



## FIRST QUARTER 2008 REPORT

For the three months ended March 31, 2008

# Q1



### First Quarter 2008 Highlights

- ✓ Increased average daily production 30% to 5,771 boe/d for the first quarter.
- ✓ Cash flow from operations increased 70% to \$17.8 million equating to \$0.60 per share (basic) and \$0.59 (diluted).
- ✓ Reduced operating costs by 19% to \$5.13 per boe in 2008 from \$6.30 per boe in 2007.
- ✓ Achieved an operating netback of \$36.86 per boe and cash flow netback of \$33.98 per boe.
- ✓ Closed a flow-through share private placement with net proceeds of \$16.8 million.
- ✓ Net debt was reduced to \$47,059 or 0.7x net debt to cash flow.
- ✓ Increased bank credit facility to \$90 million from \$70 million.
- ✓ Drilled 8 (5.5 net) wells with a 100% success rate including 2 new pool discoveries.

# FIRST QUARTER 2008 REPORT



For the three months ended March 31, 2008

Financial and operating highlights for the first quarter of 2008 with comparisons to the first quarter of 2007 are as follows:

<i>Financial (\$000's except per share amounts)</i>	Q1 2008	Q1 2007	% Change
Production revenue	<b>31,168</b>	20,407	53
Cash flow from operations	<b>17,842</b>	10,504	70
Per basic share	<b>0.60</b>	\$ 0.41	46
Per diluted share	<b>0.59</b>	\$ 0.41	44
Net earnings	<b>3,783</b>	722	424
Per basic share	<b>0.13</b>	\$ 0.03	333
Per diluted share	<b>0.13</b>	\$ 0.03	333
Capital expenditures	<b>19,888</b>	26,898	(26)
Net debt	<b>47,059</b>	65,934	(29)
<b>Share Capital (000's)</b>			
Basic, weighted average	<b>29,597</b>	25,907	14
Basic, end of period	<b>30,855</b>	25,907	19
Diluted, weighted average	<b>30,154</b>	25,907	16
Fully diluted	<b>33,295</b>	28,298	18
<b>Daily Production</b>			
Natural gas volumes (mcf/d)	<b>26,730</b>	21,221	26
Light oil (boe/d)	<b>567</b>	340	67
Liquids (boe/d)	<b>749</b>	553	36
Corporate (boe/d)	<b>5,771</b>	4,430	30
<b>Average Prices</b>			
Natural gas (\$/mcf)	<b>8.51</b>	8.23	3
Light Oil (\$/bbl)	<b>88.07</b>	62.20	42
Liquids (\$/bbl)	<b>86.89</b>	55.86	56
Corporate (\$/boe)	<b>59.35</b>	51.19	16
<b>Netbacks (\$/boe)</b>			
Operating	<b>36.86</b>	29.79	24
Cash flow	<b>33.98</b>	26.35	29
<b>Wells drilled</b>			
Gross	<b>8</b>	17	(53)
Net	<b>5.5</b>	10.9	(50)

- (1) Cash flow from operations is calculated as cash provided by operating activities from the statement of cash flows, adding change in non-cash working capital and asset retirement expenditures. Cash flow from operations is used to analyze the Company's operating performance and leverage. Cash flow from operations does not have a standardized measure prescribed by Canadian Generally Accepted Accounting Principles and therefore may not be comparable with the calculations of similar measures for other companies.
- (2) Net debt represents current assets less current liabilities and bank debt (but excludes the potential future liability related to the mark-to-market measurement of hedges). It does not have a standardized meaning prescribed by Generally Accepted Accounting Principles and it is therefore unlikely to be comparable to similar measures presented by other companies.
- (3) All barrels of oil equivalent conversions use 6 mcf to 1 barrel of oil.
- (4) Operating netback equals total revenue less royalties, transportation and operating costs calculated on a per boe basis. Operating netback and cash flow from operations netback do not have a standardized measure prescribed by Canadian Generally Accepted Accounting Principles and therefore may not be comparable with the calculations of similar measures for other companies.

## FINANCIAL REVIEW

Vero continued to deliver solid financial results with increases in both production and cash flow. Our success in the first quarter was highlighted by a 30% increase in daily production volumes to a company high of 5,771 boe/d. In conjunction with strengthening commodity prices, the increased production produced a 53% increase in revenues and further resulted in a 70% increase in cash flows from the comparable quarter of last year. Operating netbacks increased 24% to \$36.86 through a combination of increased commodity prices as well as cost efficiencies realized from new operated facilities.

Cash flow for the first quarter set a company record of \$17.8 million, which in turn yielded \$0.60 per basic share and \$0.59 per diluted share. The significant increase in cash flow was spearheaded by the 30% increase in production over last year. In addition, operating costs were reduced by 19% from 2007 levels directly as a result of our reduced reliance on third party processing for our gas production in Edson. The first quarter of 2008 was the first full quarter of operations at our 100% owned gas processing plant in Edson. This new plant eliminated a significant portion of processing fees paid to third parties in this area. Furthermore, successful drilling results from the second half of 2007 and the first quarter of 2008 have reduced the company's depletion rate per boe by 26%. All of these positive results generated net earnings for the first quarter of \$3.8 million or \$0.13 per share (basic and diluted).

Vero spent \$19.9 million during the quarter including drilling 8 (5.5 net) wells. Vero directed 72% of its total first quarter capital expenditures towards drilling costs, while 23% was devoted to facilities and tie-ins. An additional \$634 thousand was spent on Crown land acquisitions to continually expand our inventory of drillable prospects.

Due to our successful drilling program resulting in a solid reserve report for year end December 31, 2007, the Company had its bank credit facility increased to \$90 million in April. This credit enhancement, plus the private placement (\$16.8 million of net proceeds), which closed on February 28 have allowed the Company to re-evaluate its 2008 capital program. The capital program will be expanded and increased through the acceleration of our own organic drilling program and/or pursuing external opportunities that would be beneficial for the Company. To this end, the Board has approved a new capital budget for the year of \$65 million.

The Company closed a strategic acquisition of a private company in April in a all-share deal. The total acquisition cost, including the assumption of approximately \$1.5 million of net debt was approximately \$16 million. Vero and the private company had significant, common production and the Company views the acquisition to be an excellent way to increase opportunities in our areas. The acquisition also included approximately 9,500 net undeveloped acres of land, which will add to our project inventory.

## OPERATIONS REVIEW

### Edson, Alberta

Edson is Vero's largest producing property with production of 4,001 boe/d (81% natural gas) in the quarter. There were 6 (3.5 net) wells drilled in the first quarter with a success rate of 100% and one new pool discovery. The production primarily targets the Rock Creek and Manville

zones to 2,400-2,500 meters in depth and is characterized by gas with a very high liquid content, which can generate volumes of up to 30 bbls/mmcf. The Company has an active program in the area for the balance of 2008. We are planning to drill approximately 22 (14.8 net) vertical and horizontal wells in 2008 which equates to approximately 70% of our capital program for the year. Vero has also been an active and proficient driller of horizontal wells within the Edson area. Currently there are 11 (7.6 net) horizontal producing wells and our forecast for 2008 includes drilling 8 to 10 (5.4 to 6.0 net) horizontal wells. Results from the horizontal drilling continue to meet or exceed Vero's targets for both expected production rates and booked reserves.

Vero's acreage in the area consists of 34,560 gross (15,801 net) developed acres and 27,040 (17,255 net) undeveloped acres. It is expected that in due course, a majority of the acreage will have at least two wells per section. Therefore, while our acreage in Edson is a significant part of our total acreage, we believe that the reserve potential in this area is a bigger part of this story.

## Corbett

Corbett has become Vero's second largest producing area contributing 15% to total corporate production in the first quarter. Production averaged 889 boe/d (62 % natural gas) in the first quarter. In Corbett 2 (2.0 net) wells were drilled in 2008 with one of these being a new pool discovery. Our plans for the rest of the year are to drill an additional 4-5, 100% wells. The main focus in the area is the Nordegg at a depth of 1,250 meters. The oil and natural gas liquids production has benefited from the increasing oil prices and the production from this area has become a significant contributor to the Company's cash flows.

Vero currently controls 7,998 (4,573 net) developed acres and 16,320 (14,400 net) undeveloped acres in this area.

## Alberta - Other

Total production for other areas in the first quarter was 881 boe/d (75 % natural gas).

Whitecourt production for the first quarter of 2008 averaged 452 boe/d (88% natural gas). Wilson Creek is mainly an exploitation property and production in the first quarter was 302 boe/d. This area generated the highest netbacks for the Company in the first quarter at approximately \$41/boe.

Vero has 40,479 (18,439 net) developed acres and 56,000 (44,540 net) undeveloped acres in the Alberta – Other category.

## OUTLOOK AND PRESIDENT'S MESSAGE

Vero once again executed on what it set out to do in the first quarter and delivered record results. The Company executed an aggressive capital program that achieved 100% drilling success including two new pool discoveries. We continued our quarterly growth trends in production and in doing so, average production reached a corporate high of 5,771 boe/d for the quarter. A 10% increase in daily production over the fourth quarter in 2007, higher commodity prices, and reduced operating costs have helped us achieve record cash flow and cash flow per share. During this active quarter, Vero significantly reduced its controllable costs which were already amongst the lowest levels of our peer group. Particularly noteworthy was the 19% reduction in operating expenses in the Edson area as our wholly-owned processing facility has reduced our reliance on third party facilities. Since approximately 90% of the company's gas production is from the Edson area, operating cost savings realized in this area have been translated into significant enhancements to our cash flow.

