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

	June 30, 2009	December 31, 2008
	<i>(unaudited)</i>	<i>(audited)</i>
ASSETS		
CURRENT		
Accounts receivable	17,479	29,218
Prepaid expenses and deposits	6,498	5,294
Loans receivable	2,856	350
	26,833	34,862
Property and equipment (Note 4)	302,736	297,697
Goodwill	19,913	19,913
	349,482	352,472
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	28,864	63,354
Risk management (Note 13)	5,344	-
Bank debt (Note 5)	103,969	75,419
	138,177	138,773
Asset retirement obligations (Note 6)	5,815	5,570
Future taxes	17,382	17,416
	161,374	161,759
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	169,394	160,103
Contributed surplus (Note 9)	8,317	4,759
Retained Earnings	10,397	25,851
	188,108	190,713
	349,482	352,472
Commitments (Note 11)		
<i>See accompanying notes.</i>		

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

VERO ENERGY INC.

Consolidated Statement of Operations, Comprehensive (Loss) Income and Retained Earnings For the three and six month periods ended June 30, (in thousands of dollars, except per share data)(unaudited)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
REVENUE				
Production revenue	17,612	43,440	39,747	74,608
Realized loss on risk management activities	(462)	(1,176)	(462)	(1,176)
	17,150	42,264	39,285	73,432
Royalties	(2,177)	(9,774)	(7,434)	(18,266)
Unrealized loss on risk management activities	(5,344)	(4,240)	(5,344)	(7,708)
Interest and other	21	-	42	-
	9,650	28,250	26,549	47,458
EXPENSES				
Operating	5,583	3,398	11,404	6,092
Transportation	818	669	1,682	1,295
General and administrative	1,749	1,072	2,945	1,964
Stock based compensation (Note 8(f))	2,219	314	3,558	500
Interest and bank charges	1,077	546	1,893	1,168
Depletion, depreciation and accretion	12,491	9,799	25,101	18,552
	23,937	15,798	46,583	29,571
(LOSS) INCOME BEFORE INCOME TAXES	(14,287)	12,452	(20,034)	17,887
INCOME TAXES (Note 7)				
Future tax (recovery) expense	(3,539)	3,712	(4,591)	5,364
	(3,539)	3,712	(4,591)	5,364
NET (LOSS) EARNINGS AND COMPREHENSIVE (LOSS) INCOME	(10,748)	8,740	(15,443)	12,523
RETAINED EARNINGS, BEGINNING OF PERIOD	21,145	8,647	25,851	4,864
Repurchase of shares (Note 8(e))	-	-	(11)	-
RETAINED EARNINGS, END OF PERIOD	10,397	17,387	10,397	17,387
NET (LOSS) EARNINGS PER SHARE (Note 10)				
Basic	(0.28)	0.27	(0.41)	0.40
Diluted	(0.28)	0.26	(0.41)	0.39

VERO ENERGY INC.

Consolidated Statement of Cash Flows For the three and six month periods ended June 30, (in thousands of dollars, except per share data)(unaudited)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net (loss) earnings	(10,748)	8,740	(15,443)	12,523
Adjustments for:				
Unrealized loss on risk management activities	5,344	4,240	5,344	7,708
Stock-based compensation	2,219	314	3,558	500
Depletion, depreciation and accretion	12,491	9,799	25,101	18,552
Future income taxes	(3,539)	3,712	(4,591)	5,364
	5,767	26,805	13,969	44,647
Changes in non-cash working capital (Note 12(a))	2,677	(3,655)	(11,373)	(6,120)
	8,444	23,150	2,596	38,527
FINANCING				
Increase (decrease) in bank debt	1,521	(3,529)	28,550	(13,464)
Proceeds from issuance of common shares, net of share issue costs (Note 8(a))	13,923	(3)	13,923	16,758
(Increase) decrease in related party loans	1,167	-	(2,506)	-
Stock option exercises (Note 8(d))	-	945	-	945
Repurchase of shares (Note 8(e))	-	-	(86)	-
	16,611	(2,587)	39,881	4,239
INVESTING				
Corporate acquisitions	-	(2,606)	-	(2,606)
Additions to petroleum and natural gas properties	(1,715)	(13,792)	(30,033)	(33,675)
Proceeds on sale of petroleum properties	-	-	145	-
Additions to administrative assets	(2)	(13)	(7)	(18)
Changes in non-cash working capital (Note 12(a))	(23,338)	(4,152)	(12,582)	(6,467)
	(25,055)	(20,563)	(42,477)	(42,766)
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 Consolidated Interim Financial Statements
For the six months ended June 30, 2009 and 2008**

(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.

