

## **MANAGEMENT, DISCUSSION AND ANALYSIS**

*The following Management's Discussion and Analysis ("MD&A") was prepared on May 9, 2007 and is management's assessment of the Company's financial and operating results for the quarter ended March 31, 2007. This MD&A should be read in conjunction with the audited, consolidated, financial statements of the Company for the year ended December 31, 2006 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", "continue", "estimate", "expect", "may", "will", "project", "plan", "should", "believe", 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 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.*
- *Actions taken and policies created by governmental or regulatory authorities including changes to tax laws, incentive programs, royalty calculations and environmental regulations;*

*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 2007

The first quarter of 2007 was an active one for the Company. We spent \$26,898 drilling 17 (10.9 net) wells, acquiring new undeveloped lands and in addition we closed on the acquisition of a producing property with undeveloped lands from one of our industry partners in the Corbett area. This acquisition added approximately 60 boe/d of production and 3,520 net undeveloped acres. Vero achieved average production of 4,430 boe/d in the quarter while realizing cash flow of \$10,504 or \$0.41 per share. By doing this Vero achieved its fifth consecutive quarter of growth. 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 210% in the first quarter of 2007 to 398,663 boe as compared to 128,420 boe in the first quarter of 2006. Production growth in the first quarter was largely attributable to the continued successful drilling program in Vero's core area of Edson, an upgrade to the non-operated Edson liquids handling facility, which Vero paid for, as well as tying-in previously drilled wells in both the Edson, Whitecourt and Wilson Creek areas. In addition the first quarter of 2007 represents the first full quarter of production from our recently built, 100% owned facility in Corbett that was completed in late 2006. Much of the new production is liquids rich gas and as a result liquids volumes increased by 235% as well from 2006 levels. Gas production contributed 80% of total production while liquids came in at 12% and oil was 8%. This compares to 67% for gas in the first quarter of 2006, liquids at 12% and oil was 21%. For the balance of 2007 it is anticipated that the weighting to natural gas will stay around the 80% level as the bulk of our remaining drilling program for 2007 is for natural gas targets.

#### Aggregate Sales Volumes

	Q1 2007	Q1 2006	% Change
Natural gas (mcf)	<b>1,909,871</b>	514,364	271
Light/medium oil (bbl)	<b>30,590</b>	27,836	10
Natural gas liquids (bbl)	<b>49,761</b>	14,857	235
Barrels of oil equivalent (boe)	<b>398,663</b>	128,420	210

## Daily Sales Volumes

Daily sales volumes increased to 4,430 boe/d in 2007 from 1,427 boe/d in the first quarter of 2006. The largest gains were realized from our natural gas drilling program, which yielded a 271% increase in daily rates and bringing onto production our liquids rich natural gas wells, which resulted in a 235% increase in daily rates. As a result of the successful drilling in the first quarter of 2007 Vero increased its year-end daily rate guidance to 5,000 – 5,200 boe/d. Due to spring break-up, Vero expects that second quarter production will be in the 4,500 – 4,700 boe/d range as our capital program will be scaled back to accommodate break-up. However, commencing in the third quarter, Vero expects production to increase as our activity levels resume.

	Q1 2007	Q1 2006	% Change
Natural gas (mcf/d)	21,221	5,715	271
Light/medium oil (bbl/d)	340	309	10
Natural gas liquids (bbl/d)	553	165	235
Barrels of oil equivalent (boe/d)	4,430	1,427	210

## Production revenue

Despite natural gas prices declining slightly in 2007 as compared to 2006 we were able to significantly increase our revenues mainly due to the increases in production volumes. Aggregate prices decreased by 7% in the first quarter of 2007 lead mainly by the 8% decline in natural gas liquids prices. Gas prices were relatively flat with only a 3% decline. Natural gas revenues were 77% of corporate revenues followed by liquids at 14% and oil revenues at 9%.