Current plans are for reduced capital spending in the second quarter compared to the first quarter to accommodate spring break-up. While spending levels during this period will be reduced, we are still completing drilling projects started in March, and tying in wells drilled in the first quarter. During April, we finished drilling 2 (1.6 net) horizontal wells in Edson that were started in March. In addition, we are currently drilling 1 (0.5 net) horizontal well in Edson and making preparations to continue drilling later in the quarter.

With higher cash flows resulting from new production and rising commodity prices; our increased credit facility; and the private placement proceeds, we will be increasing our planned capital expenditures for the year to \$65 million (excluding acquisitions) from the current \$50 million. Approximately 20% of this increase will be devoted to increased infrastructure and 20% towards seismic and land purchases. The majority will be towards drilling and completions with a push toward wells that are more exploratory in nature. The company will increase its gross well count by 3 or 4 wells to 33 to 36 for the year.

We are on target to meet our newly upgraded average production guidance of between 6,300 and 6,700 boe/d for 2008 and I look forward to reporting our future activities.

Douglas J. Bartole  
President and Chief Executive Officer

## MANAGEMENT'S, DISCUSSION AND ANALYSIS

*The following Management's Discussion and Analysis ("MD&A") was prepared on April 30, 2008 and is management's assessment of the Company's financial and operating results for the quarter ended March 31, 2008. This MD&A should be read in conjunction with the audited, consolidated, financial statements of the Company for the year ended December 31, 2007 with the notes related thereto.*

*Additional information on the financial statements, this MD&A and other factors that could affect the company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)), or at the company's website ([www.veroenergy.ca](http://www.veroenergy.ca)). Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, accept as may be required by applicable securities laws.*

## READER ADVISORIES

### *Forward Looking Statements*

*Information provided herein contains estimates and assumptions which management is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Forward looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. Although the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realized. The use of any of the words "anticipate", "believe", "continue", "estimate", "expect", "forecast", "may", "will", "project", "plan", "should", and similar expressions are intended to identify forward-looking information. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The risks associated with these forward-looking statements include, but are not limited to, the following:*

- *Fluctuations in natural gas, natural gas liquids and oil production levels;*
- *Volatility in market prices for natural gas, natural gas liquids and oil;*
- *Changes in foreign currency exchange and interest rates;*
- *Uncertainties associated with estimating reserves;*
- *Competition for capital, asset acquisitions, undeveloped lands and skilled personnel;*
- *Unexpected events that are inherent in the oil and gas industry such as: geological and drilling problems, production, pipeline and mechanical failures;*
- *Successes in the finding and development of reserves;*
- *Changes in the general economic conditions in Western Canada, Canada, North America and Worldwide.*
- *The effects of weather and climate conditions;*
- *Competitive actions taken by other companies;*
- *Actions taken and policies created by governmental or regulatory authorities including changes to tax laws, incentive programs, royalty calculations and environmental regulations.*

*Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.*

## **Non-GAAP Terms**

*This Management, Discussion and Analysis uses the terms “cash flow from operations” and “netbacks” which are terms not recognized under Generally Accepted Accounting Principles (“GAAP”). The Company uses these measures to help evaluate its performance, leverage, and liquidity as well as to assess potential acquisitions. The Company considers cash flow from operations a key measure as it demonstrates the Company's ability to generate funds necessary to repay debt and to fund future growth through capital investment. Cash flow from operations should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with Canadian GAAP as an indicator of Vero's performance. Vero's determination of cash flow from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and cash flow from operations can be found in the statement of cash flows in the financial statements. Vero also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of net earnings per share, which per share amount is calculated under GAAP and is more fully described in the notes to the financial statements. The Company considers corporate netbacks as a key measure as it demonstrates its profitability relative to current commodity prices.*

## **Barrel of Oil Equivalents**

*Where amounts are expressed in a barrel of oil equivalent (“boe”), or barrel of oil equivalent per day (“boe/d”), natural gas volumes have been converted to barrels of oil equivalent at 6 thousand cubic feet (“mcf”) to one barrel. Use of the term boe may be misleading particularly if used in isolation. The boe conversion ratio of 6 mcf to 1 barrel (“bbl”) of oil or natural gas liquids is based on an energy equivalency conversion methodology primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms to the Canadian Securities Regulators' National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.*

## **Dollar amounts**

*All dollar amounts below are in thousands of Canadian dollars except for share and per share data or as specifically elsewhere noted.*

## **FINANCIAL HIGHLIGHTS FROM THE FIRST QUARTER OF 2008**

Vero undertook another active first quarter. Ending 2007 with a strong balance sheet allowed the Company to be aggressive in its projects. We spent \$19,888 in the quarter including: \$14,292 drilling and completing 8 (5.5 net) wells; \$4,551 in equipping and tying-in new wells; and \$634 in acquiring new Crown land acreage in its core areas. The Company achieved a record quarterly production averaging 5,771 boe/d. While we saw natural gas prices strengthening to average \$8.51 in the quarter, the real story in the prices were the substantial increases in oil prices, which in turn increase our natural gas liquids prices. The combination of record production and

increasing prices generated record cash flows for the Company of \$17,842 or \$0.60 per basic share. Below is the detailed discussion of the results from the first quarter.

## DETAILED FINANCIAL REVIEW

### Production Revenue and Volumes

Vero increased aggregate production volumes by 32% in the first quarter of 2008 to 525,168 boe as compared to 398,663 boe in the first quarter of 2007. Production growth in the first quarter was largely attributable to the continued successful drilling program in Vero's core area of Edson. In addition, the first quarter of 2008 represents the first full quarter of operations from our recently built, 100% owned facility in Edson. The addition of the new facility has resulted in enhanced natural gas liquid recovery factors over what was received from third party facilities. The increase in oil volumes by 69% in the first quarter is the result of successful drilling in the Corbett area. Gas production contributed 77% of total volumes while liquids came in at 13% and oil at 10%. This compares to 80% for gas in the first quarter of 2007, liquids at 12% and oil at 8%. For the balance of 2008 it is anticipated that the weighting to natural gas will stay around the 80% level as the bulk of our remaining drilling program for 2008 is for natural gas targets.

Aggregate Sales Volumes	Q1 2008	Q1 2007	% Change
Natural gas (mcf)	2,432,396	1,909,871	27
Light/medium oil (bbl)	51,569	30,590	69
Natural gas liquids (bbl)	68,199	49,761	37
Barrels of oil equivalent (boe)	525,168	398,663	32

### Daily Sales Volumes

Daily sales volumes increased 30% to 5,771 boe/d in 2008 from 4,430 boe/d in the first quarter of 2007. The largest gains were realized from our oil well drilling program, which yielded a 67% increase in daily rates. Second quarter average production will include the impact of the corporate acquisition that closed on April 15, which has added between 400 and 500 boe/d to the corporate base. As a result of the acquisition and first quarter successful drilling, the annual average production guidance for 2008 has been increased to between 6,300 and 6,700 boe/d. Activity levels will be curtailed somewhat in the second quarter to levels necessary to drill wells started at the end of the first quarter, tie in tested production, and incur facility expenditures while break up continues. However, commencing in the latter part of the second quarter and then into the third quarter, Vero expects production to increase as our activity levels accelerate.

	Q1 2008	Q1 2007	% Change
Natural gas (mcf/d)	26,730	21,221	26
Light/medium oil (bbl/d)	567	340	67
Natural gas liquids (bbl/d)	749	553	36
Barrels of oil equivalent (boe/d)	5,771	4,430	30

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For the three months ended March 31, 2008



Daily production is split by the Company's main operating areas as follows:

Area	Q1 2008	Q1 2007	% Change
Edson	4,001	2,640	52
Corbett	889	471	89
Whitecourt	452	522	(13)
Wilson Creek	302	627	(52)
Other	127	171	(26)
Total	5,771	4,430	30

## Benchmark Indices

	Q1 2008	Q1 2007	%
<b>Natural gas</b>			
NYMEX (US \$/mmbtu)	8.08	6.96	16
AECO- Daily (CDN \$/mcf)	7.97	7.41	8
<b>Crude Oil</b>			
WTI (US \$/bbl)	97.86	58.16	68
Edmonton light (CDN \$/bbl)	97.50	67.09	45
<b>Foreign Exchange</b>			
Canadian to US dollar	1.00	1.17	(15)
US to Canadian dollar	1.00	0.85	17

United States natural gas prices are usually referenced to the New York Mercantile Exchange Henry Hub in Louisiana (NYMEX), while in Canada the generally recognized benchmark is the AECO hub in Alberta. Gas prices are influenced by a variety of factors such as: weather patterns; LNG imports; supplies in Western Alberta; demand in Eastern Canada and the United States, relative storage levels in North America and alternative fuel sources. AECO benchmark pricing was 8% higher in 2008 as compared to 2007 levels. Even though drilling activity was curtailed in 2007 as the result of relatively flat prices and increasing costs, there was no appreciable increase in gas prices due to slowing demand in the U.S. A colder start to the 2007/2008 winter gave rise to the increase in AECO prices. WTI oil prices experienced a significant increase of 68% in 2008. Supply issues are still a global concern as demand in India and China accelerates along with their economies. The Canadian dollar moved to parity with the US dollar throughout the first quarter of 2008 as compared to the first quarter of 2007 wherein the Canadian dollar was ahead of its US counterpart. This had the effect of somewhat muting the 68% increase in WTI prices as the Edmonton light oil benchmark price increased by only 45%.

