
VERO ENERGY INC.

Balance Sheet

(in thousands of dollars)

	June 30, 2007 (<i>unaudited</i>)	December 31, 2006 (<i>audited</i>)
ASSETS		
CURRENT		
Accounts receivable	11,094	15,308
Prepaid expenses and deposits	1,074	1,089
Risk management asset (Note 13)	733	-
	12,901	16,397
Property and equipment (Note 4)	150,442	135,427
Goodwill (Note 3)	15,034	15,034
	178,377	166,858
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	17,301	30,286
Bank debt (Note 5)	38,772	35,651
	56,073	65,937
Asset retirement obligations (Note 6)	1,954	1,785
Future taxes	11,415	10,567
	69,442	78,289
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	103,048	84,710
Contributed surplus (Note 9)	2,963	2,159
Retained Earnings	2,924	1,700
	108,935	88,569
	178,377	166,858

Commitments (Note 11)
See accompanying notes.

APPROVED BY THE BOARD

“Signed” Paul R. Baay, Director

“Signed” Douglas J. Bartole, Director

VERO ENERGY INC.

Statement of Operations, Comprehensive Income and Retained Earnings

For the three and six month periods ended June 30,

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

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
REVENUE				
Production revenue	19,896	10,571	40,304	17,667
Realized gain on risk management activities	155	-	155	-
	20,051	10,571	40,459	17,667
Royalties	(5,816)	(2,712)	(11,462)	(4,345)
Unrealized gain on risk management activities	733	-	733	-
Interest and other	-	-	-	89
	14,968	7,859	29,730	13,411
EXPENSES				
Operating	2,292	1,293	4,804	2,107
Transportation	603	153	978	286
General and administrative	1,108	566	1,803	859
Stock based compensation (Note 8(e))	385	520	811	892
Interest and bank charges	539	301	1,215	463
Depletion, depreciation and accretion	8,767	6,106	17,673	9,496
	13,694	8,939	27,284	14,103
INCOME (LOSS) BEFORE INCOME TAXES	1,274	(1,080)	2,446	(692)
INCOME TAXES (RECOVERY) (Note 7)				
Current	-	(308)	-	(292)
Future	772	(851)	1,222	(731)
	772	(1,159)	1,222	(1,023)
NET EARNINGS AND COMPREHENSIVE INCOME	502	79	1,224	331
RETAINED EARNINGS, BEGINNING OF PERIOD	2,422	917	1,700	665
RETAINED EARNINGS, END OF PERIOD	2,924	996	2,964	996
NET EARNINGS PER SHARE (Note 10)				
Basic	0.02	-	0.04	0.01
Diluted	0.02	-	0.04	0.01

VERO ENERGY INC.

Statement of Cash Flows

For the three and six month periods ended June 30,

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

	Three months ended		Six months ended	
	June 30		June 30	
	2007	2006	2007	2006
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net earnings	502	79	1,224	331
Adjustments for:				
Unrealized gain on risk management activities	(733)	-	(733)	-
Depletion, depreciation and accretion	8,766	6,106	17,673	9,496
Future income taxes	772	(851)	1,222	(731)
Stock-based compensation	385	520	811	892
	9,693	5,854	20,197	9,988
Changes in non-cash working capital (Note 12(a))	(269)	(440)	(4,662)	(5,197)
	9,424	5,414	15,535	4,791
FINANCING				
Increase (decrease) in bank debt	(9,477)	(3,745)	3,121	3,033
Proceeds from issuance of common shares, net of share issue costs	17,936	12,102	17,936	12,061
Stock option exercises	21	-	21	-
	8,480	8,357	21,078	15,094
INVESTING				
Corporate acquisition (Note 3)	-	-	-	(18,887)
Additions to petroleum and natural gas properties	(5,604)	(12,573)	(30,017)	(23,520)
Purchase of petroleum and natural gas properties	-	-	(2,478)	-
Disposal of petroleum and natural gas properties	-	300	-	300
Additions to administrative assets	(17)	(49)	(24)	(125)
Changes in non-cash working capital (Note 12(a))	(12,283)	(1,449)	(4,094)	9,824
	(17,904)	(13,771)	(36,613)	(32,408)
NET DECREASE IN CASH AND CASH EQUIVALENTS				
	-	-	-	(12,523)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD				
	-	-	-	12,523
CASH AND CASH EQUIVALENTS, END OF PERIOD				
	-	-	-	-

Supplementary cash flow information (Note 12(b))

See accompanying notes.