<i>Production Revenue</i>	Q1 2007	Q1 2006	% Change
Natural gas	15,725	4,359	261
Light/medium oil	1,903	1,834	4
Natural gas liquids	2,779	903	208
Production revenue	20,407	7,096	188

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

<i>Commodity Prices Realized</i>	Q1 2007	Q1 2006	%
			Change
Natural gas (\$/mcf)	<b>8.23</b>	8.46	(3)
Light/medium oil (\$/bbl)	<b>62.20</b>	65.87	(6)
Natural gas liquids (\$/bbl)	<b>55.86</b>	60.78	(8)
Barrels of oil equivalent (\$/boe)	<b>51.19</b>	55.26	(7)

Gas prices were declining rapidly in January due to the relatively warm winter being experienced in North America to the end of that month. However, a rapid turnaround occurred in February with the coldest February on record in thirty years for the United States. This cold weather continued into the first part of March and had a significant and negative impact on natural gas storage levels. Were it not for this adverse weather, gas prices could have declined lower than the level from which the industry experienced in 2006, but instead the average price of gas was relatively flat in the first three months of 2007 with only a 3% decline. Oil prices declined by 6% as global supply concerns continued to ease. Natural gas liquids prices showed a decline of 8% in 2007 as they parallel the decline in crude oil prices depending on the product. Gas prices continue to be strong into April and May and this bodes well for Vero's decision to be aggressive in its capital spending in the first quarter.

## ROYALTIES

Royalties were \$5,645 for the first quarter of 2007 as compared to \$1,633 for the first quarter of 2006. The increase parallels the significant increase in production revenues in 2007. On a per boe basis the rate increased to \$14.16 due to higher Crown royalty rates on the flush production from our newly drilled wells. In addition the cancelling of the Alberta Royalty Tax Credit program effective January 1, 2007 added to the increased rate. Vero has traditionally realized most of its ARTC benefits in the first quarter of each year, as this is when we reached our maximum refund. As a percentage of revenue, royalty expense averaged 28% of production revenue in the first quarter of 2007 as compared to 23% in 2006. Vero anticipates this rate to decline to an amount closer to the historically realized rate of 26%.

<i>Royalties</i>	Q1 2007		Q1 2006	
	\$	\$/boe	\$	\$/boe
Crown – gross	<b>5,029</b>	<b>12.61</b>	1,319	10.27
Freehold/Gross over-riding	<b>617</b>	<b>1.55</b>	403	3.13
Total royalties	<b>5,645</b>	<b>14.16</b>	1,722	13.40
ARTC	-	-	(89)	(0.69)
Royalty expense, net of ARTC	<b>5,645</b>	<b>14.16</b>	1,633	12.71
Royalties - % of revenue	<b>28%</b>		23%	

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

Aggregate DD&A increased from \$3,389 in the first quarter of 2006 to \$8,907 in the first quarter of 2007. The large increase was primarily due to the increased depletion base from Vero’s 2006 and 2007 capital programs as well as the corporate acquisition from February 2006. In addition, the large increase in production volumes in the first quarter caused more DD&A to be recognized as depletion uses the unit-of-production method in its computation. However, and as anticipated, Vero’s successful drilling program throughout 2006 and the first quarter of 2007 allowed the DD&A rate per boe to drop 15% from first-quarter 2006 levels. For the balance of 2007 we anticipate the DD&A rate to decline slightly with the rate realized in the first quarter of 2007 as new reserves are added.

<i>DD&amp;A</i>	Q1 2007		Q1 2006	
	\$	\$/boe	\$	\$/boe
Depletion and depreciation	<b>8,869</b>	<b>22.25</b>	3,375	26.28
Accretion	<b>38</b>	<b>0.09</b>	14	0.11
Total DD&A	<b>8,907</b>	<b>22.34</b>	3,389	26.39

## OPERATING

Operating costs were \$2,512 or \$6.30 per boe in the first quarter of 2007 as compared to \$813 and \$6.33 per boe respectively in the first quarter of 2006. While aggregate operating costs increased 209%, Vero was able to keep the per boe rate relatively flat at \$6.30 with the 2006 rate of \$6.33. The Company continues to enjoy a low operating cost environment due to the concentration of operations in West Central Alberta. For the balance of 2007 it is anticipated that the per boe expense will remain consistent with first quarter level.

<i>Operating</i>	2007	2006	% Change
Expense per financial statements	<b>2,512</b>	813	209
Add: processing income	<b>4</b>	-	-
Gross expense	<b>2,516</b>	813	209
Operating expense (\$ per boe)	<b>6.30</b>	6.33	-
Net expense (% revenue)	<b>12.3%</b>	11.5%	7

## TRANSPORTATION

Transportation expenses were \$375 for the quarter and amounted to 1.8% of production revenue for the period. For the year-to-date in 2007 the cost per boe averaged \$0.94, which is 10% lower than the rate for the first quarter of 2006. 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 is expected to be relatively consistent with that of the first quarter as the majority of these costs are variable in nature.