Commodity prices realized by the Company for the respective quarters were as follows:

	Q1 2008	Q1 2007	% Change
Natural gas (\$/mcf)	8.51	8.23	3
Light/medium oil (\$/bbl)	88.07	62.20	42
Natural gas liquids (\$/bbl)	86.89	55.86	56
Barrels of oil equivalent (\$/boe)	59.35	51.19	16

Realized natural gas prices increased by a modest 3% in the first quarter of 2008 compared to 2007. However, because of the higher quality of Vero's natural gas, we averaged a 7% premium to the AECO standard throughout the quarter. Vero realized oil prices increased by 42% in 2008 compared to 2007 which is similar to the increase of 45% in the Edmonton light oil benchmark. Natural gas liquids prices showed a 56% increase in 2008 as the normal discount Vero traditionally realizes from oil price benchmarks to our liquids pricing diminished in the quarter. This was due to our relatively higher proportion of pentane production in the quarter which more closely parallels oil pricing. Gas prices continue to be strong into April and this bodes well for Vero's decision to be aggressive in its capital spending in the first quarter.

## Production revenue

Vero realized a 53% increase in aggregate revenues in the first quarter of 2008. While natural gas prices increased modestly by 3% in 2008 from the first quarter of 2007, the significant increases in revenue were mainly attributable to the 69% increase in oil production coupled with the 42% increase in the realized price of a barrel of oil. Liquids revenue produced a similar effect as volumes increased by 37% while realized prices appreciated by 56%. Revenue from natural gas comprised 66% of first quarter 2008 total revenues as compared to 77% in 2007. Oil revenues rose to 15% of total revenues and liquids revenue increased to 19% in 2008 as well. The increase in relative production from oil and liquids, coupled with the higher prices for these products contributed significantly to their proportionate increase in revenues.

	Q1 2008	Q1 2007	% Change
Natural gas	20,700	15,725	32
Light/medium oil	4,542	1,903	139
Natural gas liquids	5,926	2,779	113
Production revenue	31,168	20,407	53

## ROYALTIES

Royalties were \$8,492 for the first quarter of 2008 as compared to \$5,645 for the first quarter of 2007. The increase parallels the significant increase in production revenues in 2008. On a per boe basis the rate increased to \$16.17 due to higher Crown royalty rates on the flush production from our newly drilled wells. However, as a percentage of revenue, the rate for 2008 was similar to 2007 as royalty expense averaged 27.2% of production revenue in the first quarter of 2008 as compared to 27.7% in 2007. Vero anticipates this rate to remain at approximately the first quarter levels as our drilling mix between Crown and farm-in lands with royalty interests will remain similar.

	\$			\$/boe		
	Q1 2008	Q1 2007	%	Q1 2008	Q1 2007	%
Crown – gross	7,571	5,029	51	14.42	12.61	14
Freehold/gross over-riding	921	617	49	1.75	1.55	13
Total royalties	8,492	5,645	50	16.17	14.16	14
Royalties - % of revenue	27.2%	27.7%	(2)	27.2%	27.7%	(2)

## RISK MANAGEMENT ACTIVITIES

During the first quarter of 2008, the Company entered into the following commodity contracts:

Type	Amount	Term	Price (\$/gj)	Type
Costless collar	5,000 gj/day	April 1 – October 31, 2008	\$6.50 - \$8.25	Financial
Swap	5,000 gj/day	April 1 – October 31, 2008	\$7.50	Financial
Costless collar	5,000 gj/day	April 1 – October 31, 2008	\$7.00 - \$8.80	Financial
Costless collar	5,000 gj/day	November 1 – December 31, 2008	\$7.75 - \$9.50	Financial

These hedges are considered to be financial derivatives wherein the fair value of the contract was recognized on the balance sheet with changes in fair value recorded in income. For the quarter ended March 31, 2008, the unrealized loss from the Company's hedging contracts was \$3,468. Realized gains or losses are recorded in income in the period in which they occur. There were no realized gains or losses on hedges in the first quarter of 2008 or 2007.

## DEPLETION, DEPRECIATION AND ACCRETION (“DD&A”)

Aggregate DD&A decreased from \$8,907 in the first quarter of 2007 to \$8,753 in the first quarter of 2008. Successful drilling has brought the per boe rate down from \$22.34 in 2007 to \$16.67 in 2008 and represents a 25% decrease. The decrease in the DD&A rate from 2007 was primarily due to the positive reserve additions in the last half of 2007 and the first quarter of 2008. For the balance of 2008 we anticipate the DD&A rate to be in the \$17-\$20 range.

	\$			\$/boe		
	Q1 2008	Q1 2007	%	Q1 2008	Q1 2007	%
Depletion and depreciation	<b>8,700</b>	8,869	(2)	<b>16.57</b>	22.25	(26)
Accretion on ARO	<b>53</b>	38	42	<b>0.10</b>	0.09	11
Total DD&A	<b>8,753</b>	8,907	(2)	<b>16.67</b>	22.34	(25)

## OPERATING

Operating costs were \$2,694 or \$5.13 per boe in the first quarter of 2008 as compared to \$2,512 and \$6.30 per boe respectively in the first quarter of 2007. Aggregate operating costs increased by only 7% while we were able to increase production volumes by 32%. Vero was able to reduce its' per boe operating costs by 19% in the first quarter of 2008 compared to 2007. The decrease was mainly attributable to the reduction in third party processing fees. A significant portion of the gas in the Edson area that was previously being processed by third parties is now being diverted to Vero's 100% owned and operated processing facility thereby eliminating a significant amount of fees. In addition, improvements to facilities in the Corbett area have allowed us to reduce our processing costs and water disposal costs by approximately \$50 per month in that area. The Company continues to enjoy a low operating cost environment due to the concentration of operations in West Central Alberta and by the construction of its own processing facilities. For the balance of 2008 it is anticipated the per boe expense will remain consistent with first quarter level.

<b>Operating expense</b>	<b>Q1 2008</b>	<b>Q1 2007</b>	<b>% Change</b>
Expense per financial statements	<b>2,694</b>	2,512	7
Add: processing income	<b>147</b>	4	3,558
Gross expense	<b>2,841</b>	2,516	13
Operating expense (\$ per boe)	<b>5.13</b>	6.30	(19)
Net expense (% revenue)	<b>8.6%</b>	12.3%	(30)

## TRANSPORTATION

Transportation expenses were \$626 for the quarter and amounted to 2.0% of production revenue for the period. For the year-to-date in 2008 the cost per boe averaged \$1.19, which is 27% higher than the rate for the first quarter of 2007. Transportation costs are dependent on a variety of factors such as: the type of production facilities; the method of transportation; the distances covered; the rates charged by the carriers; quantities shipped; cost of the carrier's fuel; the type of service offered (interruptible versus firm service) as well as ownership of the transportation facilities. The cost per boe for the balance of the year is expected to be relatively consistent with that of the first quarter as the majority of these costs are variable in nature.

<b>Transportation expense</b>	<b>Q1 2008</b>	<b>Q1 2007</b>	<b>% Change</b>
Expense	<b>626</b>	375	67
Expense (\$ per boe)	<b>1.19</b>	0.94	27
Expense (% revenue)	<b>2.0</b>	1.8	11

## GENERAL AND ADMINISTRATIVE (G&A)

Aggregate G&A expense increased 20% to \$1,276 in 2008 from \$1,061 in 2007. Net G&A increased 28% to \$892 for the same period. Numerous factors caused the increase in G&A including additional staff requirements to accommodate the increase in activity. In addition, we moved to new office space in March of 2007 with higher rental rates. The impact of the move was only partially realized in 2007 wherein the full impact was realized in 2008. However, all of these additional costs were averaged over higher production levels in 2008 and therefore the per boe rate decreased. Vero's increased production levels have given us the ability to achieve a low G&A cost per boe environment. On a per boe basis Vero realized net G&A of \$1.70 as compared to \$1.74 in 2007. This represents a 2% reduction in net G&A costs on a per boe basis. Overhead recoveries decreased by 3% in 2008 as compared to 2007. Overhead recoveries are a function of field operating activity as well as the number of wells drilled during the year for which the Company is the operator. The Company capitalizes a portion of its G&A for the salaries of its technical staff, which are directly related to exploration and development activities. G&A capitalized for the first quarter of 2008 was \$134, representing a 25% increase from the same quarter in 2007.

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For the three months ended March 31, 2008



<b>G&amp;A expense</b>	<b>Q1 2008</b>	<b>Q1 2007</b>	<b>% Change</b>
Gross expense	<b>1,276</b>	1,061	20
Less:			
Overhead recoveries	<b>(250)</b>	(259)	(3)
Capitalized G&A	<b>(134)</b>	(108)	25
<b>Net expense</b>	<b>892</b>	694	28
Average cost (\$ per boe)			
Gross expense	<b>2.44</b>	2.66	(8)
<b>Net expense</b>	<b>1.70</b>	1.74	(2)

## INTEREST AND BANK CHARGES

Interest expense for the first quarter of 2008 decreased 8% to \$622 from \$677 in the first quarter of 2007. While average, interest-bearing debt increased by 4% in 2008 compared to 2007, the effective interest rate declined by 5% to offset this. Higher debt levels are attributable to the extensive capital expenditure program throughout the first quarter of 2008. These higher debt levels were mitigated by the private placement that we closed on February 28, which provided a net cash infusion of \$16,761. The per boe interest expense rate was \$1.18 for the first quarter of 2008 as compared to \$1.70 for the first quarter of 2007, representing a 31% decrease quarter to quarter. With the private placement, equity injection in February, and the cash flow from the successes in the first quarter, it is anticipated that the interest cost per boe will decrease in the second quarter and then rise slightly for the third and fourth quarters as the capital expenditure program is ramped up again.

