

---

## VERO ENERGY INC.

### Balance Sheet

(unaudited)

<i>(in thousands of dollars)</i>	June 30, 2010	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT</b>		
Accounts receivable	32,004	29,541
Prepaid expenses and deposits	3,494	4,566
Risk management contracts	2,183	-
Loans receivable	-	2,289
	<b>37,681</b>	<b>36,396</b>
Property and equipment (Note 4)	313,947	287,645
Goodwill	19,913	19,913
	<b>371,541</b>	<b>343,954</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	40,006	47,588
Current portion of risk management contracts	-	1,132
Bank debt (Note 5)	107,367	77,719
	<b>147,373</b>	<b>126,439</b>
Risk management contracts	103	113
Asset retirement obligations (Note 6)	5,289	5,379
Future taxes	18,724	15,286
	<b>171,489</b>	<b>147,217</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	180,441	181,343
Contributed surplus (Note 9)	10,941	9,610
Retained Earnings	8,670	5,784
	<b>200,052</b>	<b>196,737</b>
	<b>371,541</b>	<b>343,954</b>

Commitments (Note 11)

*See accompanying notes.*

### APPROVED BY THE BOARD

“Signed” Paul R. Baay, Director

“Signed” Douglas J. Bartole, Director

# VERO ENERGY INC.

## Statement of Operations, Comprehensive Income (Loss) 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	
	2010	2009	2010	2009
<b>REVENUE</b>				
Production revenue	27,472	17,612	56,955	39,747
Realized loss on risk management activities	(45)	(462)	(169)	(462)
Unrealized gain (loss) on risk management activities	2,420	(5,344)	3,325	(5,344)
	29,847	11,806	60,111	33,941
Royalties	(2,541)	(2,177)	(6,217)	(7,434)
Interest and other	140	21	190	42
	27,446	9,650	54,084	26,549
<b>EXPENSES</b>				
Operating	6,824	5,583	13,250	11,404
Transportation	1,380	818	2,369	1,682
General and administrative	1,626	1,749	3,102	2,945
Stock based compensation (Note 8(d))	741	2,219	1,721	3,558
Interest and bank charges	1,317	1,077	2,561	1,893
Depletion, depreciation and accretion	14,496	12,491	27,930	25,101
	26,384	23,937	50,933	46,583
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>1,062</b>	<b>(14,287)</b>	<b>3,151</b>	<b>(20,034)</b>
<b>INCOME TAXES (Note 7)</b>				
Future tax expense (recovery)	488	(3,539)	265	(4,591)
	488	(3,539)	265	(4,591)
<b>NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>	<b>574</b>	<b>(10,748)</b>	<b>2,886</b>	<b>(15,443)</b>
<b>RETAINED EARNINGS, BEGINNING OF PERIOD</b>	<b>8,096</b>	<b>21,145</b>	<b>5,784</b>	<b>25,851</b>
Repurchase of shares (Note 8(b))	-	-	-	(11)
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>8,670</b>	<b>10,397</b>	<b>8,670</b>	<b>10,397</b>
<b>NET EARNINGS (LOSS) PER SHARE (Note 10)</b>				
Basic	0.01	(0.28)	0.07	(0.41)
Diluted	0.01	(0.28)	0.07	(0.41)