<i>Transportation</i>	Q1 2007	Q1 2006	% Change
Expense	375	134	181
Expense (\$ per boe)	0.94	1.04	(10)
Expense (% revenue)	1.8	1.9	(5)

## GENERAL AND ADMINISTRATIVE (G&A)

Aggregate G&A expense increased 110% to \$1,061 in 2007 from \$505 in 2006. Net G&A increased 137% to \$694 for the same period. Numerous factors caused the significant increase in G&A such as: in 2007 we had a full complement of staff that numbered seventeen employees while we had only five employees for most of the first quarter of 2006. In addition, we moved to new office space in the second quarter of 2006 and again to different space in March of 2007 as we outgrew both of our previous locations. Furthermore, additional corporate governance costs have also been incurred during the latter part of 2006 and into the first quarter of 2007. However, all of these costs were averaged over much higher production levels in 2007. 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 \$1.74 as compared to \$2.28 during the Vero start-up period in 2006. This represents a 24% reduction in net G&A costs on a per boe basis. Overhead recoveries increased by 66% in 2007 as compared to 2006. 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. Other than one or two additional staff hires, Vero does not anticipate any significant staffing or other G&A changes into the second through fourth quarters of 2007. 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 2007 was \$108, representing a 93% increase from the same quarter in 2006.

<b>G&amp;A</b>	<b>Q1 2007</b>	<b>Q1 2006</b>	<b>% Change</b>
Gross expense	<b>1,061</b>	505	110
Less:			
Overhead recoveries	<b>(259)</b>	(156)	66
Capitalized G&A	<b>(108)</b>	(56)	93
Net expense	<b>694</b>	293	137
Average cost (\$ per boe)			
Gross expense	<b>2.66</b>	3.94	(32)
Net expense	<b>1.74</b>	2.28	(24)

## INTEREST AND BANK CHARGES

Interest expense for the first quarter of 2007 increased 318% to \$677 from \$162 in the first quarter of 2006. This was mainly the result of increased debt levels, which in turn were attributable to the extensive capital expenditure program throughout 2006 and especially those costs incurred in the first quarter of 2007. In addition to this, interest rates were 11% higher than the comparable period in 2006. The per boe interest expense rate was \$1.70 for the first quarter of 2007 as compared to \$1.26 for the first quarter of 2006, representing a 35% increase quarter to quarter. The increased activity in our capital spending also increased the average debt outstanding by 81% to \$41,230 in 2007. With the private placement, equity injection in April of 2007, plus the added production from the active first quarter, it is anticipated that the interest cost per boe will decrease in the second and third quarters and then rise slightly for the fourth quarter as the capital expenditure program is ramped up again.

<b><i>Interest and bank charges</i></b>	<b>Q1 2007</b>	<b>Q1 2006</b>	<b>% Change</b>
Interest per financial statements	<b>677</b>	162	318
Deduct: Commitment & other fees	<b>(52)</b>	(38)	37
Debt bearing interest	<b>625</b>	124	404
Average debt outstanding	<b>41,230</b>	22,831	81
Average interest rate	<b>6.1%</b>	5.5%	11
Average interest cost (\$ per boe)	<b>1.70</b>	1.26	35

## STOCK BASED COMPENSATION

Stock based compensation expense was \$426 for the first quarter of 2007 as compared to \$372 for the first quarter of 2006. This represents a 15% increase and was directly the result of additional stock option grants during the latter part of 2006 and early 2007. In addition, the continued amortization of the fair value of option grants in 2005 and 2006, plus the higher stock price volatility used for more recent grants, all contributed to the increased current expense. However, the per boe rate dropped 63% from 2006 levels as a

result of significantly increased production in 2007. The fair value of all stock options is amortized over the options' vesting period, which is three years for all options granted.

<i>Stock Based Compensation</i>	Q1 2007	Q1 2006	% Change
Expense	426	372	15
Expense (\$ per boe)	1.07	2.90	(63)

## INCOME TAXES

The total income tax provision for the first quarter of 2007 was \$449 and this was comprised entirely of future income taxes. This provision represents a 230% increase over the tax expense for the comparable period in 2006. On a per boe basis the increase represents a small increase of 7%. The gradual reduction of income tax rates as proposed previously by the Federal Government continues until it is fully implemented in 2010. However, all of the future benefits of these rate reductions have already been recognized in the second quarter of 2006.

Taking into account projected spending for 2007 as well as the anticipated production levels and commodity prices, it is anticipated that Vero will not be cash taxable throughout the remainder of 2007 and into 2008.