<b>Interest and bank charges</b>	<b>Q1 2008</b>	<b>Q1 2007</b>	<b>% Change</b>
Interest per financial statements	<b>622</b>	677	(8)
Deduct: Commitment & other fees	<b>(2)</b>	(52)	(96)
<b>Debt bearing interest</b>	<b>620</b>	625	(1)
Average debt outstanding	<b>43,038</b>	41,230	4
Average interest rate	<b>5.8%</b>	6.1%	(5)
<b>Average interest cost (\$ per boe)</b>	<b>1.18</b>	1.70	(31)

## STOCK BASED COMPENSATION

Stock based compensation expense was \$186 for the first quarter of 2008 as compared to \$426 for the first quarter of 2007. The 56% decrease in expense is attributable to the unamortized expense hitting its peak in 2007 and also that there were relatively few new option issuances through the last half of 2007 and first quarter of 2008. As a result, the expense in the first quarter is significantly lower. The per boe rate dropped 67% from 2007 levels as a result of significantly increased production in 2008 as well as the declining unamortized expense balance. The fair value of all stock options is amortized over the options' vesting period, which is three years for all options granted.

<b>Stock Based Compensation</b>	<b>Q1 2008</b>	<b>Q1 2007</b>	<b>% Change</b>
Expense	<b>186</b>	426	(56)
<b>Expense (\$ per boe)</b>	<b>0.35</b>	1.07	(67)

## INCOME TAXES

The income tax provision for the first quarter of 2008 was \$1,652 and was comprised entirely of future income taxes. The provision represents a 267% increase over the tax expense for the comparable period in 2007. All tax benefits from the future rate reductions were realized in the second and fourth quarters of 2007. As a result, the effective tax rate declined from 38.3% in 2007 to 30.4% in 2008.

Pursuant to the flow-through share private placement financing, which closed in April of 2007 the Company entered into a commitment to renounce \$10,875 of exploration expenses to subscribers by December 31 of 2007. As at March 31, 2008, there were no outstanding amounts to be spent to fulfill this commitment. The Company entered into another flow-through share financing in February of 2008. Under this financing Vero is committed to renounce \$17,945 of exploration expenses to subscribers by December 31, 2008. As of March 31, 2008, \$282 had been expended leaving \$17,663 to be spent by December 31, 2009. The tax effects of the renunciations are recorded when the documents relating to the renunciation are filed with the tax authorities. The tax effect of the April 2007 flow-through financing was recognized in the first quarter of 2008 and it is anticipated that the tax effect of the February 2008 financing will be recorded in the first quarter of 2009. At the time the renunciation is made the estimated tax effect of the foregone tax benefits is charged to share capital with a corresponding increase to the future income tax liability.

Taking into account projected spending for 2008 as well as the anticipated production levels and commodity prices, it is anticipated that Vero will not be cash taxable throughout the remainder of 2008. This assessment could change if the commodity prices continue to rise throughout the year and/or our capital spending profile changes.

	\$			\$/boe		
	Q1 2008	Q1 2007	%	Q1 2008	Q1 2007	%
Future income tax expense	<b>1,652</b>	449	267	<b>3.14</b>	1.13	178
Effective tax rate	<b>30.4%</b>	38.3%	(21)			

The estimated income tax pools available at March 31 for each year were follows:

Tax Pools	Rate %	Q1 2008	Q1 2007
Canadian exploration expenses	100	<b>1,734</b>	20,811
Canadian development expenses	30	<b>48,284</b>	37,943
Canadian oil and gas property expenses	10	<b>29,110</b>	28,166
Undepreciated capital costs	10 - 30	<b>37,366</b>	25,089
Financing costs	20%	<b>2,831</b>	1,061
Attributed Canadian Royalty Income	100 (Alberta)	<b>3,310</b>	3,884
Total		<b>122,635</b>	116,954

## NETBACKS

Operating netbacks of \$36.86 per boe for the first quarter of 2008 were 24% higher than those realized for the first quarter of 2007. Leading the way for this increase was the 16% increase in average prices per boe. In addition, Vero was able to achieve operating cost efficiencies such that the operating expense per boe dropped 19% from \$6.30 in the first quarter of 2007 to \$5.13 in the first quarter of 2008. Likewise, cash flow netbacks were higher by 29%. Vero decreased its G&A and interest costs by 2% and 31% respectively. Greater volumes produced and lower debt levels in the first quarter of 2008 contributed to these reductions. In arriving at the net earnings netback, the largest expense was DD&A, at \$16.67 per boe. Although the DD&A rate per boe decreased by 25% during the first quarter of 2008 compared to 2007, it is still the most significant non-cash component of our netback calculation. The second largest item was the unrealized loss on the mark-to-market measurement of the hedges Vero had. Although these hedges cover periods starting after March 31, 2008, the unrealized amount is brought into the income calculation. Stock based compensation expense declined by 67% due to the combination of increased production volumes and a smaller amortization base. Future income tax expense per boe in 2008 is higher relative to 2007 as the 2007 amounts include one time tax rate recoveries. It is anticipated that the corporate netback will stay at approximately this level for the rest of 2008.

<b>Netbacks (\$ per boe)</b>	<b>Q1 2008</b>	<b>Q1 2007</b>	<b>% Change</b>
Realized price	<b>59.35</b>	51.19	16
Royalties (net of ARTC)	<b>(16.17)</b>	(14.16)	14
Operating expenses	<b>(5.13)</b>	(6.30)	(19)
Transportation expenses	<b>(1.19)</b>	(0.94)	27
<b>Operating netback</b>	<b>36.86</b>	29.79	24
G&A	<b>(1.70)</b>	(1.74)	(2)
Interest expense	<b>(1.18)</b>	(1.70)	(31)
<b>Cash flow netback</b>	<b>33.98</b>	26.35	29
Unrealized loss on hedges	<b>(6.60)</b>	-	-
Stock based compensation	<b>(0.35)</b>	(1.07)	(67)
D,D&A	<b>(16.67)</b>	(22.34)	(25)
Future income taxes	<b>(3.14)</b>	(1.13)	178
<b>Net earnings netback</b>	<b>7.22</b>	1.81	299

<b>Natural gas (\$/mcf)</b>	<b>Q1 2008</b>	<b>Q1 2007</b>	<b>% Change</b>
Production revenue	8.51	8.23	3
Royalties (excluding ARTC)	(2.38)	(2.30)	3
Operating expenses	(0.75)	(0.69)	9
Transportation costs	(0.19)	(0.17)	12
<b>Operating netback</b>	<b>5.19</b>	5.07	2

<b>Crude oil (\$/bbl)</b>	<b>Q1 2008</b>	<b>Q1 2007</b>	<b>% Change</b>
Production revenue	88.07	62.20	42
Royalties (excluding ARTC)	(11.85)	(10.12)	17
Operating expenses	(8.25)	(8.55)	(4)
Transportation costs	(2.31)	(0.72)	221
<b>Operating netback</b>	<b>65.66</b>	42.81	53

# FIRST QUARTER 2008 REPORT

For the three months ended March 31, 2008



<b>Natural gas liquids (\$/bbl)</b>	<b>Q1 2008</b>	Q1 2007	% Change
Production revenue	86.89	55.86	56
Royalties (excluding ARTC)	(30.82)	(18.90)	63
Operating expenses	(6.56)	(18.57)	(65)
Transportation costs	(1.10)	(0.75)	47
Operating netback	48.41	17.64	174

## CASH FLOW AND NET EARNINGS

Cash flow from operations in the first quarter of 2008 was \$17,842, an increase of 70% from \$10,504 realized in the first quarter of 2007. The production volume increase of 32% and the increase in average commodity prices of 16% both contributed to the significant gains in cash flow. Net earnings were also higher by 424% from 2007 mainly as a result of the growth in production and the declining DD&A rate resulting from our successful drilling efforts. Cash flow from operations is calculated as follows:

	<b>Q1 2008</b>	Q1 2007	% Change
Net earnings	<b>3,783</b>	722	424
Adjustments for:			
Unrealized loss on risk management activities	<b>3,468</b>	-	-
Depletion, depreciation and accretion	<b>8,753</b>	8,907	(2)
Future income tax	<b>1,652</b>	449	268
Stock based compensation expense	<b>186</b>	426	(56)
Cash flow from operations	<b>17,842</b>	10,504	70

On a per share basis, Vero realized \$0.13 for both basic and diluted earnings per share. This was a 333% increase over the \$0.03 (basic and diluted) realized in the first quarter of 2007. Cash flow per share in the first quarter of 2008 was \$0.60 (basic) and \$0.59 (diluted) representing a 46% and 44% increase, respectively, from the \$0.41 realized in the first quarter of 2007.

