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

	September 30, 2009 <i>(unaudited)</i>	December 31, 2008 <i>(audited)</i>
ASSETS		
CURRENT		
Accounts receivable	17,791	29,218
Prepaid expenses and deposits	5,794	5,294
Loans receivable	2,751	350
	26,336	34,862
Property and equipment (Note 4)	295,857	297,697
Goodwill	19,913	19,913
	342,106	352,472
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	30,301	63,354
Risk management (Note 13)	2,073	-
Bank debt (Note 5)	102,971	75,419
	135,345	138,773
Asset retirement obligations (Note 6)	5,935	5,570
Future taxes	15,742	17,416
	157,022	161,759
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	169,388	160,103
Contributed surplus (Note 9)	8,981	4,759
Retained Earnings	6,715	25,851
	185,084	190,713
	342,106	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 Statement of Operations, Comprehensive (Loss) Income and Retained Earnings For the three and Nine month periods ended September 30

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

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
REVENUE				
Production revenue	15,897	33,495	55,644	108,103
Realized loss on risk management activities	(912)	(1,490)	(1,374)	(2,666)
	14,985	32,005	54,270	105,437
Royalties	(1,607)	(8,857)	(9,041)	(27,123)
Unrealized gain (loss) on risk management activities	3,271	9,321	(2,073)	1,612
Interest and other	20	-	62	-
	16,669	32,469	43,218	79,926
EXPENSES				
Operating	5,886	3,903	17,290	9,994
Transportation	778	788	2,460	2,083
General and administrative	1,472	1,263	4,417	3,226
Stock based compensation (Note 8(f))	664	816	4,222	1,316
Interest and bank charges	1,218	611	3,111	1,779
Depletion, depreciation and accretion	11,973	10,039	37,073	28,591
	21,991	17,419	68,573	46,990
(LOSS) INCOME BEFORE INCOME TAXES	(5,322)	15,050	(25,355)	32,937
INCOME TAXES (Note 7)				
Future tax (recovery) expense	(1,640)	4,629	(6,230)	9,993
	(1,640)	4,629	(6,230)	9,993
NET (LOSS) EARNINGS AND COMPREHENSIVE (LOSS) INCOME	(3,682)	10,421	(19,125)	22,944
RETAINED EARNINGS, BEGINNING OF PERIOD	10,397	17,387	25,851	4,864
Repurchase of shares (Note 8(e))	-	(556)	(11)	(556)
RETAINED EARNINGS, END OF PERIOD	6,715	27,252	6,715	27,252
NET (LOSS) EARNINGS PER SHARE (Note 10)				
Basic	(0.08)	0.32	(0.49)	0.72
Diluted	(0.08)	0.31	(0.49)	0.72

VERO ENERGY INC.

Consolidated Statement of Cash Flows

For the three and nine month periods ended September 30

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2009	2008	2009	2008
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net (loss) earnings	(3,682)	10,421	(19,125)	22,944
Adjustments for:				
Unrealized (gain) loss on risk management activities	(3,271)	(9,321)	2,073	(1,612)
Stock based compensation	664	816	4,222	1,316
Depletion, depreciation and accretion	11,973	10,039	37,073	28,591
Future tax (recovery) expense	(1,640)	4,629	(6,230)	9,993
	4,044	16,584	18,013	61,232
Changes in non-cash working capital (Note 12(a))	(919)	2,647	(12,292)	(3,473)
	3,125	19,231	5,721	57,759
FINANCING				
Increase (decrease) in bank debt	(998)	21,368	27,552	7,904
Proceeds from issuance of common shares, net of share issue costs (Note 8(a))	(7)	-	13,916	16,758
(Increase) decrease in related party loans	105	-	(2,401)	-
Stock option exercises (Note 8(d))	-	3,434	-	4,378
Repurchase of shares (Note 8(e))	-	(1,081)	(86)	(1,081)
	(900)	23,721	38,981	27,959
INVESTING				
Corporate acquisitions	-	-	-	(2,606)
Additions to petroleum and natural gas properties	(4,973)	(27,893)	(35,007)	(61,568)
Purchase of producing petroleum properties	-	(20,312)	-	(20,312)
Proceeds on sale of petroleum properties	-	-	145	-
Additions to administrative assets	-	(29)	(7)	(47)
Changes in non-cash working capital (Note 12(a))	2,748	5,282	(9,833)	(1,185)
	(2,225)	(42,952)	(44,702)	(85,718)
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 three and nine month periods ended September 30**

(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. The Company commenced oil and gas operations on November 2, 2005 after 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 (“GAAP”). 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. In this phase, cash-generating units were identified. 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 three and nine month periods ended September 30

(thousands, except per share data) (unaudited)

3. FINANCIAL PRESENTATION AND POLICIES (CONTINUED)

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

	September 30, 2009		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	431,676	(135,951)	295,725
Administrative assets	291	(159)	132
	431,967	(136,110)	295,857

Notes to the Consolidated Interim Financial Statements
For the three and nine month periods ended September 30

(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 September 30, 2009 were \$20,301 (December 31, 2008 - \$24,428). Future development costs on proved undeveloped reserves of \$47,066 (December 31, 2008 - \$59,931) were included in the depletion calculation. For the nine months ended September 30, 2009, the Company capitalized \$722 (September 30, 2008 - \$520) in general and administrative expenses directly related to exploration and development activities.

