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

	March 31, 2010 <i>(unaudited)</i>	December 31, 2009 <i>(audited)</i>
ASSETS		
CURRENT		
Accounts receivable	32,215	29,541
Prepaid expenses and deposits	4,835	4,566
Loans receivable	-	2,289
	37,050	36,396
Property and equipment (Note 4)	314,408	287,645
Goodwill	19,913	19,913
	371,371	343,954
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	55,861	47,588
Risk management contracts	260	1,132
Bank debt (Note 5)	93,483	77,719
	149,604	126,439
Risk management contracts	80	113
Asset retirement obligations (Note 6)	5,296	5,379
Future taxes	18,236	15,286
	173,216	147,217
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	179,607	181,343
Contributed surplus (Note 9)	10,452	9,610
Retained Earnings	8,096	5,784
	198,155	196,737
	371,371	343,954

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 (Loss) Income and Retained Earnings

For the three months ended March 31,

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

	2010	2009
REVENUE		
Production revenue	29,483	22,135
Realized loss on risk management activities	(124)	-
Unrealized gain on risk management activities	905	-
	30,264	22,135
Royalties	(3,676)	(5,257)
Interest & other income	50	21
	26,638	16,899
EXPENSES		
Operating	6,426	5,821
Transportation	989	864
General and administrative	1,476	1,197
Stock based compensation (Note 8(d))	980	1,339
Interest and bank charges	1,244	816
Depletion, depreciation and accretion	13,434	12,609
	24,549	22,646
INCOME (LOSS) BEFORE INCOME TAXES	2,089	(5,747)
INCOME TAX (RECOVERY) (Note 7)		
Future	(223)	(1,052)
	(223)	(1,052)
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	2,312	(4,695)
RETAINED EARNINGS, BEGINNING OF PERIOD	5,784	25,851
REPURCHASE OF SHARES (Note 8(b))	-	(11)
RETAINED EARNINGS, END OF PERIOD	8,096	21,145
NET EARNINGS (LOSS) PER SHARE (Note 10)		
Basic	0.05	(0.13)
Diluted	0.05	(0.13)

See accompanying notes.

VERO ENERGY INC.

Statement of Cash Flows

For the three months ended March 31,

(in thousands of dollars) (unaudited)

	2010	2009
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings (loss)	2,312	(4,695)
Adjustments for:		
Unrealized gain on risk management activities	(905)	-
Stock based compensation	980	1,339
Depletion, depreciation and accretion	13,434	12,609
Future income taxes	(223)	(1,052)
	15,598	8,201
Asset retirement costs incurred	(243)	-
Changes in non-cash working capital (Note 12(a))	(2,442)	(14,050)
	12,913	(5,849)
FINANCING		
Increase (decrease) in bank debt	15,764	27,029
Proceeds from issuance of stock option exercises	399	-
Repurchase of shares (Note 8(b))	-	(86)
Loans to officers/directors (Note 14)	2,289	(3,673)
	18,452	23,270
INVESTING		
Additions to petroleum and natural gas properties	(33,513)	(28,317)
Purchase of petroleum and natural gas assets	(5,624)	-
Additions to administrative assets	-	(5)
Proceeds on Sales of Property/Equipment	-	145
Changes in non-cash working capital (Note 12(a))	7,772	10,756
	(31,365)	(17,421)
NET DECREASE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	-	-

Supplementary cash flow information (Note 12(b))

See accompanying notes.

Notes to the Interim Financial Statements
For the three months ended March 31, 2010 and 2009
(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.

Effective January 1, 2010 Vero and Vero Oil and Gas Ltd., 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 consolidated financial statements for the year period ended December 31, 2009, 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, 2009. Preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the 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, 2009.

Notes to the Interim Financial Statements
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3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2010 Vero adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

- a) 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, 2010. The new standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the acquisition date. The adoption of this standard will impact the accounting treatment of future business combinations entered into after January 1, 2010.
- b) "Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard had no material impact on Vero's Financial Statements.
- c) "Non-controlling Interests", Section 1602. The standard establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard had no material impact on Vero's Financial Statements.