<b>Per share data (\$)</b>	<b>Q1 2008</b>	Q1 2007	% Change
Net earnings	<b>3,783</b>	722	424
Basic	<b>0.13</b>	0.03	333
Diluted	<b>0.13</b>	0.03	333
Cash flow	<b>17,842</b>	10,504	70
Basic	<b>0.60</b>	0.41	46
Diluted	<b>0.59</b>	0.41	44

## CAPITAL EXPENDITURES

Vero spent \$19,888 on its capital program in the first quarter of 2008. Included in this program was the drilling of 8 (5.5 net) wells as compared to 17 (10.9 net) wells in the first quarter of 2007. 72% of the Company's exploration and development capital was devoted to drilling new wells, of which 2 (1.3 net) were horizontal wells. A breakdown of the costs incurred during each quarter is as follows:

# FIRST QUARTER 2008 REPORT



For the three months ended March 31, 2008

<b>Capital expenditures</b>	<b>Q1 2008</b>	<b>Q1 2007</b>	<b>% Change</b>
Exploration and development			
Land acquisitions and lease rentals	<b>634</b>	148	329
Geological and geophysical	<b>406</b>	1,552	(74)
Drilling and completions	<b>14,292</b>	19,441	(26)
Well equipment and facilities	<b>4,551</b>	3,271	39
Exploration and development expenditures	<b>19,883</b>	24,412	(19)
Other expenditures	<b>5</b>	8	(38)
Total capital expenditures	<b>19,888</b>	24,420	(19)
Property acquisition	-	2,478	-
Net capital expenditures before ARO	<b>19,888</b>	26,898	(26)
Capitalized asset retirement obligations	<b>21</b>	82	(74)
Total capital additions	<b>19,909</b>	26,980	(26)

	<b>Q1 2008</b>		<b>Q1 2007</b>	
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>
<b>Wells drilled</b>				
Exploration	<b>2</b>	<b>1.2</b>	2	0.8
Development	<b>6</b>	<b>4.2</b>	12	7.1
Dry holes	-	-	3	3.0
Total wells	<b>8</b>	<b>5.5</b>	17	10.9
Success rate	<b>100%</b>	<b>100%</b>	82%	72%

The Company once again front-end loaded its 2008 capital program such that it would not be caught up in what is becoming a regular, lengthy, spring break-up. Vero spent approximately 40% of its board-approved capital budget of \$50 million in the first quarter of 2008. Capital spending in the second quarter will be reduced to accommodate spring break-up and will resume later in that quarter and into the third quarter. Spending for the rest of the year will be dependent on many factors such as: weather, commodity prices, rig and services availability and success rates on wells that may require follow-up locations.

## LAND HOLDINGS

The undeveloped land holdings (all Alberta) at March 31, 2008 are as follows:

<b>Area</b>	<b>Gross Acres</b>	<b>Net Acres</b>	<b>Average WI %</b>
Corbett	16,320	14,400	88
Edson	27,040	17,255	64
Whitecourt	37,280	31,552	85
Other Alberta	18,720	12,988	69
Total	99,360	76,195	77

## LIQUIDITY AND CAPITAL RESOURCES

<b>Debt and working capital</b>	as at March 31,		
	<b>2008</b>	2007	%
Bank debt	<b>36,078</b>	48,249	(25)
Working capital deficiency	<b>14,449</b>	17,685	(18)
Net debt	<b>50,527</b>	65,934	(23)

  

<b>Capital Program Funding</b>	<b>Q1 2008</b>	Q1 2007	%
Cash, beginning of period	-	-	-
Funds provided by operations	<b>17,842</b>	10,504	70
(Decrease) increase in bank debt	<b>(9,935)</b>	12,598	(179)
Share issuance, net of costs	<b>16,761</b>	-	-
Change in non-cash working capital	<b>(4,780)</b>	3,796	(226)
Net capital expenditures	<b>19,888</b>	26,898	(26)

The Company funded its \$19,888 in total capital expenditures from a variety of resources. Vero's cash flow from the first quarter of \$17,842 almost entirely funded the capital spending. In addition, Vero completed a private placement which added \$16,761 to its funds available for capital spending. The Company not only spent \$19,888 on its capital program, but the additional funds were used to decrease bank debt by \$9,935 and pay out net accounts payable of \$4,780. The net debt brought forward from December 31, 2007 of \$61,774 plus the financial activity of the first quarter culminated in net debt at March 31, 2008 of \$47,059. This net debt calculation excludes the \$3,468 of the mark-to-market liability for its natural gas hedges, which starts to take effect on April 1, 2008. Using annualized cash flow for the first quarter, this net debt level results in a net debt to cash flow ratio of 0.7x.

Vero continually revisits its capital program with a view to expanding it for additional projects it has in its inventory plus new projects made available to us through industry partners while operating within the limits approved by the Board. As a result of Vero management's assessment of the financial strength of the company, the strength of the commodity prices, and the resources and opportunities available to the company, the Board of Directors has approved a revised capital budget for 2008 of \$65,000. To fund the remaining capital program for 2008, Vero expects to generate an additional \$50-55 million of cash flow throughout the remaining three quarters of the year. Therefore, expected cash flows alone will be more than sufficient to fund the remaining capital program. In addition, the Company upgraded its bank line to \$90,000 in April as a result of a favourable borrowing base review. These resources give Vero the opportunity to expand its capital program while maintaining a very healthy balance sheet.

Available borrowings on the bank credit facility are limited by the borrowing base, which is established by the bank. The amount of available credit is based mainly upon the value of petroleum and natural gas assets. The most recent formal evaluation by our external engineers determined these reserve values as at December 31, 2007. The bank facility is subject to periodic borrowing base reviews. The most recent review by the bank was completed in April of 2008. Corporate working-capital liquidity is maintained by drawing from the unutilized facility as needed and then repaying it periodically through production revenues. As new reserves are added and as the financing needs of the company are expanded, Vero will apply for interim reviews of the facility with a view to upgrading it. The most recent bank review resulted in an increase in our credit facility to \$90,000. This upgraded facility will further enhance our flexibility to expand the capital program if warranted.

# FIRST QUARTER 2008 REPORT



For the three months ended March 31, 2008

Below is a summary of the trading history of the Company's shares for 2008 and 2007.

	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
High	8.25	6.23	7.50	8.09	6.25
Low	5.61	5.36	5.30	5.79	5.21
Close	7.65	5.80	5.68	7.50	5.77
Volume (000's)	10,624	8,807	6,671	7,514	9,417

## OFF BALANCE SHEET TRANSACTIONS

There were no off-balance sheet transactions entered into during the period, nor were there any outstanding as of the date of these MD&A.

## RELATED PARTY TRANSACTIONS

Two officers and one director of the Company subscribed for 16,460 flow-through common shares at a price of \$9.25 per share in the February 28, 2008 private placement. The price at which the shares were issued were the same as those used in the subscription agreements entered into with non-related parties.

## CONTRACTUAL OBLIGATIONS

The Company is obligated, at March 31, 2008 to make the following payments under the terms of long-term contracts it has entered into:

	Total	Payments Due by Period		
		Less than 1 year	1-3 Years	4-5 Years
Transportation obligations	1,556	358	700	498
Head Office Lease	3,075	698	1,390	987
Farm-in obligations	7,100	7,100	-	-
Total contractual obligations	11,731	8,156	2,090	1,485

The transportation obligations are comprised of firm service natural gas commitments with a gas transmission company. In the event of a shortfall in gas deliveries to the pipeline, the Company must pay the carrier the difference between volumes delivered and the contracted volumes in cash at the contracted rate. Vero entered into a four-year lease for its new head office space effective December 21, 2007. Vero moved into these new premises on March 1, 2007. As at March 31, 2008 Vero had committed to drill a total of four wells in Alberta with varying commencement dates in 2008 pursuant to farm-in agreements with industry partners. Vero estimates it will take approximately \$7,100 to fulfill these farm-in commitments.

# FIRST QUARTER 2008 REPORT



For the three months ended March 31, 2008

## SHARE CAPITAL

The following table provides a summary of the outstanding common shares and other equity instruments as at the date of these MD&A and the preceding year-end:

(000's)	April 30, 2008	March 31, 2008	December 31, 2007
Common shares outstanding	32,690	30,855	28,915
Stock options outstanding	2,469	2,440	2,434
Fully diluted shares	35,160	33,295	31,349
Weighted average common shares			
Basic		29,597	28,129
Diluted		30,154	28,318

The increase in shares outstanding from March 31, 2008 to April 30, 2008 was the 1,835,473 shares issued on the purchase of the private company which closed on April 15, 2008.

## SELECTED QUARTERLY INFORMATION

Below is summarized quarterly information for the previous eight quarters.

(000's except as noted)	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007
Production (boe/d)	5,771	5,241	4,865	4,290
Average prices realized (\$/boe)	59.35	48.16	44.08	51.36
Production revenue	31,167	23,218	19,731	20,051
Net earnings (loss)	3,783	2,842	(902)	502
Basic - per share (\$/share)	0.13	0.09	(0.03)	0.02
Diluted - per share (\$/share)	0.13	0.09	(0.03)	0.02
Cash flow	17,842	11,662	9,425	9,693
Basic - per share (\$/share)	0.60	0.40	0.33	0.33
Diluted - per share (\$/share)	0.59	0.40	0.32	0.32
Total assets	220,682	207,051	187,706	178,377
Net capital expenditures	19,908	20,412	18,522	5,621
Long term financial liabilities	-	-	-	-
Net debt	50,527	61,774	53,002	43,172
Dividends paid	-	-	-	-

(000's except as noted)	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006
Production (boe/d)	4,430	3,301	2,713	2,350
Average prices realized (\$/boe)	51.19	48.89	45.82	49.44
Production revenue	20,407	14,846	11,436	10,571
Net earnings	722	688	16	79
Basic - per share (\$/share)	0.03	0.03	-	-
Diluted - per share (\$/share)	0.03	0.03	-	-
Cash flow	10,504	7,835	6,280	5,854
Basic - per share (\$/share)	0.41	0.31	0.24	0.23
Diluted - per share (\$/share)	0.41	0.31	0.24	0.23
Total assets	182,470	166,858	155,480	142,344
Net capital expenditures	26,898	17,966	15,556	12,322
Long term financial liabilities	-	-	-	-
Net debt (surplus)	65,934	49,540	39,409	30,133
Dividends paid	-	-	-	-

## RISK MANAGEMENT

Except as detailed below, there were no changes to Vero's risk management policies during the period from those described in our audited financial statements for the period ended December 31, 2007.