<i>Income taxes</i>	Q1 2007		Q1 2006	
	\$	\$/boe	\$	\$/boe
Current income tax expense	-	-	16	0.13
Future income tax expense	449	1.13	120	0.93
Total income taxes	449	1.13	136	1.06

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

<i>Tax Pools</i>	Rate %	Q1 2007	Q1 2006
Canadian exploration expenses	100	20,811	6,568
Canadian development expenses	30	37,943	25,116
Canadian oil and gas property expenses	10	28,166	25,572
Undepreciated capital costs	10 - 30	25,089	13,155
Non-capital losses	100	-	615
Financing costs	20% S.L.	1,061	297
Attributed Canadian Royalty Income	100 (Alberta)	3,884	1,253
Total		116,954	72,576

## NETBACKS

Below is a breakdown of the netbacks for the Company. Operating netbacks of \$29.79 per boe for the first quarter of 2007 were 15% lower than those realized for the first quarter of 2006. The largest single contributor to the decline was the 7% decrease in realized, average, commodity prices. The decline in commodity prices were compounded by the 11% increase in royalty expense and partially offset by a 10% decrease in transportation costs per boe. Cash flow netbacks were lower by 18% as the gains we realized in reducing G&A per boe were more than offset by the commodity price declines and an increase in interest costs. For the net earnings netback, the largest expense, at \$22.34 per boe, was DD&A and reduced the earnings netback significantly. Although the DD&A rate per boe decreased by 15%, it is still the most significant non-cash component of our netback calculation. Stock based compensation expense declined by 63% as the increase in aggregate expense was more than offset by increases in production rates. Future income tax expense per boe will increase throughout the year as the one-time gains from the rate reductions were already recognized in 2006. It is anticipated that as production volumes increase and more emphasis is placed on drilling in the fourth quarter, the corporate netback will increase accordingly.

<i>Netbacks (\$ per boe)</i>	<b>\$ per boe</b>		<b>% Change</b>
	<b>Q1 2007</b>	<b>Q1 2006</b>	
Realized price	<b>51.19</b>	55.26	(7)
Royalties (net of ARTC)	<b>(14.16)</b>	(12.71)	11
Operating expenses	<b>(6.30)</b>	(6.33)	-
Transportation expenses	<b>(0.94)</b>	(1.04)	(10)
Operating netback	<b>29.79</b>	35.18	(15)
G&A	<b>(1.74)</b>	(2.28)	(24)
Interest expense	<b>(1.70)</b>	(1.26)	35
Interest and other income	-	0.69	-
Current income taxes	-	(0.13)	-
Cash flow netback	<b>26.35</b>	32.20	(18)
Stock based compensation	<b>(1.07)</b>	(2.90)	(63)
D,D&A	<b>(22.34)</b>	(26.39)	(15)
Future income taxes	<b>(1.13)</b>	(0.93)	22
Net earnings netback	<b>1.81</b>	1.98	(9)

			%
<i>Operating netback – Natural gas (\$/mcf)</i>	<b>Q1 2007</b>	Q1 2006	Change
Production revenue	8.23	8.46	(3)
Royalties (excluding ARTC)	(2.30)	(1.89)	22
Operating expenses	(0.69)	(1.13)	(39)
Transportation costs	(0.17)	(0.14)	21
Operating netback	5.07	5.30	(4)

			%
<i>Operating netback – Crude oil (\$/bbl)</i>	<b>Q1 2007</b>	Q1 2006	Change
Production revenue	62.20	65.87	(6)
Royalties (excluding ARTC)	(10.12)	(15.27)	(34)
Operating expenses	(8.55)	(7.21)	19
Transportation costs	(0.72)	(1.51)	(52)
Operating netback	42.81	41.88	2

<i>Operating netback</i>			%
<i>Natural gas liquids (\$/bbl)</i>	<b>Q1 2007</b>	Q1 2006	Change
Production revenue	55.86	60.78	(8)
Royalties (excluding ARTC)	(18.90)	(16.01)	18
Operating expenses	(18.57)	(2.22)	736
Transportation costs	(0.75)	(1.25)	(40)
Operating netback	17.64	41.30	(57)

## CASH FLOW AND NET EARNINGS

Cash flow from operations in the first quarter of 2007 was \$10,504, an increase of 154% from \$4,133 realized in the first quarter of 2006. While commodity prices declined in the first quarter by 7% from the comparable quarter in 2006, this was offset by a 210% increase in production volumes and a stable rate for operating expense costs per boe. Consequently, Vero was able to realize significant growth in cash flow. Net earnings were also higher by 187% from 2006 mainly as a result of the growth in production. Cash flow from operations is calculated as follows:

	<b>Q1 2007</b>	Q1 2006	% Change
Net earnings	<b>722</b>	252	187
Adjustments for:			
Depletion, depreciation and accretion	<b>8,907</b>	3,389	163
Future income tax	<b>449</b>	120	274
Stock based compensation expense	<b>426</b>	372	15
Cash flow from operations	<b>10,504</b>	4,133	154

On a per share basis, Vero realized \$0.03 for both basic and diluted earnings per share. This was a 200% increase over the \$0.01 (basic and diluted) realized in the first quarter of 2006. Cash flow per share in the first quarter of 2007 was \$0.41 (basic and diluted) representing a 105% increase from the \$0.20 realized in the first quarter of 2006.

<i>Per share data</i> (\$)	<b>Q1 2007</b>	Q1 2006	% Change
Net earnings	<b>722</b>	252	187
Basic	<b>0.03</b>	0.01	200
Diluted	<b>0.03</b>	0.01	200
Cash flow	<b>10,504</b>	4,133	154
Basic	<b>0.41</b>	0.20	105
Diluted	<b>0.41</b>	0.20	105

## CAPITAL EXPENDITURES

Vero concentrated its efforts in the first quarter of 2007 on drilling several of its numerous opportunities. Vero spent \$26,898 on its capital program in the first quarter. Vero drilled 17 (10.9 net) wells in the first quarter as compared to 8 (5.8 net) wells in the first quarter of 2006. 80% of the Company's exploration and development capital was devoted to drilling new wells. In addition Vero spent \$1.3 million on a 3D seismic program in the Corbett area. A summary of the costs incurred in each quarter is as follows:

<i>Capital expenditures</i>	Q1 2007	Q1 2006	% Change
Exploration and development			
Land acquisitions and lease rentals	148	1,991	(93)
Geological and geophysical	1,552	71	2,086
Drilling and completions	19,441	7,279	167
Well equipment and facilities	3,271	1,607	104
Exploration and development expenditures	24,412	10,948	123
Other expenditures	8	76	(89)
Total capital expenditures	24,420	11,024	122
Corporate acquisition (cash outlay)	-	18,887	-
Property acquisition	2,478	-	-
Net capital expenditures before ARO	26,898	29,911	(10)
Capitalized asset retirement obligations	82	76	8
Total capital additions	26,980	29,987	(10)

<i>Wells drilled</i>	Q1 2007		Q1 2006	
	Gross	Net	Gross	Net
Exploration	2	0.8	3	2.8
Development	12	7.1	5	3.0
Dry holes	3	3.0	-	-
Standing wells	-	-	-	-
Total wells	17	10.9	8	5.8
Success rate	82%	72%	100%	100%

The Company intentionally front-end loaded its 2007 capital program such that it would not be caught up in the anticipated, lengthy, spring break-up. Vero spent almost 42% of its recently board-approved capital budget of \$60 million in the first quarter. Capital spending in the second quarter will be significantly reduced to accommodate spring break-up and is set to resume later in that quarter and into the third quarter. Spending for the third and fourth quarters 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, 2007 are as follows:

<b>Area</b>	<b>Gross Acres</b>	<b>Net Acres</b>	<b>Average WI %</b>
Corbett	15,360	13,536	88
Edson	18,400	10,324	56
Whitecourt	38,880	31,746	82
Other Alberta	17,280	11,925	69
<b>Total</b>	<b>89,920</b>	<b>67,531</b>	<b>75</b>

## LIQUIDITY AND CAPITAL RESOURCES

<b>Debt and working capital</b>	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
Bank debt	48,249	25,299
Working capital deficiency (surplus)	17,685	10,469
<b>Net debt</b>	<b>65,934</b>	<b>35,768</b>

<b>Capital Program Funding</b>	<b>Q1 2007</b>	<b>Q1 2006</b>
Cash, beginning of period	-	12,523
Funds provided by operations	10,504	4,133
Increase in bank debt	12,598	6,779
Share issue costs	-	(41)
Change in non-cash working capital	3,796	6,517
<b>Net capital expenditures</b>	<b>26,898</b>	<b>29,911</b>

The Company funded its \$26,898 in total capital expenditures from a variety of resources. Vero realized cash flow of \$10,504, increased its bank debt by \$12,598 and increased its non-cash working capital by \$3,796 to finance its capital program. The net debt brought forward from December 31, 2006 of \$49,540 plus the activity of the first quarter culminated in net debt at March 31, 2007 of \$65,934. To fund its remaining capital program for 2007, Vero expects to generate an additional \$35 million of cash flow plus it has closed a private placement netting a capital injection of \$17.9 million. In addition, the Company recently upgraded its bank line to \$70 million. All of these resources are more than sufficient to fund Vero's remaining current capital program of approximately \$35 million. With these additional resources, Vero is revisiting 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.