# VERO ENERGY INC.

## 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		Six months ended	
	June 30		June 30	
	2010	2009	2010	2009
<b>CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:</b>				
<b>OPERATING</b>				
Net earnings (loss)	574	(10,748)	2,886	(15,443)
Adjustments for:				
Unrealized (gain) loss on risk management activities	(2,420)	5,344	(3,325)	5,344
Stock-based compensation	741	2,219	1,721	3,558
Depletion, depreciation and accretion	14,496	12,491	27,930	25,101
Future income taxes	488	(3,539)	265	(4,591)
	13,879	5,767	29,477	13,969
Asset retirement costs incurred	(22)	-	(265)	-
Changes in non-cash working capital (Note 12(a))	4,931	2,677	2,489	(11,373)
	18,788	8,444	31,701	2,596
<b>FINANCING</b>				
Increase (decrease) in bank debt	13,884	1,521	29,648	28,550
Proceeds from issuance of common shares, net of share issue costs (Note 8(a))	-	13,923	-	13,923
Loans to officers / directors (Note 14)	-	1,167	2,289	(2,506)
Stock option exercises (Note 8(c))	582	-	981	-
Repurchase of shares (Note 8(b))	-	-	-	(86)
	14,466	16,611	32,918	39,881
<b>INVESTING</b>				
Additions to petroleum and natural gas properties	(17,418)	(1,715)	(50,931)	(30,033)
Purchase of petroleum and natural gas assets	(127)	-	(5,751)	-
Additions to administrative assets	(3)	(2)	(3)	(7)
Proceeds on sale of petroleum properties	3,528	-	3,528	145
Changes in non-cash working capital (Note 12(a))	(19,234)	(23,338)	(11,462)	(12,582)
	(33,254)	(25,055)	(64,619)	(42,477)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>				
	-	-	-	-
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>				
	-	-	-	-
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>				
	-	-	-	-

Supplementary cash flow information (Note 12(b))

See accompanying notes.

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 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 ended December 31, 2009, except as described below. The disclosures included below are incremental to those included with the annual consolidated financial statements. These interim financial statements do not include all the information and disclosure required by GAAP for annual financial statements and therefore 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.

**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, 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 this standard will impact the accounting treatment of future business combinations entered into after January 1, 2011.

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**

*(thousands, except per share data) (unaudited)*

**3. FINANCIAL PRESENTATION AND POLICIES (CONTINUED)**

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.

**4. PROPERTY AND EQUIPMENT**

	<b>June 30, 2010</b>		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	<b>488,255</b>	<b>(174,416)</b>	<b>313,839</b>
Administrative assets	<b>294</b>	<b>(186)</b>	<b>108</b>
	<b>488,549</b>	<b>(174,602)</b>	<b>313,947</b>

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**  
*(thousands, except per share data) (unaudited)*

**4. PROPERTY AND EQUIPMENT (CONTINUED)**

	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 June 30, 2010 were \$24,574 (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. For the six months ended June 30, 2010, the Company capitalized \$663 (June 30, 2009 - \$484) in general and administrative expenses directly related to exploration and development activities.

**5. BANK DEBT**

The Company has a \$140,000 (Dec. 31, 2009-\$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 April 30, 2011. At that date Vero may request a renewal for a period of up to 364 days. The facility is secured by a \$300,000 (Dec. 31, 2009-\$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. 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 0.625 percent to 1.00 percent depending on the debt to cash flow ratio at the Company's previous quarter end. For the six months ended June 30, 2010 the effective interest rate was 4.4% (June 30, 2009 - 3.7%).

## Notes to the Interim Financial Statements

For the six months ended June 30, 2010 and 2009

*(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, 2010 to be \$13,501 (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 six months ended June 30, 2010 was calculated using a credit-adjusted risk free rate of 7.8% (2009 - 7.8%) and an inflation factor of 1.8% (2009 - 1.6%). Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at June 30, 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		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Asset retirement obligations beginning of period	5,296	5,703	5,379	5,570
Liabilities incurred during the period	7	-	51	28
Liabilities disposed of during the period	(46)	-	(46)	-
Liabilities settled during the period	(22)	-	(265)	-
Change in estimated future cash flows	(47)	-	(38)	(1)
Accretion	101	112	208	218
Asset retirement obligations end of period	5,289	5,815	5,289	5,815

**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,	
	2010	2009	2010	2009
Income (loss) before income taxes	1,062	(14,287)	3,151	(20,034)
Expected income tax recovery at the statutory rate of 28.0% (20% - 29.0%)	297	(4,143)	882	(5,810)
Tax effect of non-deductible and non-taxable amounts related to:				
Stock-based compensation and other non-deductible items	209	647	486	1,037
Rate changes	(8)	(37)	(1,096)	200
Other	(10)	(6)	(7)	(18)
	488	(3,539)	265	(4,591)