### Environmental Regulation and Risk

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to specified levels. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Protocol or as otherwise determined could have a material impact on the nature of oil and natural gas operations, including those of the Company.

The Federal Government released on April 26, 2007, its Action Plan to Reduce Greenhouse Gases and Air Pollution (the "Action Plan"), also known as ecoACTION and which includes the Regulatory Framework for Air Emissions. This Action Plan covers not only large industry, but regulates the fuel efficiency of vehicles and the strengthening of energy standards for a number of energy-using products. Regarding large industry and industry related projects the Government's Action Plan intends to achieve the following: (i) an absolute reduction of 150 megatonnes in greenhouse gas emissions by 2020 by imposing mandatory targets; and (ii) air pollution from industry is to be cut in half by 2015 by setting certain targets. New facilities using cleaner fuels and technologies will have a grace period of three years. In order to facilitate the companies' compliance of the Action Plan's requirements, while at the same time allowing them to be cost-effective, innovative and adopt cleaner technologies, certain options are provided. These are: (i) in-house reductions; (ii) contributions to technology funds; (iii) trading of emissions with below-target emission companies; (iv) offsets; and (v) access to Kyoto's Clean Development Mechanism.

On March 8, 2007, the Alberta Government introduced Bill 3, the Climate Change and Emissions Management Amendment Act, which intends to reduce greenhouse gas emission intensity from large industries. Bill 3 states that facilities emitting more than 100,000 tonnes of greenhouse gases a year must reduce their emissions intensity by 12% starting July 1, 2008; if such reduction is not initially possible the companies owning the large emitting facilities will be required to pay \$15 per tonne for every tonne above the 12% target. These payments will be deposited into an Alberta-based technology fund that will be used to develop infrastructure to reduce emissions or to support research into innovative climate change solutions. As an alternate option, large emitters can invest in projects outside of their operations that reduce or offset emissions on their behalf, provided that these projects are based in Alberta. Prior to investing, the offset reductions, offered by a prospective operation, must be verified by a third party to ensure that the emission reductions are real.

Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact of those requirements on the Company and its operations and financial condition.

## **Review of Alberta Royalty and Tax Regime**

The government has previously stated its intention to consult with industry and potentially revise the New Royalty Framework (“NRF”) for unintended consequences. This consultation has now been concluded and on April 10, 2008 the government released its clarifications as well as a new “deep resource program”. Highlights of this release are as follows:

### *Deep oil wells*

- A five-year oil program for exploration wells over 2,000 meters will provide royalty adjustments to offset higher drilling costs and provide a greater incentive for producers to continue to pursue new, deeper oil plays.
- Wells deeper than 2,000 meters represented 20 per cent of oil wells drilled and 26 per cent of new conventional oil production between 2002 and 2007.
- Wells will qualify for up to \$1 million or 12 months of royalty offsets, whichever comes first.

### *Deep natural gas*

- To encourage continued deep gas exploration, the government will replace the existing Royalty Adjustment Program with the Natural Gas Deep Drilling Program for wells deeper than 2,500 meters.
- Wells over 2,500 meters represented five per cent of natural gas wells drilled and 27 per cent of natural gas production between 2002 and 2007.
- The Natural Gas Deep Drilling Program will provide greater benefits to deeper wells, creating a sliding scale of royalty credit according to depth, up to \$3,750 per meter.

### *Other clarifications as a result of the unintended consequences analysis*

- Under the New Royalty Framework, four par prices instead of two will be used to calculate royalties on oil, allowing royalties to be charged at a price closer to that received by the producer.
- Natural gas royalty will be calculated based on the sum of vertical drill depth and all laterals, encouraging greater development of coal bed methane. Greater use of laterals may significantly lessen land use and the environmental footprint of CBM development.

Vero has reviewed the new program as well as the “clarifications” and it has determined that they do not materially alter the impact of the NRF as we mentioned in our public disclosures throughout 2007.

## **CRITICAL ACCOUNTING ESTIMATES**

Management is often required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. There were no changes to Vero’s critical accounting estimates in the period from those used in the audited financial statements from 2007.

## **ACCOUNTING STANDARDS CHANGES**

### *Accounting Standard Changes*

As of January 1, 2008 Vero adopted the new CICA standards, Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation”, which will replace Section 3861 “Financial Instruments – Disclosure and Presentation”. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements.

Also effective January 1, 2008, the Corporation adopted CICA 1535 “Capital Disclosures”, which will require additional disclosures of objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements.

### *Future Accounting Pronouncements*

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 are expected to converge with International Financial Reporting Standards (“IFRS”) by the end of 2011. The Corporation continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS

In February 2008, the AcSB issued Handbook Section 3064, Goodwill and Intangible Assets and amended Section 1000, Financial Statement Concepts clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The standard is effective for fiscal years beginning on or after October 1, 2008 and early adoption is permitted. Vero is currently evaluating the impact this section will have on our results of operations and financial position.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Vero's Chief Executive Officer and Chief Financial Officer are required to cause the Company to disclose herein any change in Vero's internal controls over financial reporting that occurred during the Company's most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in Vero's internal controls over financial reporting were identified during the three months ended March 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

The Company has a Corporate Disclosure Policy to ensure that communications with the public about the Company are timely, factual and accurate; disseminated in accordance with all applicable legal and regulatory requirements; and that all material information in respect of the Company is communicated to the Chief Executive Officer and the Chief Financial Officer and where appropriate, the Board of Directors and/or committees thereof. Vero's Chief Executive Officer and the Chief Financial Officer have evaluated the design of the Company's internal controls over financial reporting. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2008, the Company's internal controls over financial reporting are designed to provide reasonable assurance regarding

the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and includes those policies and procedures that:

- Pertain to the maintenance of records with such reasonable detail that accurately and fairly reflects the transactions of the issuer;
- Provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the financial statements in accordance with Canadian GAAP, and that the receipts and expenditures of the issuer are being made in accordance with the authorization of the management and directors of the Company; and
- Provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material affect on the annual or interim financial statements.

It should be noted that while the Corporation's Chief Executive Officer and Chief Financial Officer believe that the Corporation's controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

# FIRST QUARTER 2008 REPORT

For the three months ended March 31, 2008



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## VERO ENERGY INC.

### Balance Sheet

(in thousands of dollars)

	March 31, 2008 (unaudited)	December 31, 2007 (audited)
<b>ASSETS</b>		
<b>CURRENT</b>		
Accounts receivable	19,094	16,767
Prepaid expenses and deposits	3,618	3,523
	<b>22,712</b>	20,290
Property and equipment (Note 4)	182,936	171,727
Goodwill	15,034	15,034
	<b>220,682</b>	207,051
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	33,693	36,051
Risk management (Note 13)	3,468	-
Bank debt (Note 5)	36,078	46,013
	<b>73,239</b>	82,064
Asset retirement obligations (Note 6)	2,715	2,641
Future taxes	15,043	10,812
	<b>90,997</b>	95,517
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	117,259	103,077
Contributed surplus (Note 9)	3,779	3,593
Retained Earnings	8,647	4,864
	<b>129,685</b>	111,534
	<b>220,682</b>	207,051
Commitments (Note 11)		
<i>See accompanying notes.</i>		

### APPROVED BY THE BOARD

"Signed" Paul R. Baay, Director

"Signed" Douglas J. Bartole, Director

For the three months ended March 31, 2008

## VERO ENERGY INC.

### Statement of Operations, Comprehensive Income and Retained Earnings For the three months ended March 31,

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

	2008	2007
<b>REVENUE</b>		
Production revenue	31,168	20,407
Royalties	(8,492)	(5,645)
Unrealized loss on risk management activities	(3,468)	-
	<b>19,208</b>	<b>14,762</b>
<b>EXPENSES</b>		
Operating	2,694	2,512
Transportation	626	375
General and administrative	892	694
Stock-based compensation (Note 8(d))	186	426
Interest and bank charges	622	677
Depletion, depreciation and accretion	8,753	8,907
	<b>13,773</b>	<b>13,591</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>5,435</b>	<b>1,171</b>
<b>INCOME TAX EXPENSE</b> (Note 7)		
Future	1,652	449
	<b>1,652</b>	<b>449</b>
<b>NET EARNINGS AND COMPREHENSIVE INCOME</b>	<b>3,783</b>	<b>722</b>
<b>RETAINED EARNINGS, BEGINNING OF PERIOD</b>	<b>4,864</b>	<b>1,700</b>
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>8,647</b>	<b>2,422</b>
<b>NET EARNINGS PER SHARE</b> (Note 10)		
Basic	0.13	0.03
Diluted	0.13	0.03

*See accompanying notes.*

For the three months ended March 31, 2008

## VERO ENERGY INC.

### Statement of Cash Flows For the three months ended March 31, *(in thousands of dollars) (unaudited)*

	2008	2007
<b>CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:</b>		
<b>OPERATING</b>		
Net earnings	3,783	722
Adjustments for:		
Unrealized loss on risk management activities	3,468	-
Depletion, depreciation and accretion	8,753	8,907
Future income taxes	1,652	449
Stock-based compensation	186	426
	<b>17,842</b>	<b>10,504</b>
Changes in non-cash working capital (Note 12(a))	<b>(2,465)</b>	<b>(4,393)</b>
	<b>15,377</b>	<b>6,111</b>
<b>FINANCING</b>		
(Decrease) increase in bank debt	<b>(9,935)</b>	12,598
Proceeds from issuance of commons shares, net of share issue costs	<b>16,761</b>	-
	<b>6,826</b>	<b>12,598</b>
<b>INVESTING</b>		
Additions to petroleum and natural gas properties	<b>(19,883)</b>	(24,412)
Purchase of petroleum and natural gas properties	-	(2,478)
Additions to administrative assets	<b>(5)</b>	(8)
Changes in non-cash working capital (Note 12(a))	<b>(2,315)</b>	8,189
	<b>(22,203)</b>	<b>(18,709)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>-</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>-</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>-</b>	<b>-</b>

Supplementary cash flow information (Note 12(b))  
*See accompanying notes*

## **VERO ENERGY INC.**

### **Notes to the Interim Financial Statements**

#### **For the three months ended March 31, 2008 and 2007**

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

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### **1. INCORPORATION AND NATURE OF BUSINESS**

Vero Energy Inc. (“Vero or “the Company”) was incorporated on September 23, 2005 and commenced oil and gas operations on November 2, 2005 after the closing of a Plan of Arrangement between Vero, True Energy Inc. (“True”), and TKE Energy Trust (“TKE”). Under the Arrangement Vero acquired certain producing and non-producing oil and gas assets. Vero is engaged in the exploration, development and production of crude oil and natural gas in the province of Alberta.

