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

	<b>June 30, 2006</b>	December 31, 2005
	<i>(unaudited)</i>	
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	-	12,523
Accounts receivable	<b>12,505</b>	6,013
Prepaid expenses and deposits	<b>997</b>	156
	<b>13,502</b>	18,692
Property and equipment (Note 4)	<b>114,038</b>	34,207
Goodwill (Note 3)	<b>14,804</b>	-
Future tax benefit (Note 7)	-	232
	<b>142,344</b>	53,131
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	<b>22,081</b>	9,988
Taxes payable	-	292
Bank debt (Note 5)	<b>21,554</b>	-
	<b>43,635</b>	10,280
Asset retirement obligations (Note 6)	<b>1,289</b>	380
Future taxes	<b>10,719</b>	-
	<b>55,643</b>	10,660
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	<b>84,710</b>	41,703
Contributed surplus (Note 9)	<b>995</b>	103
Retained Earnings	<b>996</b>	665
	<b>86,701</b>	42,471
	<b>142,344</b>	53,131

Commitments (Note 11)

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

# VERO ENERGY INC.

## Consolidated Statements of Operations and Retained Earnings

For the three months and six months ended June 30, 2006

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

	Three months ended June 30, 2006	Six Months ended June 30, 2006
<b>REVENUE</b>		
Production revenue	10,571	17,667
Royalties	(2,712)	(4,345)
Interest and other	-	89
	<b>7,859</b>	<b>13,411</b>
<b>EXPENSES</b>		
Operating	1,293	2,107
Transportation	153	286
General and administrative	566	859
Stock-based compensation (Note 8(c))	520	892
Interest and bank charges	301	463
Depletion, depreciation and accretion	6,106	9,496
	<b>8,939</b>	<b>14,103</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(1,080)</b>	<b>(692)</b>
<b>INCOME TAX EXPENSE (RECOVERY) (Note 7)</b>		
Current	(308)	(292)
Future	(851)	(731)
	<b>(1,159)</b>	<b>(1,023)</b>
<b>NET EARNINGS</b>	<b>79</b>	<b>331</b>
<b>RETAINED EARNINGS, BEGINNING OF PERIOD</b>	<b>917</b>	<b>665</b>
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>996</b>	<b>996</b>
<b>NET EARNINGS PER SHARE (Note 10)</b>		
Basic	-	0.01
Diluted	-	0.01

See accompanying notes.

# VERO ENERGY INC.

## Consolidated Statement of Cash Flows

For the three months and six months ended June 30, 2006

*(in thousands of dollars) (unaudited)*

	Three months ended June 30, 2006	Six Months ended June 30, 2006
<b>CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:</b>		
<b>OPERATING</b>		
Net earnings	79	331
Adjustments for:		
Depletion, depreciation and accretion	6,106	9,496
Future income taxes	(851)	(731)
Stock-based compensation	520	892
	5,854	9,988
Changes in non-cash working capital (Note 12(a))	(440)	(5,197)
	5,414	4,791
<b>FINANCING</b>		
(Decrease) increase in bank debt	(3,745)	3,033
Proceeds from issuance of common shares, net of share issue costs	12,102	12,061
	8,357	15,094
<b>INVESTING</b>		
Corporate acquisition	-	(18,887)
Additions to petroleum and natural gas properties	(12,573)	(23,520)
Disposals of capital assets	300	300
Additions to administrative assets	(49)	(125)
Changes in non-cash working capital (Note 12(a))	(1,449)	9,824
	(13,771)	(32,408)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	-	(12,523)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	-	12,523
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	-	-

Supplementary cash flow information (Note 12(b))

*See accompanying notes.*

**Notes to the Interim Financial Statements****For the six months ended June 30, 2006***(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.

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).

**2. FINANCIAL PRESENTATION AND POLICIES**

The Consolidated Financial Statements of Vero have been prepared by management in accordance with Canadian generally accepted accounting principles. The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiary. 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, 2005, 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, 2005. Preparation of the Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

Goodwill is the excess purchase price over the fair value of identifiable assets and liabilities acquired. Goodwill is not amortized. However, goodwill impairment will be assessed annually at December 31, or as economic events dictate, by comparing the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit is less than its carrying value, the fair value of the reporting unit’s goodwill is compared with its carrying value to measure the amount of goodwill impairment loss.

**Notes to the Financial Statements****For the six months ended June 30, 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 acquisition may be subject to adjustments if additional information related to the company during the pre-acquisition periods becomes known. The acquisition was accounted for using the purchase method of accounting as follows:

**Consideration paid:**

Cash	18,261
Common shares	30,622
Transaction costs	626
	<u>49,509</u>

**Allocation of purchase price:**

Current assets	3,837
Current liabilities	(3,678)
Debt assumed	(18,520)
	<u>(18,361)</u>
Property, plant and equipment	65,738
Goodwill	14,804
Asset retirement obligations	(666)
Future income taxes	(12,006)
	<u>49,509</u>

**4. PROPERTY AND EQUIPMENT**

	<b>June 30, 2006</b>		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	124,211	(10,306)	113,905
Administrative assets	153	(20)	133
	<u>124,364</u>	<u>(10,326)</u>	<u>114,038</u>

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

	December 31, 2005		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	35,050	(870)	34,180
Administrative assets	28	(1)	27
	<u>35,078</u>	<u>(871)</u>	<u>34,207</u>

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

**5. BANK DEBT**

The Company has a \$30,000 revolving credit facility with a Canadian Chartered Bank. The authorized limit is subject to an annual review and re-determination of the Company's borrowing base by the bank. The advances bear interest at bank prime. The facility is secured with a \$75,000 floating charge debenture over all of the assets of the Company.