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**  
*(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>		
<b>Balance December 31, 2008</b>	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
<b>Balance December 31, 2009</b>	<b>43,183</b>	<b>181,343</b>
Issued on asset acquisition (f)	131	900
Exercise of stock options (c)	197	1,371
Adjustment for tax cost of flow-through shares (a)	-	(3,173)
<b>Balance June 30, 2010</b>	<b>43,511</b>	<b>180,441</b>

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))

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**  
*(thousands, except per share data) (unaudited)*

---

**8. SHARE CAPITAL (continued)**

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. Under each Bid, Vero is entitled to purchase up to 5% of its outstanding common shares. During the period ended June 30, 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. In August of 2009, the Company did not renew its Bid.

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 June 30, 2010 there were 3,865 (June 30, 2009 - 4,095) 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:

	<b>June 30, 2010</b>		June 30, 2009	
	<b>Stock Options</b>	<b>Weighted Average Exercise Price \$</b>	Stock Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	<b>4,203</b>	<b>5.26</b>	3,085	6.69
Granted	<b>107</b>	<b>6.55</b>	562	3.76
Exercised	<b>(197)</b>	<b>4.99</b>	-	-
Forfeited	<b>(48)</b>	<b>5.04</b>	-	-
Surrendered for cancellation	<b>(200)</b>	<b>9.50</b>	(682)	7.90
Outstanding, end of period	<b>3,865</b>	<b>5.09</b>	2,965	5.86
Exercisable, end of period	<b>1,463</b>	<b>5.55</b>	1,315	

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**  
*(thousands, except per share data) (unaudited)*

**8. SHARE CAPITAL (continued)**

Exercise Price	Options Outstanding					
	June 30, 2010			June 30, 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	648	3.46	4.0	-	-	-
\$3.43-5.61	-	-	-	1,692	4.54	2.7
\$4.00 - 5.65	2,097	4.46	2.6	-	-	-
\$5.90 - 7.71	1,120	7.22	2.9	1,058	7.24	3.6
\$8.34 - 10.80	-	-	-	215	9.44	4.0
	<b>3,865</b>	<b>5.09</b>	<b>2.9</b>	<b>2,965</b>	<b>5.86</b>	<b>3.2</b>

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		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Risk free rate (%)	2.2%	2.4%	2.4%	2.4%
Expected life (years)	5	5	5	5
Expected volatility (%)	49%	91%	49%	90%
Expected dividends	-	-	-	-

For the six months ended June 30, 2010, 107 (June 30, 2009 – 562) stock options were granted to employees, officers and directors. During the six months in 2010, \$1,721 (June 30, 2009 - \$3,558) 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 \$2.94 (June 30, 2009 - \$2.65) per share.

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**  
*(thousands, except per share data) (unaudited)*

---

**8. SHARE CAPITAL (continued)**

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 June 30, 2010 there were 180 units outstanding. Included in accounts payable and accrued liabilities is \$159 (2009-nil) pertaining to these grants. During the second quarter ended June 30, 2010, \$78 (2009 – nil) was charged to general and administrative expense.

f) Acquisition of petroleum and natural gas assets

On February 16, 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.

**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,	
	2010	2009	2010	2009
Balance at beginning of period	<b>10,452</b>	6,098	<b>9,610</b>	4,759
Stock-based compensation expense	<b>741</b>	2,219	<b>1,721</b>	3,558
Exercise of stock options	<b>(252)</b>	-	<b>(390)</b>	-
Balance at end of period	<b>10,941</b>	8,317	<b>10,941</b>	8,317

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**  
*(thousands, except per share data) (unaudited)*