5. BANK DEBT

The Company has a \$115,000 (December 31, 2008 - \$100,000), syndicated, revolving credit facility and is comprised of a combination of: letters of credit, banker's acceptances and a revolving line of credit at the Company's option. 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 of the facility 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.

Advances under the facility are available by way of prime rate loans with interest rates of between 1.75 percent and 3.25 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 2.75 percent to 4.25 percent depending on the debt to cash flow ratio of the Company as calculated at the Company's previous quarter 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 nine months ended September 30, 2009 the effective interest rate of the Company was 3.9% (September 30, 2008 - 5.3%).

Notes to the Consolidated Interim Financial Statements
For the three and nine month periods ended September 30

(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 September 30, 2009 to be \$14,164 (September 30, 2008 - \$11,792), which will be incurred at various times between 2010 and 2023. The fair value of the asset retirement obligations incurred in the nine months ended September 30, 2009 was calculated using a credit-adjusted risk free rate of 7.9% (September 30, 2008 - 8.1%) and an inflation factor of 1.8% (September 30, 2008 - 1.6%). Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at September 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		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Asset retirement obligations beginning of period	5,815	3,032	5,570	2,641
Liabilities assumed on corporate acquisitions	-	-	-	251
Liabilities incurred during the period	3	1,401	31	1,429
Change in estimated future cash flows	-	263	(1)	263
Accretion	117	90	335	202
Asset retirement obligations end of period	5,935	4,786	5,935	4,786

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		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
(Loss) income before income taxes	(5,322)	15,050	(25,355)	32,937
Expected income tax (recovery) expense at the statutory rate of 29.0% (2008 - 29.5%)	(1,543)	4,440	(7,353)	9,716
Tax effect of non-deductible and non-taxable amounts related to:				
Stock-based compensation and other non-deductible items	193	245	1,230	399
Rate changes	(322)	-	(121)	-
Other	32	(56)	14	(122)
	(1,640)	4,629	(6,230)	9,993

Notes to the Consolidated Interim Financial Statements
For the three and nine month periods ended September 30
(thousands, except per share data) (unaudited)

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, 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	13,916
Adjustment for tax benefits from share issue costs	-	288
Total share capital at September 30, 2009	40,952	169,388

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 \$13,916 were comprised of gross proceeds of \$15,000 less expenses of the issue of \$1,084.

Notes to the Consolidated Interim Financial Statements
For the three and nine month periods ended September 30

(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 September 30, 2009 there were 4,095 (September 30, 2008 – 3,343) 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:

	September 30, 2009		September 30, 2008	
	Stock Options	Weighted Average Exercise Price \$	Stock Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	3,085	6.69	2,434	5.18
Granted	765	3.00	1,426	8.33
Exercised	-	-	(871)	5.03
Surrendered for cancellation	(682)	7.90	-	-
Forfeited	(9)	5.29	(6)	5.90
Outstanding, end of period	3,159	5.68	2,983	6.73
Exercisable, end of period	1,684	5.67	719	5.37

Notes to the Consolidated Interim Financial Statements
For the three and nine month periods ended September 30

(thousands, except per share data) (unaudited)

8. SHARE CAPITAL (continued)

Exercise Price	Options Outstanding					
	September 30, 2009			September 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
\$3.00 – 3.70	705	3.18	4.8	-	-	-
\$4.02 - 5.61	1,181	4.92	1.5	1,155	4.96	2.4
\$5.90 - 7.71	1,058	7.24	3.4	1,270	7.16	4.2
\$8.59 – 9.50	215	9.44	3.8	558	9.41	4.8
	3,159	5.68	3.0	2,983	6.73	3.6

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 Nine months ended September 30, 2009, the Company purchased and subsequently cancelled 17 (September 30, 2008 – 128) common shares pursuant to its Normal Course Issuer Bid. The aggregate cost of the purchases was \$86 (September 30, 2008 – \$1,081) of which \$75 (September 30, 2008 – \$525) was charged to share capital based on the average book value per share as of the date of repurchase, and the balance of \$11 (September 30, 2008 – \$556) was charged to retained earnings. The average per share cost of the repurchase in 2009 was \$4.95 (September 30, 2008 - \$8.42).