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, 2006. The bank facility is subject to periodic borrowing base reviews. The most recent review by the bank was completed in March of 2007 and the next review, which is an interim review, is scheduled for July of 2007. 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. Most recently, the bank has approved the increase to our credit facility to \$70 million. This upgraded facility will further enhance our flexibility to expand the capital program if warranted.

Below is a summary of the trading history of the Company's shares for 2007 and 2006.

	<b>Q1 2007</b>	Q4 2006	Q3 2006	Q2 2006	Q1 2006
High	<b>6.25</b>	6.70	6.00	7.06	7.18
Low	<b>5.21</b>	4.20	4.60	5.02	5.00
Close	<b>5.77</b>	6.06	4.69	5.43	6.15
Volume (000's)	<b>9,417</b>	3,467	3,683	3,773	11,409

#### **OFF BALANCE SHEET TRANSACTIONS**

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

#### **RELATED PARTY TRANSACTIONS**

There were no related party transactions during the period.

#### **CONTRACTUAL OBLIGATIONS**

The Company is obligated, at March 31, 2007 to make the following payments under the terms of long-term contracts it has entered into:

	<b>Total</b>	<b>Payments Due by Period</b>		
		<b>Less than 1 year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>
Transportation obligations	<b>85</b>	23	46	16
Head Office Lease	<b>3,943</b>	910	1,592	1,441
Farm-in obligations	<b>2,600</b>	2,600	-	-
<b>Total contractual obligations</b>	<b>6,628</b>	3,533	1,638	1,457

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, 2006. Vero moved into these new premises on March 1, 2007. As at March 31, 2007 Vero had committed to drill a total of five wells in Alberta with varying commencement dates in 2007 pursuant to farm-in agreements with industry partners.

## 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)	May 9, 2007	March 31, 2007	December 31, 2006
Common shares outstanding	<b>28,907</b>	<b>25,907</b>	25,907
Stock options outstanding	<b>2,391</b>	<b>2,391</b>	2,321
Fully diluted shares	<b>31,298</b>	<b>28,298</b>	28,228
Weighted average common shares			
Basic	-	<b>25,907</b>	24,589
Diluted	-	<b>25,907</b>	24,589

## SELECTED QUARTERLY INFORMATION

The Company has been operating since November 2, 2005. Therefore quarterly information is from that date forward. The results for the fourth quarter of 2005 are for sixty days of operations only.

(000's except as noted)	2007	2006				2005
	Q1	Q4	Q3	Q2	Q1	Q4
Production (boe/d)	<b>4,430</b>	3,301	2,713	2,350	1,427	980
Average prices realized (\$/boe)	<b>51.19</b>	48.89	45.82	49.44	55.26	71.65
Production revenue	<b>20,407</b>	14,846	11,436	10,571	7,096	4,212
Net earnings	<b>722</b>	688	16	79	252	665
Basic - per share (\$/share)	<b>0.03</b>	0.03	-	-	0.01	0.07
Diluted - per share (\$/share)	<b>0.03</b>	0.03	-	-	0.01	0.07
Cash flow	<b>10,504</b>	7,835	6,280	5,854	4,133	1,896
Basic - per share (\$/share)	<b>0.41</b>	0.31	0.24	0.23	0.20	0.20
Diluted - per share (\$/share)	<b>0.41</b>	0.31	0.24	0.23	0.20	0.20
Total assets	<b>182,470</b>	166,858	155,480	142,344	132,787	53,131
Long term financial liabilities	-	-	-	-	-	-
Net debt (surplus)	<b>65,934</b>	49,540	39,409	30,133	35,768	(8,412)
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, 2006.

### **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, 2007; 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**

On February 16, 2007, the Alberta Government announced that a review of the province's royalty and tax regime (including income tax and freehold mineral rights tax) pertaining to oil and gas resources, including oil sands, conventional oil and gas and coal bed methane, will be conducted by a panel of experts, with the assistance of individual Albertans and key stakeholders. The review panel is to produce a final report that will be presented to the Minister of Finance by August 31, 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 2006.

## **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, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. 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.