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.

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.

Notes to the Consolidated Interim Financial Statements

For the six months ended June 30, 2009 and 2008

(thousands, except per share data) (unaudited)

3. FINANCIAL PRESENTATION AND POLICIES (CONTINUED)

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.

Vero will be required to adopt the following CICA Handbook sections as of January 1, 2011:

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, 2011. 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 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.

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. It is not anticipated that the adoption of this standard will have a material impact on Vero's Consolidated 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. It is not anticipated that the adoption of this standard will have a material impact on Vero's Consolidated Financial Statements.

4. PROPERTY AND EQUIPMENT

	June 30, 2009		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	426,700	(124,107)	302,593
Administrative assets	291	(148)	143
	426,991	(124,255)	302,736

Notes to the Consolidated Interim Financial Statements
For the six months ended June 30, 2009 and 2008

(thousands, except per share data) (unaudited)

4. PROPERTY AND EQUIPMENT (CONTINUED)

	December 31, 2008		
	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
	<u>397,069</u>	<u>(99,372)</u>	<u>297,697</u>

Undeveloped land costs and salvage values excluded from the depletion calculation as at June 30, 2009 were \$22,313 (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. For the six months ended June 30, 2009, the Company capitalized \$484 (June 30, 2008 - \$348) 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 banking syndicate and is comprised of a combination of: letters of credit, bankers acceptances and revolving line of credit. The authorized limit is subject to a semi-annual, borrowing base review by the syndicate. 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. 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 six months ended June 30, 2009 the effective interest rate was 3.7% (June 30, 2008 – 5.5%).

Notes to the Consolidated Interim Financial Statements**For the six months ended June 30, 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, 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 June 30, 2009 to be \$14,061 (2008 - \$7,688), which will be incurred at various times between 2010 and 2023. The fair value of the asset retirement obligations incurred in the six months ended June 30, 2009 was calculated using a credit-adjusted risk free rate of 7.8% (2008 - 8.1%) and an inflation factor of 1.6% (2008 - 1.5%). Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at June 30, 2009, no funds have been set aside to settle these obligations. Changes to asset retirement obligations during the periods were as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Asset retirement obligations beginning of period	5,703	2,715	5,570	2,641
Liabilities assumed on corporate acquisitions	-	251	-	251
Liabilities incurred during the period	-	8	28	28
Change in estimated future cash flows	-	(1)	(1)	-
Accretion	112	59	218	112
Asset retirement obligations end of period	5,815	3,032	5,815	3,032

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 periods ended:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
(Loss) income before income taxes	(14,287)	12,452	(20,034)	17,887
Expected income tax recovery at the statutory rate of 29.0% (2008 - 29.5%)	(4,143)	3,673	(5,810)	5,277
Tax effect of non-deductible and non-taxable amounts related to:				
Stock-based compensation and other non-deductible items	647	99	1,037	154
Rate changes	(37)	-	200	-
Other	(6)	(60)	(18)	(67)
	(3,539)	3,712	(4,591)	5,364

Notes to the Consolidated Interim Financial Statements**For the six months ended June 30, 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>		
Balance December 31, 2007	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 (d)	871	5,787
Normal course issuer bid (e)	(408)	(1,715)
Adjustment for tax benefits from share issue costs	-	356
Adjustment for tax cost of flow-through shares (a)	-	(2,907)
Balance December 31, 2008	36,969	160,103
Normal course issuer bid (e)	(17)	(75)
Adjustment for tax cost of flow-through shares (a)	-	(4,844)
Private placement, net of share issue costs (a)	4,000	13,923
Adjustment for tax benefits from share issue costs	-	287
Total share capital at June 30, 2009	40,952	169,394

a) Private placements

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 renunciation 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)).

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 \$13,923 were comprised of gross proceeds of \$15,000 less expenses of the issue of \$1,077.

Notes to the Consolidated Interim Financial Statements
For the six months ended June 30, 2009 and 2008

(thousands, except per share data) (unaudited)

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) 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 June 30, 2009 there were 4,095 (June 30, 2008 – 2,891) 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:

	June 30, 2009		June 30, 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	562	3.76	304	9.34
Exercised	-	-	(193)	4.89
Surrendered for cancellation	(682)	7.90	-	-
Outstanding, end of period	2,965	5.86	2,545	5.69
Exercisable, end of period	1,315		1,297	

e) 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 six months ended June 30, 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 (June 30, 2008 – Nil) of which \$75 (June 30, 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 (June 30, 2007 – Nil) was charged to retained earnings. The average per share cost of the repurchase in 2009 was \$4.95.