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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Risk free rate	2.3%	3.2%	2.4%	3.2%
Expected life (years)	5	5	5	5
Expected volatility	49%	69%	48%	69%
Expected dividends	-	-	-	-

For the nine months ended September 30, 2009, 765 (September 30, 2008 – 1,426) stock options were granted to employees, officers and directors. During the nine months in 2009, \$4,222

Notes to the Consolidated Interim Financial Statements
For the three and nine month periods ended September 30

(thousands, except per share data) (unaudited)

8. SHARE CAPITAL (continued)

(September 30, 2008 - \$1,316) was recorded as stock compensation expense with a corresponding credit to contributed surplus (Note 9). The stock option grants during the nine months ended September 30, had a weighted average fair value expense attributed to them of \$1.58 (September 30, 2008 - \$5.01) per share.

In May of 2009, 682 non-officer, non-director, stock options, having 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 in the amount of \$1,116 during the nine month period ended September 30, 2009.

9. CONTRIBUTED SURPLUS

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Balance at beginning of period	8,317	3,803	4,759	3,593
Stock-based compensation expense	664	816	4,222	1,316
Exercise of stock options	-	(1,118)	-	(1,408)
Balance at end of period	8,981	3,501	8,981	3,501

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		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Basic (loss) earnings per share computation				
Net (loss) earnings	(3,682)	10,421	(19,125)	22,944
Weighted average shares outstanding - basic	40,952	32,955	38,887	31,680
Basic (loss) earnings per share	(0.08)	0.32	(0.49)	0.72

Notes to the Consolidated Interim Financial Statements
For the three and nine month periods ended September 30

(thousands, except per share data) (unaudited)

10. PER SHARE AMOUNTS (continued)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Diluted (loss) earnings per share computation				
Net (loss) earnings	(3,682)	10,421	(19,125)	22,944
Weighted average shares outstanding - basic	40,952	32,955	38,887	31,680
Dilutive stock options outstanding	-	2,524	-	2,443
Shares notionally repurchased with proceeds from dilutive stock options and returned to treasury	-	(2,319)	-	(2,207)
Weighted average shares outstanding - diluted	40,952	33,160	38,887	31,916
Diluted (loss) earnings per share	(0.08)	0.31	(0.49)	0.72

During the three and nine month periods ended September 30, 2009, 3,159 (September 30, 2008 – Nil) and 3,159 (September 30, 2008 – Nil) 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.

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 September 30,	
	2009	2008
2008	-	97
2009	107	387
2010	410	374
2011	406	370
2012	268	246
2013	14	13
Total minimum payments	1,205	1,487

Notes to the Consolidated Interim Financial Statements
For the three and nine month periods ended September 30

(thousands, except per share data) (unaudited)

11. COMMITMENTS (continued)

b) Office lease costs

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

	As at September 30,	
	2009	2008
2008	-	270
2009	304	1,064
2010	1,045	1,070
2011	651	619
Total minimum payments	2,000	3,023

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 have 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, which 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 and other capital commitments

As at September 30, 2009 Vero had committed to drill and complete, or recomplete 6 (4.3 net) (2008 – 9 (9.0 net)) wells in Alberta with commencement dates that are later in 2009 and extend into 2010. The commitments are pursuant to farm-in agreements with industry partners. The Company expects to satisfy its net portion of the commitments at an estimated cost of \$8,223 (2008 – \$12,175).

(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 three and nine month periods ended September 30

(thousands, except per share data) (unaudited)

12. SUPPLEMENTARY INFORMATION

a) Changes in non-cash working-capital

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Accounts receivable	(312)	3,441	11,428	(7,137)
Prepaid expenses and deposits	704	84	(500)	(774)
Accounts payable and accrued liabilities	1,437	4,404	(33,053)	2,163
Corporate acquisition of working capital	-	-	-	1,090
Net change in non-cash working capital	1,829	7,929	(22,125)	(4,658)
Relating to:				
Investing activities	2,748	(5,282)	(9,833)	(1,185)
Operating activities	(919)	2,647	(12,292)	(3,473)

b) Supplementary cash flow information

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Interest paid	1,038	597	2,899	1,758

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, deposits, loans receivable, derivative financial instruments, accounts payable, accrued liabilities and the credit facility 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, accrued liabilities and credit facility 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 September 30, 2009 were as follows:

	Carrying Value	Fair Value
<u>Financial Assets</u>		
Held-for-trading:		
Deposits	4,159	4,159
Loans and receivables:		
Accounts receivable	17,791	17,791
Loans receivable	2,751	2,751
<u>Financial Liabilities</u>		
Held-for-trading:		
Risk management liabilities	2,073	2,073
Other financial liabilities		
Accounts payable and accrued liabilities	30,301	30,301
Credit facility	102,971	102,971

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: primarily 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. The Company does this by managing its commodity, foreign exchange and interest rate risks as detailed below.