Notes to the Interim Financial Statements**For the three and six month periods ended June 30, 2007 and 2006***(thousands, except per share data) (unaudited)*

1. INCORPORATION AND NATURE OF BUSINESS

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

On February 24, 2006 the Company acquired all of the issued and outstanding shares of Ledge Resources Limited (“Ledge”), a private Alberta oil and gas exploration and development company (Note 3). Subsequently, Ledge’s name was changed to Vero Resources Inc.

Effective January 1, 2007 Vero and Vero Resources Inc., a wholly-owned subsidiary of the Company were amalgamated under the Alberta Business Corporations Act and will continue under the name Vero Energy Inc.

2. FINANCIAL PRESENTATION AND POLICIES

The financial statements of Vero have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the fiscal period ended December 31, 2006, except as described below. The disclosures included below are incremental to those included with the annual financial statements. Certain information and disclosures normally required in the notes to the annual financial statements have been condensed or omitted in the preparation of these financial statements and notes. Therefore, 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, 2006. 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.

Notes to the Interim Financial Statements**For the three and six month periods ended June 30, 2007 and 2006***(thousands, except per share data) (unaudited)*

2. FINANCIAL PRESENTATION AND POLICIES (Continued)**Financial Instruments**

Effective January 1, 2007 the Company adopted the new recommendations from the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments - Recognition and Measurement; Section 1530, Comprehensive Income; Section 3861, Financial Instruments - Disclosure and presentation; Section 3251, Equity and Section 3865, Hedges. The adoption of these new financial instruments standards resulted in changes in the accounting for financial instruments as well as the recognition of certain transitional adjustments that have been recorded in opening accumulated other comprehensive income as described below. The components of equity and changes thereto have been disclosed. The standards are applied retroactively with prospective presentation except for adjustments relating to cumulative translation adjustments to account for foreign self-sustaining subsidiaries which are applied and presented retroactively. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

(a) Financial assets and financial liabilities

Under Section 3855, financial assets and financial liabilities are initially recognized at fair value and are subsequently measured based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. The classification generally cannot be changed subsequent to the designation at the initial recognition of the instruments.

Held for trading

Financial assets that are purchased and held with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in fair value recognized in net earnings during the period. Cash and cash equivalents were classified as held for trading, these instruments are highly liquid are readily convertible to known amounts of cash and are so near maturity that there is no significant risk of changes in value due to rate changes.

Held-to-maturity

Securities that have a fixed maturity date and which the Company has positive intention and the ability to hold to maturity are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method. No investments were classified as held-to-maturity on January 1, 2007.

Notes to the Interim Financial Statements**For the three and six month periods ended June 30, 2007 and 2006***(thousands, except per share data) (unaudited)*

2. FINANCIAL PRESENTATION AND POLICIES (Continued)Available-for-sale

Financial assets designated to be available-for-sale or not designated as one of the above categories are classified as available-for-sale. These assets are accounted for at fair value, with changes in fair value recognized in other comprehensive income. When a decline in fair value is determined to be other-than-temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in net earnings. Gains and losses realized on disposal of available-for-sale securities are recognized in other income in net earnings. No investments were classified as available-for-sale on January 1, 2007.

(b) Comprehensive Income and equity

The Canadian Institute of Chartered Accountants (CICA) issued section 1530 of the CICA Handbook, comprehensive income during the year, effective for fiscal years beginning on or after October 1, 2006. Comprehensive income is described as the change in a company's net assets that results from transactions, events and circumstances related to sources other than the company's shareholders. The CICA also made changes to section 3250 of the CICA Handbook, Surplus, and reissued it as section 3251, Equity. The section is also effective for fiscal years beginning on or after October 1, 2006. The Company has adopted this policy effective January 1, 2007, but the results of both comprehensive income and accumulated comprehensive income are not material to the financial statements and therefore no additional disclosure has been included.