**10. PER SHARE AMOUNTS**

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<b>Basic earnings (loss) per share computation</b>				
Net earnings (loss)	574	(10,748)	2,886	(15,443)
Weighted average shares outstanding - basic	43,472	38,710	43,355	37,837
Basic earnings (loss) per share	0.01	(0.28)	0.07	(0.41)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<b>Diluted earnings (loss) per share computation</b>				
Net earnings (loss)	574	(10,748)	2,886	(15,443)
Weighted average shares outstanding - basic	43,472	38,710	43,355	37,837
Dilutive stock options outstanding	3,060	502	3,060	502
Shares notionally repurchased with proceeds from dilutive stock options and returned to treasury	(2,495)	(502)	(2,512)	(502)
Weighted average shares outstanding - diluted	44,037	38,710	43,903	37,837
Diluted earnings (loss) per share	0.01	(0.28)	0.07	(0.41)

During the respective three and six month periods ended June 30, 2010, 805 (June 30, 2009 – 2,464) and 805 (June 30, 2009 – 2,464) 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 Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**

*(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:

	<b>As at June 30,</b>	
	<b>2010</b>	<b>2009</b>
2009	-	213
2010	<b>203</b>	410
2011	<b>406</b>	406
2012	<b>268</b>	268
2013	<b>14</b>	14
<b>Total minimum payments</b>	<b>891</b>	<b>1,311</b>

*b) Office lease costs*

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

	<b>As at June 30,</b>	
	<b>2010</b>	<b>2009</b>
2009	-	608
2010	<b>520</b>	1,045
2011	<b>650</b>	651
<b>Total minimum payments</b>	<b>1,170</b>	<b>2,304</b>

*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 Company'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.

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**

*(thousands, except per share data) (unaudited)*

**11. COMMITMENTS (Continued)**

*d) Drilling commitments*

As at June 30, 2010 Vero had committed to drill and complete a total of 4 (2009 – 1) wells in Alberta with a commencement date later in 2010, pursuant to farm-in agreements with industry partners. The Company expects to satisfy their net portion of these commitments at an estimated cost of \$3,600 (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 June 30, 2010, the Company had fulfilled the entire commitment.

**12. SUPPLEMENTARY INFORMATION**

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Accounts receivable	211	3,035	(2,463)	11,739
Prepaid expenses and deposits	1,341	266	1,072	(1,204)
Accounts payable and accrued liabilities	(15,855)	(23,962)	(7,582)	(34,490)
Corporate acquisition of working capital	-	-	-	-
Net change in non-cash working capital	(14,303)	(20,661)	(8,973)	(23,955)
Relating to:				
Investing activities	(19,234)	(23,338)	(11,462)	(12,582)
Operating activities	4,931	2,677	2,489	(11,373)
	(14,303)	(20,661)	(8,973)	(23,955)

*b) Supplementary cash flow information*

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Interest paid	1,216	983	1,922	1,766

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**

*(thousands, except per share data) (unaudited)*

**13. FINANCIAL INSTRUMENTS**

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

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

The carrying value of financial instruments, which include accounts receivable, 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.

The carrying and fair values of the Company's financial instruments as at June 30, 2010 and December 31, 2009 were as follows:

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b><u>Financial Assets</u></b>				
Held-for-trading:				
Deposits	2,731	2,731	4,159	4,159
Loans and receivables:				
Accounts receivable	32,004	32,004	29,541	29,541
Loans receivable	-	-	2,289	2,289
<b><u>Financial Liabilities</u></b>				
Held-for-trading:				
Risk management liabilities	-	-	1,245	1,245
Other financial liabilities				
Accounts payable and accrued liabilities	40,006	40,006	47,588	47,588
Credit facility	107,367	107,367	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.

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**

*(thousands, except per share data) (unaudited)*

**13. FINANCIAL INSTRUMENTS (CONTINUED)**

*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 June 30, 2010, fluctuations in commodity prices could have resulted in unrealized gains (losses) that would impact after-tax net earnings as at June 30, 2010 as follows:

	2010	
	Favourable 10% change	Unfavourable 10% change
Crude oil prices	845	(845)
Natural gas basis spread	107	(107)

**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, 2010, the Company had the following contracts outstanding:

	Amount	Term	Price (CDN \$/bbl)	Type
Costless collar	500 bbl/day	Apr. 1 – Dec. 31, 2010	\$75.00 - \$100.00	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
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

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**  
*(thousands, except per share data) (unaudited)*

---

**13. FINANCIAL INSTRUMENTS (CONTINUED)**

The contracts in place resulted in an unrealized gain (loss) for the six months ended June 30, 2010 of \$3,325 (2009 – \$(5,344)).