Notes to the Interim Financial Statements
For the three months ended March 31, 2010 and 2009
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4. PROPERTY AND EQUIPMENT

	March 31, 2010		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	474,325	(160,030)	314,295
Administrative assets	291	(178)	113
	474,616	(160,208)	314,408
	December 31, 2009		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	434,235	(146,711)	287,524
Administrative assets	291	(170)	121
	434,526	(146,881)	287,645

Undeveloped land costs and salvage values excluded from the depletion calculation as at March 31, 2010 were \$20,157 (December 31, 2009 - \$20,157). Future development costs on proved undeveloped reserves of \$54,436 (December 31, 2009 - \$42,169) were included in the depletion calculation. During the three months ended March 31, 2010, the Company capitalized \$272 (March 31, 2009 - \$230) in general and administrative expenses directly related to exploration and development activities.

5. BANK DEBT

As of April 30, 2010, the Company increased its syndicated credit facility to \$140,000 from \$115,000 at March 31, 2010. This credit facility is comprised of a combination of: letters of credit, banker's acceptances and a revolving line of credit. The authorized limit is subject to both annual and semi-annual, borrowing base reviews by the syndicate. The facility is available to the Company at their discretion until March 31, 2011. 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.

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5. BANK DEBT (CONTINUED)

Advances under the facility are available by way of prime rate loans with interest rates of between 1.5 percent and 3.0 percent over the bank's prime lending rate. In addition to these advances, the Company has access to banker's acceptances and LIBOR loans, which are subject to stamping fees and margins ranging from 2.5 percent to 4.0 percent depending on the debt to cash flow ratio as calculated at the Company's immediately preceding quarters' end. Standby fees are charged on the undrawn facility at rates ranging from 0.6875 percent to 1.0625 percent depending on the debt to cash flow ratio at the Company's previous quarter end. For the period ended March 31, 2010 the effective interest rate was 4.0% (March 31, 2009 – 3.8%).

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, 2010 to be \$13,543 (March 31, 2009 - \$14,061), 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, 2010 was calculated using a credit-adjusted risk free rate of 8.0% (March 31, 2009 – 7.7%) and an inflation factor of 1.9% (March 31, 2009 – 1.9%). Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at March 31, 2010, no funds have been set aside to settle these obligations. Changes to asset retirement obligations during the periods were as follows:

	Three months ended	
	March 31,	
	2010	2009
Asset retirement obligations at beginning of period	5,379	5,570
Liabilities incurred during the period	44	28
Liabilities settled during the period	(243)	-
Change in estimated future cash flows	9	(1)
Accretion	107	106
Asset retirement obligations at end of period	5,296	5,703

Notes to the Interim Financial Statements
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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, 2010 and 2009 are accounted for as follows:

	Three months ended	
	March 31,	
	2010	2009
Income (loss) before income taxes	2,089	(5,747)
Expected income tax (recovery) expense, at the statutory rate of 28.0% (2008 – 29.5%)	585	(1,667)
Tax effect of non-deductible and non-taxable amounts related to:		
Stock-based compensation and other non-deductible	277	390
Changes in expected timing of reversals of temporary Differences	(1,088)	238
Other	3	(13)
	(223)	(1,052)

Notes to the Interim Financial Statements
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8. SHARE CAPITAL

	Shares (000's)	\$000's
Authorized		
Unlimited number of voting common shares, no par value		
Unlimited number of first preferred shares, no par value		
Issued		
<i>Common shares</i>		
Balance December 31, 2008	36,969	160,103
Normal course issuer bid (b)	(17)	(75)
Adjustment for tax cost of flow-through shares (a)	-	(4,844)
Private placement, net of share issue costs (a)	4,000	13,916
Private placement, net of share issue costs (a)	2,231	11,720
Adjustment for tax benefits from share issue costs	-	523
Balance December 31, 2009	43,183	181,343
Issued on asset acquisition (f)	131	900
Exercise of stock options (c)	77	537
Adjustment for tax cost of flow-through shares (a)	-	(3,173)
Balance March 31, 2010	43,391	179,607

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8. SHARE CAPITAL (continued)

a) Private placement

On May 21, 2009, the Company closed a placement for the issuance of 4,000 common shares at a price of \$3.75 per share. The net proceeds of issuance of \$13,916 were comprised of gross proceeds of \$15,000 less expenses of the issue of \$1,084.