(c) Derivatives

All derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value unless they qualify for the normal sale and purchase exception. All changes in fair value are included in earnings unless cash flow hedge or net investment accounting is used, in which case changes in fair value are recorded in other comprehensive income, to the extent the hedge is effective, and in earnings, to the extent it is ineffective.

Flow-through shares

The Company finances a portion of its exploration program through the issuance of flow-through shares. Under the terms of the flow-through share agreements, and as provided for under the Income Tax Act, the tax attributes of qualifying exploration costs incurred by the Company are renounced to subscribers. To recognize the foregone tax benefits to the Company, the amount for which the shares are issued is reduced by the tax effect of the tax benefits renounced to subscribers at the time the renunciation documents are filed with the tax authorities.

Notes to the Interim Financial Statements**For the three and six month periods ended June 30, 2007 and 2006***(thousands, except per share data) (unaudited)***3. ACQUISITION OF LEDGE RESOURCES LIMITED**

Effective February 24, 2006 Vero acquired all of the outstanding common shares of Ledge Resources Limited (“Ledge”). Ledge shareholders received \$1.90 and 0.49473 Vero common shares for each Ledge share held. A total of 4,754,945 Vero shares were issued. The price ascribed to the common shares of \$6.44 was based on the trading prices of Vero common shares on the five days prior, the day of, and the five days following the announcement of the purchase. The operating results and corresponding cash flow and earnings related to the acquisition were included in the Company’s consolidated financial statements effective February 25, 2006. The acquisition was accounted for using the purchase method and the purchase price was allocated based on fair values as follows:

Consideration paid:

Cash paid to Ledge shareholders	18,261
Issuance of 4,754,945 common shares (Note 8(a))	30,622
Transaction costs	626
	49,509

Allocation of purchase price:

Current assets	3,837
Current liabilities	(3,678)
Debt assumed	(18,520)
	(18,361)
Property, plant and equipment	65,738
Goodwill	15,034
Asset retirement obligations	(666)
Future income taxes	(12,236)
	49,509

4. PROPERTY AND EQUIPMENT

	June 30, 2007		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	190,736	(40,424)	150,312
Administrative assets	194	(64)	130
	190,930	(40,488)	150,442

Notes to the Consolidated Financial Statements**For the three and six month periods ended June 30, 2007 and 2006***(thousands, except per share data) (unaudited)***4. PROPERTY AND EQUIPMENT (continued)**

	December 31, 2006		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	158,150	(22,846)	135,304
Administrative assets	169	(46)	123
	158,319	(22,892)	135,427

Undeveloped land costs and salvage values excluded from the depletion calculation as at June 30, 2007 were \$11,529 (2006 - \$11,399). Future development costs on proved undeveloped reserves of \$nil (2006 - \$7,291) were included in the depletion calculation. During 2007, the Company capitalized \$317 (2006 - \$148) in general and administrative expenses directly related to exploration and development activities.

5. BANK DEBT

The Company has a \$70,000 revolving credit facility with a Canadian Chartered Bank. The advances bear interest at bank prime. The authorized limit is subject to a mandatory annual, borrowing base review by the bank. Interim reviews occur at the request of the Company with a view to make revisions to the borrowing base as new reserves are added. A review is currently in progress with the bank. The facility is secured with a \$125,000 floating charge debenture over the assets of the Company.

Notes to the Financial Statements**For the three and six month periods ended June 30, 2007 and 2006***(thousands, except per share data) (unaudited)***6. ASSET RETIREMENT OBLIGATIONS**

The Company's asset retirement obligations result from the ownership interests it has in petroleum and natural gas assets, including well sites, gathering systems, batteries and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at June 30, 2007 to be \$4,053 (2006 - \$2,479), which will be incurred at various times between 2007 and 2021. The fair value of the asset retirement obligations incurred in the period ended June 30, 2007 was calculated using a credit-adjusted risk free rate of 8.4% (2006 - 8.4%) and an inflation factor of 2.4% (2006 - 2.6%). Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at June 30, 2007, no funds have been set aside to settle these obligations. Changes to asset retirement obligations during the periods ended June 30 were as follows:

	2007	2006
Asset retirement obligations at January 1	1,785	380
Liabilities assumed on the corporate acquisition	-	666
Liabilities incurred during the period	124	202
Liabilities settled during the period	-	-
Change in estimated future cash flows	(33)	-
Accretion	78	41
Asset retirement obligations at June 30	1,954	1,289

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 six month periods ended June 30:

	2007	2006
Income (loss) before income taxes	2,446	(692)
Expected income tax (recovery) at the statutory rate of 32.1% (2006 - 34.5%)	785	(239)
Tax effect of non-deductible and non-taxable amounts related to:		
Non-deductible crown payments	-	486
Resource allowance	-	(383)
Stock-based compensation and other non-deductible Alberta Royalty Tax Credit and Attributed Canadian Royalty Income	313	313
Rate changes	(378)	(1,033)
Reconcile book to actual on filing tax returns	499	-
Other	3	(5)
	1,222	(1,023)

Notes to the Financial Statements**For the three and six month periods ended June 30, 2007 and 2006***(thousands, except per share data) (unaudited)***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>		
Balance December 31, 2005	19,021	41,703
Issuance of shares on corporate acquisition (a)	4,755	30,622
Private placement, net of share issue costs (b)	2,131	12,061
Adjustment for tax benefits from share issue costs	-	324
Balance December 31, 2006	25,907	84,710
Private placement, net of share issue costs (c)	3,000	17,936
Exercise of stock options (d)	4	28
Adjustment for tax benefits from share issue costs	-	374
Total share capital at June 30, 2007	28,911	103,048

a) Acquisition of Ledge Resources Limited

On February 24, 2006 the Company acquired all of the outstanding shares of a private company. At closing, Vero issued 4,755 common shares at a deemed value of \$30,622 (see Note 3).

b) Private Placement – April 13, 2006

On April 13, 2006 the Company closed a private placement for the issuance of 2,131 common shares at a price of \$6.10 per share. The net proceeds of the issuance of \$12,061 are comprised of gross proceeds of \$13,000 less expenses of the issue of \$939.

Notes to the Financial Statements**For the three and six month periods ended June 30, 2007 and 2006***(thousands, except per share data) (unaudited)***8. SHARE CAPITAL (continued)**

c) Private placement – April 5, 2007

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 \$17,936 were comprised of gross proceeds of \$19,200 less expenses of the issue of \$1,264. The tax effect of the tax benefits renounced to subscribers in respect of the flow-through shares will be recognized when the renouncement documents are filed. Using a combination of the regular, and the “look-back” provisions of the Income Tax Act with respect to the flow-through shares, the Company is required to incur eligible expenditures of \$10,875 prior to December 31, 2008.

d) Stock options

The Company has a stock option plan under which options to purchase common shares may be granted to officers, directors, employees and consultants. The Board has approved a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. As at June 30, 2007 there were 2,891 (2006 – 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. As at June 30, the following stock options were outstanding:

	2007		2006	
	Stock Options	Weighted Average Exercise Price \$	Share Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	2,321	5.14	1,600	4.87
Granted	130	5.83	576	6.07
Exercised	(4)	5.35	-	-
Cancelled	(11)	5.42	-	-
Outstanding, end of period	2,436	5.18	2,176	5.15
Exercisable, end of period	721		-	

Notes to the Financial Statements

For the three and six month periods ended June 30, 2007 and 2006

(thousands, except per share data) (unaudited)

8. SHARE CAPITAL (continued)

Exercise Price	Number of Options Outstanding	Options Outstanding				
		2007		2006		
		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	1,911	4.93	3.5	1,711	4.90	4.5
\$5.90 - 6.60	525	6.08	4.0	465	6.08	4.9
	2,436	5.18	3.6	2,176	5.15	4.6

During 2007, 4 (2006 - nil) options were exercised. \$21 was realized as cash proceeds and \$7 was debited to contributed surplus (note 9).

e) 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:

	2007	2006
Risk free rate (%)	4.1	4.5
Expected life (years)	5	5
Expected volatility (%)	52	39
Expected dividends	-	-

For the period ended June 30, 2007, 130 (2006 - 576) stock options were granted to employees, officers and directors were outstanding. During the period, \$818 (2006 - \$892) was recorded as stock compensation expense with respect to the options outstanding with a corresponding credit to contributed surplus (Note 9). The option grants during the period had a weighted average fair value expense attributed to them of \$2.67 (2006 - \$2.35) per share.