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 will enter into a variety of risk management contracts. As at September 30, 2009, the Company had the following contracts outstanding:

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13. FINANCIAL INSTRUMENTS (CONTINUED)

Contract	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 nine months ended September 30, 2009 of \$1,883 (2008 – \$7,708). As at September 30, 2009, a \$1.00 per barrel change to the price on the oil contracts outlined above would have a \$171 impact on net income.

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.

As at September 30, 2009, accounts receivable was comprised of the following:

	\$
Sales revenue receivables	620
Joint interest billings with partners	7,007
Accrued and other receivables	10,164
Total accounts receivable	17,791

The carrying amounts of accounts receivable represent the Company's maximum credit exposure. During the nine months ended September 30, 2009 the Company has not experienced any credit loss in the collection of its accounts receivable. The Company does not have any allowance for doubtful accounts as at September 30, 2009.

As at September 30, 2009, The Company estimates its accounts receivable to be aged as follows:

	\$
Not past due (less than 30 days)	8,240
Past due 31-60 days	1,257
Past due 61-90 days	938
Past due more than 90 days	7,356
Total accounts receivable	17,791

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13. FINANCIAL INSTRUMENTS (CONTINUED)

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 Company does not pay any dividends.

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	30,301	-	-	-	30,301
Risk management liabilities	2,073	-	-	-	2,073

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. From time to time, the Company will enter into a variety of risk management contracts to mitigate its exposure to interest rate risk. The Company had the following interest rate swap in place at September 30, 2009 (September 30, 2008 – Nil).

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 loss for the nine months ended September 30, 2009 of \$190 (2008 – \$Nil). As at September 30, 2009, a 0.1% change to the interest rate on the swap contracts would have a \$19 impact on net income.

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 September 30, 2009 the Company had no forward, foreign exchange contracts in place.

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14. RELATED PARTY TRANSACTIONS

Three officers and one director of the corporation received demand loans during the period December 2008 to September 30, 2009. The aggregate principal amount outstanding from the related parties at September 30, 2009 was \$2,751 (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 \$3 (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 all 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 primarily using the non-GAAP financial ratio of net debt to annualized, most recent quarters' funds flow from operations. Vero's objective is to maintain a net debt to funds flow from operations ratio of one and one half times or less in a normalized commodity price and economic environment. 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 and increasing natural gas storage, this ratio has changed Vero's target amount. The goal for 2009 will be to 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, 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 acquisitions or dispositions.

To facilitate the management of this ratio, the Company prepares an annual budget, which is updated monthly for internal, management purposes and takes into account any acquisitions or dispositions; changes in economic circumstances outside the control of the Company; and the success or failure of recently deployed capital. The budget is also updated quarterly for purposes of approving future capital expenditure levels at Board meetings. These budgets are approved by the Board of Directors and capital spending adjusted accordingly. As at September 30, 2009 the net debt to adjusted funds flow from operations (annualized) was 6.6 (2008 - 1.0) times calculated as follows:

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15. CAPITAL DISCLOSURES (Continued)

	As at September 30,	
	2009	2008
Current assets	26,336	28,201
Accounts payable and accrued liabilities	(30,301)	(38,214)
Bank debt	(102,971)	(57,712)
Net debt	(106,936)	(67,725)
	Three months ended,	
	September 30	
	2009	2008
Net (loss) earnings	(3,682)	10,421
Add (deduct):		
Unrealized loss (gain) on risk management activities	(3,271)	(9,321)
Stock-based compensation	664	816
Depletion, depreciation and accretion	11,973	10,039
Future income taxes	(1,640)	4,629
Funds flow from operations	4,044	16,584
Annualized funds flow from operations	16,176	66,336
Net debt to annualized funds flow from operations	6.6x	1.0x

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

16. SUBSEQUENT EVENTS

a) On October 5, 2009 the Company entered a financial derivative, natural gas swap contract. The fixed price under this contract is \$4.96 per gigajoule and is in respect of 5,000 gigajoules per day for the period of November 1, 2009 through December 31, 2009.

b) On October 22, 2009 the Company entered a costless collar, financial derivative oil contract. The floor is \$75 CDN and the ceiling is \$100 CDN and is in respect of 500 barrels of oil per day for the period April 1, 2010 through December 31, 2010.

c) On November 3, 2009 the Company closed a bought deal financing with a syndicate of underwriters to issue 2,232 flow-through, common shares of Vero at the price of \$5.65 per share. Canadian exploration expenditures in the amount of \$12,609 will be renounced to subscribers of the shares effective December 31, 2009.

d) On November 4, 2009 the Company entered into a definitive agreement with an industry partner for the sale of certain non-core producing oil and gas assets. The expected proceeds of disposition will be approximately \$13,500 before adjustments. The sale is expected to close on or about November 30, 2009.