Notes to the Consolidated Interim Financial Statements

For the six months ended June 30, 2009 and 2008

(thousands, except per share data) (unaudited)

8. SHARE CAPITAL (continued)

Exercise Price	Options Outstanding					
	June 30, 2009			June 30, 2008		
	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
\$3.43 - 5.61	1,692	4.54	2.7	1,716	4.93	2.6
\$5.90 - 7.71	1,058	7.24	3.6	570	6.19	3.1
\$8.34 - 10.80	215	9.44	4.0	259	9.66	4.9
	2,965	5.86	3.2	2,545	5.69	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:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Risk free rate (%)	2.4%	3.3%	2.4%	3.3%
Expected life (years)	5	5	5	5
Expected volatility (%)	91%	61%	90%	61%
Expected dividends	-	-	-	-

For the six months ended June 30, 2009, 562 (June 30, 2008 – 304) stock options were granted to employees, officers and directors. During the six months in 2009, \$3,558 (June 30, 2008 - \$500) was recorded as stock compensation expense 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 \$2.65 (June 30, 2008 - \$5.43) per share.

In May of 2009, 682 non-officer, non-director, stock options, at exercise prices ranging from \$5.15 to \$10.80, were surrendered for cancellation. The Company expensed the remaining, unamortized stock based compensation costs associated with the cancelled options of \$1,116 during the three month period ended June 30, 2009.

Notes to the Consolidated Interim Financial Statements
For the six months ended June 30, 2009 and 2008

(thousands, except per share data) (unaudited)

9. CONTRIBUTED SURPLUS

The following table reconciles the Company's contributed surplus as at June 30:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Balance at beginning of period	6,098	3,779	4,759	3,593
Stock-based compensation expense	2,219	314	3,558	500
Exercise of stock options	-	(290)	-	(290)
Balance at end of period	8,317	3,803	8,317	3,803

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		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Basic (loss) earnings per share computation				
Net (loss) earnings	(10,748)	8,740	(15,443)	12,523
Weighted average shares outstanding - basic	38,710	32,475	37,837	31,036
Basic (loss) earnings per share	(0.28)	0.27	(0.41)	0.40

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Diluted (loss) earnings per share computation				
Net (loss) earnings	(10,748)	8,740	(15,443)	12,523
Weighted average shares outstanding - basic	38,710	32,475	37,837	31,036
Dilutive stock options outstanding	502	2,451	502	2,286
Shares notionally repurchased with proceeds from dilutive stock options and returned to treasury	(502)	(1,577)	(502)	(1,586)
Weighted average shares outstanding - diluted	38,710	33,349	37,837	31,736
Diluted (loss) earnings per share	(0.28)	0.26	(0.41)	0.39

During the three and six month periods ended June 30, 2009, 2,464 (June 30, 2008 – 94) and 2,464 (June 30, 2008 – 259) respectively of the issued stock options were excluded from the calculation of diluted weighted average shares outstanding as to include them would be anti-dilutive.

Notes to the Consolidated Interim Financial Statements
For the six months ended June 30, 2009 and 2008

(thousands, except per share data) (unaudited)

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 June 30,	
	2009	2008
2008	-	194
2009	213	387
2010	410	209
2011	406	374
2012	268	370
2013	14	13
Total minimum payments	1,311	1,584

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 June 30,	
	2009	2008
2008	-	549
2009	608	1,064
2010	1,045	1,070
2011	651	619
Total minimum payments	2,304	3,302

**Notes to the Consolidated Interim Financial Statements
For the six months ended June 30, 2009 and 2008**

(thousands, except per share data) (unaudited)

11. COMMITMENTS (Continued)*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. Currently, there are several statements of claim which have been filed against the Company. Management of the corporation does not believe that any of the lawsuits have merit and consequently has not made any provision in these financial statements for any loss. In addition, Management is not currently aware of any other claims or actions, actual or threatened, 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 June 30, 2009 Vero had committed to drill and complete a total of 1 (2008 – 6) well in Alberta with a commencement date later in 2009 and pursuant to a farm-in agreement with an industry partner. The Company expects to satisfy their net portion of these commitments at an estimated cost of \$1,300 (2008 – \$12,000).

(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. The Company has fulfilled this commitment.