Notes to the Financial Statements**For the three and six month periods ended June 30, 2007 and 2006***(thousands, except per share data) (unaudited)***9. CONTRIBUTED SURPLUS**

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

	2007	2006
Balance at January 1	2,159	103
Stock-based compensation expense	811	892
Exercise of stock options	(7)	-
Balance at June 30	2,963	995

10. NET EARNINGS PER SHARE

The following table summarizes the shares used in calculating net earnings per share as at June 30:

	2007	2006
Weighted average shares outstanding - basic	27,333	23,249
Dilutive stock options outstanding	2,416	1,676
Shares notionally repurchased with proceeds from dilutive stock options and returned to treasury	(2,204)	(1,676)
Weighted average shares outstanding - diluted	27,545	23,249

During the six months ended June 30, 2007, 20 (2006 – 115) 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 as at June 30, were as follows:

Notes to the Financial Statements**For the three and six month periods ended June 30, 2007 and 2006***(thousands, except per share data) (unaudited)***11. COMMITMENTS (Continued)***a) Transportation costs (continued)*

	2007	2006
2006	-	12
2007	105	23
2008	209	23
2009	209	23
2010	197	12
2011	194	7
2012	80	2
Total minimum payments	994	102

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:

	2007	2006
2006	-	126
2007	455	252
2008	910	252
2009	910	252
2010	910	252
2011	531	63
Total minimum payments	3,716	1,197

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.

Notes to the Financial Statements**For the three and six month periods ended June 30, 2007 and 2006***(thousands, except per share data) (unaudited)***11. COMMITMENTS (Continued)***d) Drilling commitments*

As at June 30, 2007 Vero had committed to drill a total of eight wells in Alberta with varying commencement dates in 2007 pursuant to farm-in agreements with industry partners. The Company expects to satisfy their net portion of these drilling commitments at an estimated cost of \$8,210.

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 June 30, 2007 Vero had \$10,848 remaining on this commitment.

12. SUPPLEMENTARY INFORMATION*a) Changes in non-cash working-capital*

	Six months ended,	
	2007	2006
Accounts receivable	4,214	(6,492)
Prepaid expenses and deposits	15	(841)
Accounts payable and accrued liabilities	(12,985)	12,093
Taxes payable	-	(292)
Corporate acquisition of working capital (Note 3)	-	159
Net change in non-cash working capital	(8,756)	4,627
Investing activities	4,094	(9,824)
Operating activities	(4,662)	(5,197)

b) Supplementary cash flow information

	2007	2006
Interest received	-	89
Interest paid	1,212	426

Notes to the Financial Statements**For the three and six month periods ended June 30, 2007 and 2006***(thousands, except per share data) (unaudited)*

13. FINANCIAL INSTRUMENTS

Financial instruments consist primarily of accounts receivable, prepaid expenses, risk management asset, accounts payable and accrued liabilities and bank debt. There are no significant differences between the carrying value of these instruments and their estimated fair value.

A substantial portion of the Company's accounts receivable are with customers and joint-venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchaser's of the Company's oil, natural gas and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

The Company is exposed to interest rate risk to the extent that changes in the market interest rates will impact the Company's cash and cash equivalents that have a floating interest rate. The bank facility is also based on a floating interest rate. The Company had no interest rate swaps or hedges at June 30, 2007.

During the period ended June 30, 2007 the Company entered into the following commodity contract:

Type	Amount	Term	Price (\$/gj)	Type
Costless collar	5,000 gj/day	April 1 – October 31, 2007	\$7.00 - \$8.80	Financial