On November 3, 2009 the Company closed a private placement for the issuance of 2,231 Flow-Through common shares at a price of \$5.65 per share. The net proceeds of issuance of \$11,720 were comprised of gross proceeds of \$12,609 less expenses of the issue of \$889. The tax effect of the tax benefits renounced to subscribers in respect of the Flow-Through shares was recognized in February, 2010, which is when the renouncement documents were filed with the taxation authorities. This renunciation resulted in \$3,173 in future tax liability being offset to share capital. Using a combination of the regular, and the “look-back” provisions of the Income Tax Act, the Company is required to incur eligible expenditures in the amount of \$12,609 prior to December 31, 2010. (Note 11(e))

b) 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, 2010, the Company purchased and subsequently cancelled Nil (2009 – 17) common shares pursuant to its Normal Course Issuer Bid. The aggregate cost of the purchases was Nil (2009 - \$86) of which Nil (2009 - \$75) was charged to share capital based on the average book value per share as of the date of repurchase, and Nil (2009 - \$11) was charged to retained earnings. The average per share cost of the repurchase in 2009 was \$4.95.

Notes to the Interim Financial Statements
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8. SHARE CAPITAL (continued)

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, 2010 there were 4,339 (March 31, 2009 – 3,695) 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:

	March 31, 2010		March 31, 2009	
	Stock Options	Weighted Average Exercise Price \$	Stock Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	4,203	5.26	3,085	6.69
Granted	60	6.55	61	4.72
Exercised	(76)	5.22	-	-
Forfeited	(37)	4.72	-	-
Surrendered for cancellation	(200)	9.50	-	-
Outstanding, end of period	3,950	5.07	3,146	6.66
Exercisable, end of period	1,570	5.53	1,278	5.14

Exercise Price	Options Outstanding					
	March 31, 2010			March 31, 2009		
	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
\$3.00-3.70	667	3.47	4.3	-	-	-
\$4.00 - 5.65	2,205	4.48	2.8	1,273	4.95	2.1
\$5.90 - 7.71	1,073	7.25	3.1	1,315	7.14	3.8
\$8.34 - 10.80	5	8.59	3.4	558	9.41	4.3
	3,950	5.07	3.1	3,146	6.66	3.2

Notes to the Interim Financial Statements
For the three months ended March 31, 2010 and 2009
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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:

	Three months ended	
	March 31,	
	2010	2009
Risk free rate (%)	2.45	1.9
Expected life (years)	5	5
Expected volatility (%)	49	84
Expected dividends	-	-

For the period ended March 31, 2010, 60 (March 31, 2009 – 61) stock options were granted to employees. During the period, \$980 (March 31, 2009 - \$1,339) 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 \$2.96 (March 31, 2009 - \$3.14) per share.

e) Directors Compensation Unit Plan

In November of 2009, Vero established a Directors Compensation Plan which includes compensation units granted only to directors of the Company. These units vest annually over a three year period and expire three years from the date of grant. Upon vesting, the holder is entitled to exercise the units for cash equal to the amount by which the exercise price (the fair value of a Vero common share on the date of exercise) exceeds the grant price (the fair value of a Vero common share on the day preceding the date of grant). On November 9, 2009, 225 units were issued to directors of Vero. During 2010, 45 units were forfeited and at March 31, 2010 there were 180 units outstanding. Included in accounts payable and accrued liabilities is \$81 (2009-nil) pertaining to these grants. During the period, \$76 (2009 – nil) was charged to general and administrative expense.

f) Acquisition of petroleum and natural gas assets

On February 1, 2010, Vero acquired certain assets in the Rosevear, Alberta area. Upon closing of the acquisition, 131 common shares were issued at a deemed value of \$900 or \$6.89 per share.

Notes to the Interim Financial Statements
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9. CONTRIBUTED SURPLUS

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

	March 31, 2010	March 31, 2009
Balance at beginning of period	9,610	4,759
Stock-based compensation expense	980	1,339
Options exercised	(138)	-
Balance at end of period	10,452	6,098

10. PER SHARE AMOUNTS

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

	Three months ended, March 31	
	2010	2009
Basic (loss) earnings per share computation		
Net earnings (loss)	2,312	(4,695)
Weighted average shares outstanding - basic	43,236	36,955
Basic earnings (loss) per share	0.05	(0.13)

	Three months ended, March 31	
	2010	2009
Diluted (loss) earnings per share computation		
Net earnings (loss)	2,312	(4,695)
Weighted average shares outstanding - basic	43,236	36,955
Dilutive stock options outstanding	3,165	-
Shares notionally repurchased with proceeds from dilutive stock options and returned to treasury	(2,607)	-
Weighted average shares outstanding - diluted	43,794	36,955
Diluted earnings (loss) per share	0.05	(0.13)

During the first quarter of 2010, 785 (March 31, 2009 - 3,146) 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.