Notes to the Consolidated Interim Financial Statements**For the six months ended June 30, 2009 and 2008***(thousands, except per share data) (unaudited)***12. SUPPLEMENTARY INFORMATION***a) Changes in non-cash working-capital*

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Accounts receivable	3,035	(8,251)	11,739	(10,578)
Prepaid expenses and deposits	266	(763)	(1,204)	(858)
Accounts payable and accrued liabilities	(23,962)	117	(34,490)	(2,241)
Corporate acquisition of working capital	-	1,090	-	1,090
Net change in non-cash working capital	(20,661)	(7,807)	(23,955)	(12,587)
Relating to:				
Investing activities	(23,338)	4,152	(12,582)	(6,467)
Operating activities	2,677	(3,655)	(11,373)	(6,120)
	(20,661)	(7,807)	(23,955)	(12,587)

b) Supplementary cash flow information

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Interest paid	983	488	1,766	1,107

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, prepaid expenses, 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, prepaid expenses, 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.

Notes to the Consolidated Interim Financial Statements**For the six months ended June 30, 2009 and 2008***(thousands, except per share data) (unaudited)***13. FINANCIAL INSTRUMENTS (CONTINUED)**

The carrying and fair values of the Company's financial instruments as at June 30, 2009 were as follows:

	Carrying Value	Fair Value
<u>Financial Assets</u>		
Held-for-trading:		
Prepaid and deposits	6,498	6,498
Loans and receivables:		
Accounts receivable	17,479	17,479
Loans receivable	2,856	2,856
<u>Financial Liabilities</u>		
Held-for-trading:		
Risk management liabilities	5,344	5,344
Other financial liabilities		
Accounts payable and accrued liabilities	28,864	28,864
Credit facility	103,969	103,969

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.

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 June 30, 2009, the Company had the following contracts outstanding:

Notes to the Consolidated Interim Financial Statements
For the six months ended June 30, 2009 and 2008

(thousands, except per share data) (unaudited)

13. FINANCIAL INSTRUMENTS (CONTINUED)

	Amount	Term	Price (CDN \$/bbl)	Type
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

The contracts in place resulted in an unrealized loss for the six months ended June 30, 2009 of \$5,344 (2008 – \$7,708).

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 credit 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 the duration of 2009.

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	28,864	-	-	-	28,864
Risk management liabilities	5,344	-	-	-	5,344

**Notes to the Consolidated Interim Financial Statements
For the six months ended June 30, 2009 and 2008**

(thousands, except per share data) (unaudited)

13. FINANCIAL INSTRUMENTS (CONTINUED)*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 June 30, 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 June 30, 2009 the Company had no forward, foreign exchange contracts in place.

14. RELATED PARTY TRANSACTIONS

Three officers and one director of the corporation received demand loans during the period December 2008 to June 30, 2009. The aggregate amount outstanding from these related parties at June 30, 2009 was \$2,856 (December 31, 2008 - \$350). The loans bear interest at a commercial, arms length, rate of interest, which is calculated as the company's rate of borrowing from its banks plus 25 basis points. Included in the accounts receivable balances is \$43 (December 31, 2008 - \$1) of interest receivable from these 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.

Notes to the Consolidated Interim Financial Statements**For the six months ended June 30, 2009 and 2008***(thousands, except per share data) (unaudited)***15. CAPITAL DISCLOSURES (CONTINUED)**

The Company monitors its capital structure using primarily the non-GAAP financial ratio of net debt to annualized, most recent quarters' cash flow from operations. Vero's objective is to maintain a net debt to cash flow 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 recent declines 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 2.5 to 3.5 times range 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, which does not take 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 monthly for any significant acquisition(s); changes in economic circumstances outside the control of the Company; and the success or failure of recently deployed capital. Each of the annual budget and the quarterly updates used for Board meetings are approved by the Board of Directors and capital spending adjusted accordingly. As at June 30, 2009 the net debt to adjusted cash flow (annualized) was 4.6 (2008 – 0.4) times calculated as follows:

	As at June 30,	
	2009	2008
Current assets	26,833	31,726
Accounts payable and accrued liabilities	(28,864)	(33,810)
Bank debt	(103,969)	(36,344)
Net debt	(106,000)	(38,428)
	Three months ended,	
	June 30	
	2009	2008
Net (loss) earnings	(10,748)	8,740
Add (deduct):		
Unrealized loss on risk management activities	5,344	4,240
Stock-based compensation	2,219	314
Depletion, depreciation and accretion	12,491	9,799
Future income taxes	(3,539)	3,712
Cash flow from operations	5,767	26,805
Annualized cash flow	23,068	107,220
Net debt to annualized cash flow	4.6X	0.4X

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

16. RECLASSIFICATION

Certain information provided for prior periods has been reclassified to conform to the presentation adopted in 2009.