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

The Company's asset retirement obligations result from the net 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, 2006 to be \$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, 2006 was calculated using a credit-adjusted risk free rate of 8.4% and an inflation factor of 2.6%. Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at June 30, 2006, no funds have been set aside to settle these obligations. Changes to asset retirement obligations during the period were as follows:

	<u>2006</u>
Asset retirement obligations at beginning of period	380
Liabilities assumed on the corporate acquisition (note 3)	666
Liabilities incurred during the period	202
Liabilities settled during the period	-
Accretion	41
Asset retirement obligations at end of period	<u>1,289</u>

**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 period ended June 30, 2006:

	<u>2006</u>
Loss before income taxes	<u>(692)</u>
Expected income tax recovery at the statutory rate of 34.5%	(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	313
Alberta Royalty Tax Credit and Attributed Canadian	
Royalty Income	(162)
Rate changes	(1,033)
Other	(5)
	<u>(1,023)</u>

**Notes to the Financial Statements****For the six months ended June 30, 2006***(thousands, except per share data) (unaudited)***7. INCOME TAXES (continued)**

Current income taxes	(292)
Future income taxes	(731)
	(1,023)

**8. SHARE CAPITAL**

	Shares (000's)	Amount
Authorized		
Unlimited number of common shares		
Unlimited number of first preferred shares		
Issued		
<i>Common shares</i>		
<b>Balance September 23, 2005</b>	-	-
Shares issued pursuant to the Plan of Arrangement	9,836	21,313
Private placement	2,726	6,052
Conversion of warrants to common shares	6,459	14,338
<b>Balance December 31, 2005</b>	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
<b>Total share capital at June 30, 2006</b>	25,907	84,710

## 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

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 six months ended June 30, 2006**

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

**8. SHARE CAPITAL (continued)**

c) Stock options

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

	<b>June 30, 2006</b>	
	<b>Stock Options (000's)</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning of period	<b>1,600</b>	<b>4.87</b>
Granted	<b>576</b>	<b>6.07</b>
Exercised	-	-
Cancelled	-	-
Outstanding, end of period	<b>2,176</b>	<b>5.15</b>
Exercisable, end of period	-	

<b>June 30, 2006</b>			
<b>Range of Exercise Price \$</b>	<b>Number of Options Outstanding</b>	<b>Weighted Average Exercise Price \$</b>	<b>Weighted Average Years to Expiry</b>
4.87 - 5.35	<b>1,711</b>	<b>4.90</b>	<b>4.5</b>
6.00 - 6.31	<b>465</b>	<b>6.08</b>	<b>4.9</b>
	<b>2,176</b>	<b>5.15</b>	<b>4.6</b>

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

## 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 warrants and options have an exercise price equal to the fair value of the security at the date of grant. Compensation costs attributable to share options granted to employees, officers and directors are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. The fair value of each warrant or option granted is estimated on the date of grant using a modified Black-Scholes option-pricing model. The following assumptions have been used:

	<b>2006</b>
Risk free rate (%)	<b>4.5</b>
Expected life (years)	<b>5</b>
Expected volatility (%)	<b>39</b>
Expected dividends	<b>-</b>

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

**9. CONTRIBUTED SURPLUS**

The following table reconciles the Company's contributed surplus:

	<b>2006</b>
Balance at beginning of period	<b>103</b>
Stock-based compensation	<b>892</b>
Balance at end of period	<b>995</b>

**Notes to the Financial Statements****For the six months ended June 30, 2006***(thousands, except per share data) (unaudited)***10. NET EARNINGS PER SHARE**

The following table summarizes the shares used in calculating basic and diluted net earnings per share as at June 30, 2006:

	<b>2006</b>
Weighted average shares outstanding - basic	<b>23,249</b>
Effect of stock options	-
Weighted average shares outstanding - diluted	<b>23,249</b>

For the six month period in 2006, there were 115 options excluded from the diluted earnings per share calculations at the end of the period as they would have been anti-dilutive.

**11. COMMITMENTS**

In addition to the commitments listed below, the Company has various guarantees and 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) Head office lease*

The Company has entered a lease agreement for its head office which commenced on April 1, 2006. The lease commitments are the same amounts as the related party pays the arms length landlord. The minimum future payments under the lease as at June 30, 2006 are as follows:

2006	<b>126</b>
2007	<b>252</b>
2008	<b>252</b>
2009	<b>252</b>
2010	<b>252</b>
2011	<b>63</b>
<b>Total minimum payments</b>	<b>1,197</b>

**Notes to the Financial Statements****For the six months ended June 30, 2006***(thousands, except per share data) (unaudited)***11. COMMITMENTS (Continued)***b) Transportation obligations*

The Company has entered into 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, 2006 are as follows:

2006	<b>12</b>
2007	<b>23</b>
2008	<b>23</b>
2009	<b>23</b>
2010	<b>12</b>
2011	<b>7</b>
2012	<b>2</b>
<b>Total minimum payments</b>	<b>102</b>

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

	<b>2006</b>
Accounts receivable	<b>(6,492)</b>
Prepaid expenses and deposits	<b>(841)</b>
Accounts payable and accrued liabilities	<b>12,093</b>
Taxes payable	<b>(292)</b>
Change in non-cash working capital (accounts payable) from investing	<b>(9,824)</b>
Corporate acquisition of working capital	<b>159</b>
	<b>(5,197)</b>

*b) Supplementary cash flow information*

	<b>2006</b>
Interest received	<b>89</b>
Interest paid	<b>426</b>