

## **MANAGEMENT'S, DISCUSSION AND ANALYSIS**

*The following Management's Discussion and Analysis ("MD&A") was prepared on May 7, 2009 and is management's assessment of the Company's financial and operating results for the quarters ended March 31, 2009 and 2008. This MD&A should be read in conjunction with the audited, consolidated, financial statements and MD&A of the Company for the year ended December 31, 2008 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, except 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. Management's assessment of future plans and operations, capital expenditures, methods of financing capital expenditures and the ability to fund financial liabilities, completion of the equity financing and timing thereof, expected commodity prices and the impact on Vero, expected increase in royalty rates, and the timing of and impact of adoption of IFRS and other accounting policies may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, the inability to fully realize the benefits of the acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources*

*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;*
- *Vero's ability to successfully market its oil and natural gas products;*
- *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;*
- *Well production and decline rates;*
- *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;*
- *The ability of Vero to obtain financing on acceptable terms;*
- *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.*

#### ***Dollar amounts***

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

#### ***Non-GAAP Terms***

*This Management, Discussion and Analysis uses the terms "cash flow from operations", "netbacks" and "net debt", 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 (also referred to as "cash flow") 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. Corporate netbacks are comprised of operating, cash flow and net earnings netbacks. Operating netback is calculated as the average sales price of its commodities (including hedging gains and losses) less royalties, transportation costs and operating expenses. Cash flow netback starts with the operating netback and further deducts*

general and administrative costs, interest expense and then adds interest income. To calculate the net earnings netback, Vero takes the cash flow netback and deducts unrealized gains/losses on hedges, stock-based compensation expense, depletion, depreciation and amortization charges and future income taxes. There is no GAAP measure that is reasonably comparable to netbacks. See the section below entitled “Operating Netbacks by Product” for calculations of operating netbacks for each commodity type.

Net debt and working capital deficiency, which terms represent current assets less current liabilities and bank debt is used to assess efficiency, liquidity and general financial strength. There is no GAAP measure that is reasonably comparable to net debt and working capital.

A reconciliation of cash flow from operations is presented in the below table:

	Three months ended	
	March 31,	
	2009	2008
Cash provided by operating activities	(5,849)	15,377
Add:		
Change in non-cash working capital	14,050	2,465
<b>Cash flow from operations</b>	<b>8,201</b>	<b>17,842</b>

### **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.

### **FINANCIAL HIGHLIGHTS FROM THE FIRST QUARTER OF 2009**

Vero undertook a prudent, yet productive first quarter spending program in 2009. In the face of an uncertain financial climate, Vero scaled back its initial forecasted capital program and was still able to achieve excellent results. Vero spent \$28,322 during the quarter including: \$20,163 drilling and completing 7 (6.4 net) wells with a 100% success rate; \$6,289 in equipping and tying-in new wells; \$1,033 in seismic data and other geological costs; and \$832 in acquiring new Crown land acreage in its core areas. Natural gas prices started their rapid decline in mid-January and this resulted in Vero adjusting its first quarter capital program from previously planned levels. The Company achieved an average production rate of 7,352 boe/d in the quarter. Cash flows for the Company were \$8,201 or \$0.22 per basic share for the quarter. 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 26% in the first quarter of 2009 to 661,643 boe as compared to 525,168 boe in the first quarter of 2008. Production growth in the first quarter was largely attributable to the continued successful drilling program in Vero's core area of Edson. While the successful drilling in the first quarter would have added more production than reported, Vero decided to defer the tie-in of certain new wells drilled during the first quarter in order to benefit from new Alberta royalty incentives that apply to wells commencing production on or after April 1, 2009. Gas production contributed 80% of total volumes while liquids came in at 14% and oil at 6%. This compares to 77% for gas in the first quarter of 2008, liquids at 13% and oil at 10%. For the balance of 2009 it is anticipated that the weighting to natural gas will stay around the 80% level as the bulk of our remaining drilling program for 2009 is for natural gas targets.

#### Aggregate Sales Volumes

	Q1 2009	Q1 2008	% Change
Natural gas (mcf)	<b>3,194,975</b>	2,432,396	31
Light/medium oil (bbl)	<b>38,384</b>	51,569	(26)
Natural gas liquids (bbl)	<b>90,763</b>	68,199	33
Barrels of oil equivalent (boe)	<b>661,643</b>	525,168	26

#### Daily Sales Volumes

Daily sales volumes increased 27% to 7,352 boe/d in the first quarter of 2009 from 5,771 boe/d in the first quarter of 2008. The largest gains were realized from a combination of our natural gas well drilling program in late 2008 as well as the four acquisitions completed throughout that year. Natural gas liquids daily production increased by the largest amount at 35% mainly the result of increased production of liquids-rich natural gas. Oil production declined by 25% in the first quarter of 2009 compared to 2008 as natural declines, coupled with no new oil well drilling resulted in the decrease. Due to the intentional delay in bringing new gas wells on production in 2009, second quarter production levels will realize the full benefit of the first quarter drilling results. As a result of a combination of the deferral in starting-up these wells; shutting in approximately 400 boe/d of high operating cost wells; and an anticipated two week turnaround at a third party gas processing facility that will shut in approximately 2,500 of production for this period, the average rate for 2009 will be approximately 7,500 boe/d. Drilling activity will be curtailed in the second quarter since the current gas price environment is not conducive to continued drilling over this time period. We are currently anticipating to resume drilling operations later in the third quarter. Vero continues to monitor prices and will be ready to adjust capital spending accordingly should prices return to more economic levels.