Notes to the Interim Financial Statements
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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:

	As at March 31,	
	2010	2009
2009	-	319
2010	304	410
2011	406	406
2012	268	268
2013	14	14
Total minimum payments	992	1,417

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:

	As at March 31,	
	2010	2009
2009	-	913
2010	782	1,045
2011	651	651
Total minimum payments	1,433	2,609

Notes to the Interim Financial Statements
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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, 2010 Vero is committed to drill and complete a total of 2 (March 31, 2009 – 1) wells in Alberta with a commencement date in 2010 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 \$6,200 (March 31, 2009 – \$1,300).

(e) Flow-through shares

Pursuant to the flow-through share private placement entered into on November 3, 2009, (Note 8(a)), the Company was obligated to incur \$12,609 in eligible costs by December 31, 2010. As at March 31, 2010, the Company has \$170 remaining on this commitment.

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12. SUPPLEMENTARY INFORMATION

a) Changes in non-cash working-capital

	2010	2009
Accounts receivable	(2,674)	8,704
Prepaid expenses and deposits	(269)	(1,470)
Accounts payable and accrued liabilities	8,273	(10,528)
Change in non-cash working capital	5,330	(3,294)
Relating to:		
Investing activities	7,772	10,756
Operating activities	(2,442)	(14,050)
	5,330	(3,294)

b) Supplementary cash flow information

	Three months ended, March 31	
	2010	2009
Interest received	50	20
Interest paid	706	784

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. Vero's bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

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13. FINANCIAL INSTRUMENTS (CONTINUED)

The carrying and fair values of the Company's financial instruments as at March 31, 2010 and December 31, 2009 were as follows:

	March 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial Assets</u>				
Held-for-trading:				
Deposits	4,835	4,835	4,159	4,159
Loans and receivables:				
Accounts receivable	32,215	32,215	29,541	29,541
Loans receivable	-	-	2,289	2,289
<u>Financial Liabilities</u>				
Held-for-trading:				
Risk management liabilities	340	340	1,245	1,245
Other financial liabilities				
Accounts payable and accrued liabilities	55,861	55,861	47,588	47,588
Credit facility	93,483	93,483	77,719	77,719

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.

Commodity Price Sensitivities

The following table summarizes the sensitivities of the fair value of the Company's risk management positions to fluctuations in commodity price changes while holding all other variables constant. The Company believes that a ten percent change in commodity prices is a reasonable measure of volatility. Based on the financial instruments that were outstanding at March 31, 2010, fluctuations in commodity prices could have resulted in unrealized gains (losses) that would impact after-tax net earnings as at March 31, 2010 as follows:

	2010	
	Favourable 10% change	Unfavourable 10% change
Crude oil prices	890	(890)
Natural gas basis spread	43	(43)

Notes to the Interim Financial Statements**For the three months ended March 31, 2010 and 2009***(thousands, except per share data) (unaudited)***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, 2010, the Company had the following contracts outstanding:

Contract	Amount	Term	Price (CDN \$/bbl)	Type
Costless collar	500 bbl/day	Apr. 1 - Dec. 31, 2010	\$75.00 - \$100.00	Financial
Costless collar	1,000 bbl/day	Jan. 1-Mar. 31, 2010	\$60.00 - \$80.30	Financial
Basis Spread	7,500 MMBtu/day	Apr. 1-Oct. 31, 2010	\$0.35/MMBtu	Financial
Crude oil swap	500 bbl/day	Apr. 1 - Dec. 31, 2010	\$86.00	Financial

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 25th day of the month following delivery.

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.

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Credit risk (continued)

As at March 31, 2010, accounts receivable and their respective aging were comprised of the following:

	Less than 30 days	31 – 60 days	61 – 90 days	More than 90 days	Total
Sales and accrued revenue receivables	11,680	313	509	745	13,247
Joint interest billings with partners	1,975	3,002	2	5,500	10,479
Provincial government incentives	3,935	3,243	-	-	7,178
Other receivables	1,219	19	1	72	1,311
Total accounts receivable	18,809	6,577	512	6,317	32,215

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 2010.

