancellation pursuant to its normal course issuer bids.

The Company monitors its capital structure using primarily the non-GAAP financial metric of net debt to annualized, most recent quarters' cash flow from operations ratio. Vero's objective is to maintain a net debt to cash flow ratio from operations ratio of one and one half times or less. This ratio may temporarily increase as a result of an acquisition; however the Company aims to reduce it below this level as the acquisitions are incorporated into Vero's operations over time. Given the current reduction in commodity prices attributable mainly to the slowdown in global economies, this ratio has changed Vero's target ratio. The goal for 2009 will be achieve a ratio of between 2.0 to 2.5 times range by the end of the year given the current economic conditions.

**Notes to the Interim Consolidated Financial Statements****For the three months ended March 31, 2009 and 2008***(thousands, except per share data) (unaudited)***15. CAPITAL DISCLOSURES (CONTINUED)**

Should commodity prices improve significantly during the year, the Company will revert to its desired goal of no more than 1.5 times without taking into account any extraordinary items such as an acquisition.

To facilitate the management of this ratio, the Company prepares an annual budget, which is updated each quarter for any significant acquisition(s); changes in economic circumstances outside the control of the Company; and success or failure of capital recently deployed. Each of the annual budget and the quarterly updates are approved by the Board of Directors and capital spending adjusted accordingly. As at March 31, 2009 the net debt to adjusted cash flow (annualized) was 3.8 (2008 – 0.7) times calculated as follows:

	<b>Three months ended, March 31</b>	
	<b>2009</b>	2008
Current assets	<b>(31,301)</b>	(22,712)
Accounts payable and accrued liabilities	<b>52,826</b>	33,693
Bank debt	<b>102,448</b>	36,078
<b>Net Debt</b>	<b>123,973</b>	47,059
Net (loss) earnings	<b>(4,695)</b>	3,783
Add (deduct):		
Unrealized loss on risk management activities	-	3,468
Depletion, depreciation and accretion	<b>12,609</b>	8,753
Future income taxes	<b>(1,052)</b>	1,652
Stock-based compensation	<b>1,339</b>	186
Cash flow from operations	<b>8,201</b>	17,842
Annualized cash flow	<b>32,804</b>	71,368
<b>Net Debt to Annualized Cash Flow</b>	<b>3.8x</b>	0.7x

The Company's capital is not subject to any external restrictions as to how it is deployed.

**Notes to the Interim Consolidated Financial Statements**  
**For the three months ended March 31, 2009 and 2008**  
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**16. SUBSEQUENT EVENTS**

a) On April 29, 2009 the Company entered into the following financial derivative contracts:

<b>Type</b>	<b>Amount</b>	<b>Term</b>	<b>Price (CDN \$/bbl)</b>	<b>Type</b>
Costless collar	1,500 bbl/day	May 1 – December 31, 2009	\$62.50 - \$68.25	Financial
Costless collar	1,000 bbl/day	January 1 – March 31, 2010	\$60.00 - \$80.30	Financial

b) On April 30, 2009 the Company entered into a bought deal financing with a syndicate of underwriters to issue 4,000 common shares of Vero at the price of \$3.75 per share. The financing is expected to close on May 21, 2009.