### **2. FINANCIAL PRESENTATION AND POLICIES**

The 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 financial statements for the fiscal period ended December 31, 2007, except as described below. The disclosures included below are incremental to those included with the annual financial statements. The interim statements should be read in conjunction with the financial statements and the notes thereto in the Company’s annual report for the period ended December 31, 2007. 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, 2008, the Company adopted the following Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections:

- Section 1535, “Capital Disclosures”. This section establishes standards for disclosing information about an entity’s objectives, policies and processes for how it manages its capital. A company must also disclose qualitative data about what the entity regards as capital; and whether the company has complied with any capital requirements and if not, the consequences of such non-compliance. The Company adopted this standard effective January 1, 2008 (see Note 15).
- Section 3862, “Financial Instruments – Disclosures”. This section describes the required disclosures to evaluate the significance of financial instruments for the entity’s financial position and performance as well as the nature and extent of risks arising from both recognized and unrecognized financial instruments to which the entity is exposed and how the entity manages those risks. The Company adopted this standard effective January 1, 2008 (see Note 13).
- Section 3863, “Financial Instruments – Presentation”. This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of the standards described in Section 3861, “Financial Instruments – Disclosure and Presentation”. The Company adopted this standard effective January 1, 2008 (see Note 13).

## 4. PROPERTY AND EQUIPMENT

<b>March 31, 2008</b>			
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	250,181	(67,368)	<b>182,813</b>
Administrative assets	216	(93)	<b>123</b>
	<b>250,397</b>	<b>(67,461)</b>	<b>182,936</b>
<b>December 31, 2007</b>			
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	230,277	(58,677)	171,600
Administrative assets	212	(85)	127
	<b>230,489</b>	<b>(58,762)</b>	<b>171,727</b>

Undeveloped land costs and salvage values excluded from the depletion calculation as at March 31, 2008 were \$11,924 (March 31, 2007 - \$10,467). Future development costs on proved undeveloped reserves of Nil (March 31, 2007 - \$1,460) were included in the depletion calculation. During 2008, the Company capitalized \$134 (March 31, 2007 - \$108) in general and administrative expenses directly related to exploration and development activities.

## 5. BANK DEBT

The Company has a \$70,000 (March 31, 2007 - \$70,000) revolving credit facility with a Canadian Chartered Bank. The advances bear interest at bank prime. The authorized limit is subject to an annual review and potential revision of the borrowing base by the bank. The most recent borrowing base review was completed in April of 2008 (Note 16). The facility is secured with a \$125,000 (March 31, 2007 - \$125,000) floating charge debenture over the assets of the Company.

## 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 March 31, 2008 to be \$6,767 (March 31, 2007 - \$3,975), which will be incurred at various times between 2008 and 2021. The fair value of the asset retirement obligations incurred in the period ended March 31, 2008 was calculated using a credit-adjusted risk free rate of 8.1% (March 31, 2007 - 8.0%) and an inflation factor of 1.4% (March 31, 2007 - 2.3%). Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at March 31, 2008, no funds have been set aside to settle these obligations. Changes to asset retirement obligations during the periods were as follows:

	<b>March 31, 2008</b>	March 31, 2007
Asset retirement obligations at January 1,	<b>2,641</b>	1,785
Liabilities incurred during the period	<b>20</b>	118
Change in estimated cash flows	<b>1</b>	(36)
Accretion	<b>53</b>	38
<b>Asset retirement obligations at March 31,</b>	<b>2,715</b>	1,905

## 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:

	<b>Three months ended March 31,</b>	
	<b>2008</b>	2007
<b>Income before income taxes</b>	<b>5,435</b>	1,171
Expected income tax recovery at the statutory rate of 29.5% (2007 - 32.1%)	<b>1,603</b>	376
Tax effect of non-deductible and non-taxable amounts related to:		
Stock-based compensation and other non-deductible	<b>55</b>	184
Other	<b>(6)</b>	(111)
	<b>1,652</b>	449

## 8. SHARE CAPITAL

	Shares (000's)	Amount
Authorized		
Unlimited number of voting common shares		
Unlimited number of first preferred shares		
Issued		
<i>Common shares</i>		
<b>Balance December 31, 2006</b>	25,907	84,710
Private placement, net of share issue costs (b)	3,000	17,935
Exercise of stock options (c)	8	58
Adjustment for tax benefits from share issue costs	-	374
<b>Balance December 31, 2007</b>	<b>28,915</b>	<b>103,077</b>
Private placement, net of share issue costs (a)	1,940	16,761
Adjustment for tax benefits from share issue costs	-	328
Adjustment for tax cost of flow-through shares (b)	-	(2,907)
<b>Total share capital at March 31, 2008</b>	<b>30,855</b>	<b>117,259</b>

### a) Private Placement

On February 28, 2008 the Company closed a private placement for the issuance of 1,940 Flow-Through Common Shares at a price of \$9.25 per share. The net proceeds of issuance of \$16,761 were comprised of gross proceeds of \$17,945 less expenses of the issue of \$1,184. The tax effect of the tax benefits renounced to subscribers in respect of the flow-through shares will be recognized in the period when the renouncement documents are filed with the taxation authorities. Using a combination of the regular, and the "look-back" flow-through Share provisions of the Income Tax Act, the Company is required to incur eligible expenditures in the amount of \$17,945 prior to December 31, 2009 (Note 11(d)).

### b) Private Placement

On April 5, 2007 the Company closed a private placement for the issuance of 1,500 Common Shares at a price of \$5.55 per share and 1,500 Flow-Through Common Shares at a price of \$7.25 per share. The net proceeds of issuance of \$17,935 were comprised of gross proceeds of \$19,200 less expenses of the issue of \$1,265. The tax effect of \$2,907 for the tax benefits renounced to subscribers in respect of the flow-through shares was recognized in 2008, the period when the renouncement documents were filed with the taxation authorities. 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 \$10,875 prior to December 31, 2008 (Note 11(d)).

c) Stock Options

The Company has a stock option plan under which options to purchase common shares may be granted to officers, directors, employees and consultants. The Board has approved a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. As at March 31, 2008 there were 3,086 (March 31, 2007 – 2,591) shares reserved for issuance under the plan. All options awarded have a maximum term of five years and vest in equal one-third increments on each anniversary of the grant. The following stock options were outstanding at the end of the respective periods:

	March 31, 2008		March 31, 2007	
	Stock Options	Weighted Average Exercise Price \$	Share Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	2,434	5.18	2,321	5.14
Granted	6	5.90	70	5.58
Exercised	-	-	-	-
Cancelled	-	-	-	-
Outstanding, end of period	2,440	5.18	2,391	5.15
Exercisable, end of period	1,338		558	

Exercise Price	Options Outstanding					
	March 31, 2008			March 31, 2007		
	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
\$4.87 - 5.61	1,909	4.93	2.8	1,926	4.93	3.8
\$5.90 - 6.31	531	6.08	3.3	465	6.08	4.1
	2,440	5.18	2.9	2,391	5.15	3.9

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:

	<b>Three months ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Risk free rate (%)	<b>3.5</b>	4.0
Expected life (years)	<b>5</b>	5
Expected volatility (%)	<b>61</b>	53
Expected dividends	-	-

For the period ended March 31, 2008, 6,000 (March 31, 2007 – 70,000) stock options were granted to employees, officers and directors were outstanding. During the period, \$186 (March 31, 2007 - \$426) was recorded as stock compensation expense with respect to the options outstanding with a corresponding credit to contributed surplus (Note 9). The option grants during the period had a weighted average fair value expense attributed to them of \$3.22 (March 31, 2007 - \$2.08) per share.

**9. CONTRIBUTED SURPLUS**

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

	<b>Three months ended March 31,</b>	
Balance at January 1,	<b>3,593</b>	2,159
Stock-based compensation expense	<b>186</b>	426
<b>Balance at March 31,</b>	<b>3,779</b>	<b>2,585</b>

## 10. PER SHARE AMOUNTS

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

	Three months ended, March 31	
	2008	2007
Weighted average shares outstanding - basic	29,597	25,907
Dilutive stock options outstanding	2,440	1,856
Shares notionally repurchased with proceeds from dilutive stock options and returned to treasury	(1,883)	(1,856)
<b>Weighted average shares outstanding - diluted</b>	<b>30,154</b>	<b>25,907</b>

During the first quarter of 2008, Nil (March 31, 2007 – 465) 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 March 31,	
	2008	2007
2007	-	17
2008	269	23
2009	358	23
2010	346	12
2011	343	8
2012	228	2
2013	12	-
<b>Total minimum payments</b>	<b>1,556</b>	<b>85</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 March 31,</b>	
	<b>2008</b>	2007
2007	-	682
2008	<b>698</b>	910
2009	<b>928</b>	910
2010	<b>918</b>	910
2011	<b>531</b>	531
<b>Total minimum payments</b>	<b>3,075</b>	3,943

*c) Indemnifications*

From time to time, the Company may become involved in litigation or have claims sought against it in the normal course of business operations. Management of the corporation is not currently aware of any claims or actions that would materially affect the Corporation's reported financial position or results from operations.