As at March 31, 2010 the timing of cash outflows relating to financial liabilities are outlined in the table below:

	Less than 1 Year	1-3 Years	4-5 Years	There- after	Total
Accounts payable and accrued liabilities	55,861	-	-	-	55,861
Risk management liabilities	260	80	-	-	340
Credit facility	93,483	-	-	-	93,483

Notes to the Interim Financial Statements
For the three months ended March 31, 2010 and 2009
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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. Periodically, the Company will enter into a variety of risk management contracts to mitigate exposure to interest rate risk. The Company had the following interest rate swap in place at March 31, 2010.

Contract	Notional Quantity	Term	Reference	Strike Price	Type
BA Rate	\$25,000/year	January 4, 2010 – January 3, 2012	CAD-BA - CDOR	2.05%	Swap

The contract in place resulted in an unrealized gain for the period ended March 31, 2010 of \$127 (2009-\$Nil).

Based on the interest rate financial instrument that was outstanding at March 31, 2010, fluctuations in interest rates could have resulted in unrealized gains (losses) that would impact after-tax net earnings as at March 31, 2010 as follows:

	2010	
	Favourable 1% change	Unfavourable 1% change
Interest rate swap	328	(328)

The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As a result, the Company is exposed to similar fluctuations in its net earnings. The Company's assessment of the sensitivity of net earnings to interest rate changes while holding all other variables constant and utilizing a one percent change in interest rates is a reasonable measure of volatility. At March 31, 2010 the increase or decrease in net earnings, on an after-tax basis, for a one percent change in interest rates on the floating rate debt amounts to \$573 (2009 - \$576).

Foreign currency exchange risk

With Vero's petroleum and natural gas sales being 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, 2010, the Company had no forward, foreign exchange contracts in place.

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14. RELATED PARTY TRANSACTIONS

During the periods ended March 31, 2010 and 2009, the Corporation had the following related party transactions:

- a) One officer and one director of the Company subscribed for an aggregate of 14 Flow-Through common shares at a price of \$5.65 per share in the November 3, 2009 private placement (note 8(a)). The prices at which the shares were issued were the same as those used in the subscription agreements entered into with non-related parties.
- b) Three officers and one director of the corporation received demand loans from the Company in 2008. As at March 31, 2010, the aggregate amount of these loans outstanding was \$Nil (December 31, 2009 - \$2,289). Interest on these loans was at the company's rate of borrowing from its chartered bank plus 25 basis points. Total interest paid and accrued during the period was \$18 (2009 - Nil). Included in the accounts receivable balances is \$Nil (2009 - \$21) of interest receivable from these related parties. As at March 31, 2010, all of the loans and accrued interest had been repaid.

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 with respect to, drilling successes, 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 to enable the Company to meet its financial obligations; and
- 2) finance 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 of one and one half times or less.

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16. CAPITAL DISCLOSURES (CONTINUED)

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 2010 will be to achieve a ratio of between 2.0 to 2.5 times by the end of the year, given the current economic conditions. 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 deployed. Each of the annual budget and the quarterly updates are approved by the Board of Directors and capital spending is adjusted accordingly. As at March 31, 2010, the net debt to adjusted funds flow (annualized) was 1.8 (2009 – 3.8) times calculated as follows:

	Three months ended,	
	March 31	
	2010	2009
Current assets	(37,050)	(31,301)
Accounts payable and accrued liabilities	55,861	52,826
Bank debt	93,483	102,448
Net Debt	112,294	123,973
Net (loss) earnings	2,312	(4,695)
Add (deduct):		
Unrealized gain on risk management activities	(905)	-
Depletion, depreciation and accretion	13,434	12,609
Future income taxes	(223)	(1,052)
Stock-based compensation	980	1,339
Funds flow from operations	15,598	8,201
Annualized funds flow	62,392	32,804
Net debt to annualized funds flow	1.8x	3.8x

The Company's capital is not subject to any external restrictions as to how it is deployed. The only financial covenant the Company has in respect of its credit facility was that aggregate corporate net debt should not exceed \$130,000. Subsequent to April 30, 2010, this amount has increased to \$140,000. At no time during 2009 or the first quarter of 2010 has net debt exceeded these thresholds.

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16. SUBSEQUENT EVENTS

On April 13, 2010, the Company entered into financial derivative crude oil contracts as follows:

Contract	Notional Quantity	Term	Price (CDN\$/bbl)	Type
Costless Collar	500 bbl/day	Oct. 1,2010- Mar. 31,2011	\$80.00-\$98.00	Financial
Costless Collar	500 bbl/day	Jan. 1, 2011- Dec. 1. 2011	\$80.00 -\$100.00	Financial