*Credit risk*

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

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 June 30, 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	8,691	84	92	1,653	10,520
Joint interest billings with partners	1,205	2,010	4,569	4,285	12,069
Provincial government incentives	1,708	-	3,935	2,142	7,785
Other receivables	1,542	10	12	66	1,630
<b>Total accounts receivable</b>	<b>13,146</b>	<b>2,104</b>	<b>8,608</b>	<b>8,146</b>	<b>32,004</b>

*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 downturns in the industry or the economy in general. 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 2010.

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**  
*(thousands, except per share data) (unaudited)*

**13. FINANCIAL INSTRUMENTS (CONTINUED)**

The timing of cash outflows relating to financial liabilities are outlined in the table below:

	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>There- after</b>	<b>Total</b>
Accounts payable and accrued liabilities	40,006	-	-	-	40,006
Bank debt	107,367	-	-	-	107,367

*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 June 30, 2010.

<b>Contract</b>	<b>Notional Quantity</b>	<b>Term</b>	<b>Reference</b>	<b>Strike Price</b>	<b>Type</b>
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 period ended June 30, 2010 of \$42 (2009-\$Nil).

Based on the interest rate financial instrument that was outstanding at June 30, 2010, fluctuations in interest rates could have resulted in unrealized gains (losses) that would impact after-tax net earnings as at June 30, 2010 as follows:

	<b>2010</b>	
	<b>Favourable 1% change</b>	<b>Unfavourable 1% change</b>
Interest rate swap	<b>281</b>	<b>(281)</b>

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 June 30, 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 \$405 (2009 - \$nil).

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**

*(thousands, except per share data) (unaudited)*

---

*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, 2010, the Company had no forward, foreign exchange contracts in place.

**14. RELATED PARTY TRANSACTIONS**

Three officers and one director of the Company received demand loans during the period December 2008 to June 30, 2009. The aggregate amount outstanding from these related parties at June 30, 2010 was \$nil (December 31, 2009 - \$2,289). Interest on these loans was at a commercial, arms length, rate of interest. The rate used was the Company's rate of borrowing from its banks plus 25 basis points. Included in the accounts receivable balances is \$nil (December 31, 2009 - \$43) 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.

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 2010 will be to achieve a ratio of between 2.0 to 2.5 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.

**Notes to the Interim Financial Statements**  
**For the six months ended June 30, 2010 and 2009**  
*(thousands, except per share data) (unaudited)*

**15. CAPITAL DISCLOSURES (CONTINUED)**

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, 2010 the net debt to adjusted cash flow (annualized) was 2.0 (2009 – 4.6) times calculated as follows:

	<b>As at June 30,</b>	
	<b>2010</b>	<b>2009</b>
Current assets	<b>35,498</b>	26,833
Accounts payable and accrued liabilities	<b>(40,006)</b>	(28,864)
Bank debt	<b>(107,367)</b>	(103,969)
Net debt	<b>(111,875)</b>	(106,000)
	<b>Three months ended,</b>	
	<b>June 30</b>	
	<b>2010</b>	<b>2009</b>
Net earnings (loss)	<b>574</b>	(10,748)
Add (deduct):		
Unrealized (gain) loss on risk management activities	<b>(2,420)</b>	5,344
Stock-based compensation	<b>741</b>	2,219
Depletion, depreciation and accretion	<b>14,496</b>	12,491
Future income taxes	<b>488</b>	(3,539)
Funds flow from operations	<b>13,879</b>	5,767
Annualized funds flow	<b>55,516</b>	23,068
Net debt to annualized funds flow	<b>2.0X</b>	4.6X

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 \$140,000. At no time during 2009 or the first two quarters of 2010 has net debt exceeded this threshold.