Under the terms of certain agreements and the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The Company has no outstanding claims having a potentially material adverse effect on the Company as a whole.

*d) Drilling commitments*

As at March 31, 2008 Vero had committed to drill and complete a total of 4 (March 31, 2007 – 5) wells in Alberta with varying commencement dates in 2008 pursuant to farm-in agreements with industry partners. The Company expects to satisfy their net portion of these commitments at an estimated cost of \$7,100 (March 31, 2007 – 2,600).

*(e) Flow-through shares*

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

Pursuant to the flow-through share private placement entered into on February 28, 2008, the Company was obligated to incur \$17,945 in eligible costs by December 31, 2009. As at March 31, 2008 Vero had \$17,663 remaining on this commitment.

## 12. SUPPLEMENTARY INFORMATION

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

	Three months ended,	
	March 31	
	2008	2007
Accounts receivable	(2,327)	2,562
Prepaid expenses and deposits	(95)	(63)
Accounts payable and accrued liabilities	(2,358)	1,297
Net change in non-cash working capital	(4,780)	3,796
Investing activities	2,315	(8,189)
Operating activities	(2,465)	(4,393)

### b) Supplementary cash flow information

	Three months ended,	
	March 31	
	2008	2007
Interest paid	620	675

## 13. FINANCIAL INSTRUMENTS

The Company holds various forms of financial instruments. The nature of these instruments and its operations expose the Company to market risk, credit risk and liquidity risks. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established policies in setting risk limits and controls and monitors these risks in relation to market conditions.

### 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.

#### (a) Commodity price risk

Due to the volatility of commodity prices the Company is potentially exposed to adverse consequences in the event of declining prices. The Company may enter into oil and natural gas contracts in order to protect its cash flow on future sales. The contracts reduce the fluctuation in sales revenue by locking in prices with respect to future deliveries of oil and natural gas. As at March 31, 2008, the Company had the following contracts outstanding:

Type	Amount	Term	Price (\$/gj)	Type
Costless collar	5,000 gj/day	April 1 – October 31, 2008	\$6.50 - \$8.25	Financial
Swap	5,000 gj/day	April 1 – October 31, 2008	\$7.50	Financial
Costless collar	5,000 gj/day	April 1 – October 31, 2008	\$7.00 - \$8.80	Financial
Costless collar	5,000 gj/day	November 1 – December 31, 2008	\$7.75 - \$9.50	Financial

The contracts in place resulted in an unrealized loss for the three months ended March 31, 2008 of \$3,468 (March 31, 2007 – Nil).

## (b) 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 at March 31, 2008 the Company had no forward, foreign exchange contracts in place.

## (c) Interest rate risk

The Company's revolving demand loan facility is subject to floating rates and is therefore exposed to fluctuations in the market rate of interest. 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. The Company had no interest rate swaps or financial contracts in place at or during the three months ended March 31, 2008.

### Credit risk

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 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 Company has not experienced any credit loss in the collection of its accounts receivable.

### 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 available resources 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 our capital program. The Company's goal is to prudently spend its capital while maintaining its credit reputation amongst its suppliers.

Fair values of financial instruments

The carrying value of financial instruments, which include accounts receivable, deposits, 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 March 31, 2008 are as follows:

	<b>Carrying Value</b>	<b>Fair Value</b>
<b><u>Financial Assets</u></b>		
Held-for-trading:		
Prepaid and deposits	3,618	3,618
Loans and receivables:		
Accounts receivable	19,094	19,094
<b><u>Financial Liabilities</u></b>		
Held-for-trading:		
Risk management liabilities	3,468	3,468
Other financial liabilities		
Accounts payable and accrued liabilities	33,693	33,693
Credit facility	36,078	36,078

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.

## 14. RELATED PARTY TRANSACTIONS

Two officers and one director of the Company subscribed for 16,460 flow-through common shares at a price of \$9.25 per share in the February 28, 2008 private placement (note 8(b)). The price at which the shares were issued were the same as those used in the subscription agreements entered into with non-related parties.

## 15. CAPITAL DISCLOSURES

The Company considers its capital structure to include shareholders' equity, bank debt and working capital. The Company will adjust its capital structure to manage its current and projected debt through the issuance of shares, increasing its bank line of credit and/or adjusting its capital spending. Vero monitors its capital based on the current and projected ratios of net debt to cash flow.

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 Company monitors its capital structure using primarily the non-GAAP financial metric of net debt to annualized, most recent quarters' cash flow from operations ratio. Vero's objective is to maintain a net debt to cash flow 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. To facilitate the management of this ratio, the Company prepares an annual budget, which is updated each quarter for any significant acquisition, a change in economic circumstances outside the control of the Company, and success or failure of our capital deployed. Each of the annual budget and the quarterly updates are approved by the Board of Directors. As at March 31, 2008 the net debt to adjusted cash flow (annualized) was 0.7 times calculated as follows:

	<b>Three months ended March 31,</b>	
	<b>2008</b>	2007
Current assets	<b>22,712</b>	13,898
Accounts payable and accrued liabilities	<b>(33,693)</b>	(31,583)
Bank debt	<b>(36,078)</b>	(48,249)
<b>Net Debt</b>	<b>47,059</b>	65,934
Net earnings	<b>3,783</b>	722
Add (deduct):		
Unrealized loss on risk management activities	<b>3,468</b>	-
Depletion, depreciation and accretion	<b>8,753</b>	8,907
Future income taxes	<b>1,652</b>	449
Stock-based compensation	<b>186</b>	426
Cash flow from operations	<b>17,842</b>	10,504
Annualized cash flow	<b>71,368</b>	42,016
<b>Net Debt to Annualized Cash Flow</b>	<b>0.7x</b>	1.6x

The 2007 ratio was brought within the corporate target ratio using a private placement within a week of the quarter end.

The Company's capital is not subject to any external restrictions as to how it is deployed nor does it have any financial covenants in respect of its bank credit facility.

## 16. SUBSEQUENT EVENTS

On March 11, 2008 the Company entered into an agreement to acquire all of the issued and outstanding shares of a private oil and gas company. The acquisition closed on April 15, 2008. The acquisition was paid for by issuing 1,835,473 Vero common shares at a deemed price of \$7.90 per share and in addition Vero assumed net debt of approximately \$1.5 million.

Vero's revolving credit facility with the Company's Canadian chartered bank was increased from \$70,000 (Note 5) to \$90,000 in April, 2008 as a result of the most recent borrowing base review.

## CORPORATE INFORMATION

### OFFICERS

Douglas J. Bartole, P.Eng.  
President and CEO

Kevin W. Yakiwchuck, P.Geol.,  
M.Sc.  
Vice President, Exploration

Gerald N. Gilewicz, C.M.A  
Vice President, Finance and  
CFO

Robert Bachynski, P.Land  
Vice President, Land

Shane Manchester, P.Eng  
Vice President, Operations

### BOARD OF DIRECTORS

Kenneth P. Acheson, C.A

Paul R. Baay, Chairman

Douglas J. Bartole, P.Eng.

Clinton T. Broughton, P.Eng.

W.D. (Mickey) Dunn

### STOCK EXCHANGE LISTING

The Toronto Stock Exchange  
– “VRO”

### LEGAL COUNSEL

Burnett, Duckworth & Palmer  
LLP

### AUDITORS

PricewaterhouseCoopers LLP

### BANKERS

Canadian Imperial Bank of  
Commerce

### RESERVE ENGINEERS

Sproule Associates Limited.

### REGISTRAR AND TRANSFER AGENT

Computershare Investor  
Services Ltd.

### ABBREVIATIONS

bbbl	barrels
bbbl/d	barrels per day
bcf	billion cubic feet
boe	barrels of oil equivalent
	(6mcf: 1 bbl)
bopd	barrels of oil per day
mmbtu	million British thermal units
mboe	thousand barrels of oil equivalent (6 mcf: 1bbl)
mmboe	million barrels of oil equivalent (6mcf:1bbl)
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
mmcf/d	million cubic feet per day
ngl	natural gas liquids

### CAUTIONARY STATEMENT

This report contains forward-looking statements relating to Management's approach to operations expectations relating to the number of wells, amount and timing of capital projects, company production, commodity prices, foreign exchange rates, royalties, operating costs and funds from operations. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable by Vero at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to : general economic, market and business conditions; industry capacity competitive action by other companies; fluctuation in oil and gas prices; the ability to produce and transport crude oil and natural gas to markets; the result of exploration and development drilling and related activities; fluctuation in foreign currency exchange rates; the imprecision of reserve estimates; the ability of suppliers to meet commitments; actions by governmental authorities including increases in taxes; decisions or approvals of administrative tribunals; change in environmental and other regulations; risks associated with oil and gas operations; the weather in the Company's areas of operations; and other factors, many of which are beyond control of the Company. There is no representation by Vero that actual results achieved during the forecast period will be the same in whole or in part as that forecast.



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