	Q1 2009	Q1 2008	% Change
Natural gas (mcf/d)	<b>35,500</b>	26,730	33
Light/medium oil (bbl/d)	<b>426</b>	567	(25)
Natural gas liquids (bbl/d)	<b>1,008</b>	749	35
Barrels of oil equivalent (boe/d)	<b>7,352</b>	5,771	27

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

<b>Area</b>	<b>Q1 2009</b>	Q1 2008	%
			<b>Change</b>
Edson	<b>5,005</b>	4,001	25
Whitecourt	<b>971</b>	452	115
Corbett	<b>609</b>	889	(31)
Wilson Creek	<b>383</b>	302	27
Other	<b>384</b>	127	202
<b>Total</b>	<b>7,352</b>	5,771	27

#### **Benchmark Indices**

	<b>Q1 2009</b>	Q1 2008	%
			<b>Change</b>
<b>Natural gas</b>			
NYMEX (US \$/mmbtu)	<b>4.84</b>	8.08	(40)
AECO- Daily (CDN \$/mcf)	<b>4.95</b>	7.97	(38)
<b>Crude Oil</b>			
WTI (US \$/bbl)	<b>43.08</b>	97.86	(56)
Edmonton light (CDN \$/bbl)	<b>49.65</b>	97.50	(49)
<b>Foreign Exchange</b>			
Canadian to US dollar	<b>0.80</b>	1.00	(20)
US to Canadian dollar	<b>1.25</b>	1.00	25

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 38% lower in 2009 as compared to 2008 levels. The slowing U.S. demand in the latter part of 2008 and new supply sources from shale gas drilling in the U.S. has caused an over-supply situation. Inventory of natural gas was building rapidly even though it was a relatively cold winter in North America. This caused prices to rapidly decline in February and March. WTI oil prices also experienced a decrease in January and February as a result of reduced global demand. Along with the decline in WTI prices came a significant depreciation in the Canadian dollar since movements in these two commodities are highly correlated.

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

<b>Realized Commodity Prices</b>	<b>Q1 2009</b>	Q1 2008	%
			<b>Change</b>
Natural gas (\$/mcf)	<b>5.18</b>	8.51	(39)
Light/medium oil (\$/bbl)	<b>45.36</b>	88.07	(48)
Natural gas liquids (\$/bbl)	<b>42.23</b>	86.89	(51)
Barrels of oil equivalent (\$/boe)	<b>33.45</b>	59.35	(44)

The volatility in commodity prices was highlighted in the first quarter of 2009 as Vero realized an average of 44% less as compared to the first quarter of 2008. Realized natural gas prices decreased by 39% in the first quarter of 2009 compared to 2008. However, because of the higher quality of Vero's natural gas, we averaged a 5% premium to the AECO standard throughout the quarter. Vero's realized oil prices decreased by 48% in 2009 compared to 2008 and natural gas liquids prices showed a 51% decrease in 2009. In the immediate future there does not appear to

any meaningful signs of a reduction in gas storage numbers and as a result natural gas prices are expected to remain low for the summer months. Vero is anticipating natural gas price recoveries later in the year and into 2010 as natural gas well declines, coupled with a lack of significant drilling are expected to reduce storage levels.

### Production revenue

Vero realized a 29% decrease in aggregate revenues in the first quarter of 2009 compared to 2008. The 44% decline in realized commodity prices was somewhat offset by increased production levels. Since natural gas was 80% of total production and gas prices declined 39%, the result was that gas contributed 75% of total revenues. Liquids production was 14% of total volumes but contributed 17% of revenues while oil production was 6% of volumes and contributed 8% of revenues.

<i>Production Revenue</i>	<b>Q1 2009</b>	Q1 2008	% Change
Natural gas	<b>16,561</b>	20,700	(20)
Light/medium oil	<b>1,741</b>	4,542	(62)
Natural gas liquids	<b>3,833</b>	5,926	(35)
Production revenue	<b>22,135</b>	31,168	(29)

### ROYALTIES

Royalties were \$5,257 for the first quarter of 2009 as compared to \$8,492 for the first quarter of 2008. The decrease is mainly attributable to the 44% average decrease in commodity prices. The New Royalty Framework came into effect on January 1, 2009 and while products such as natural gas liquids are fixed at a higher effective rate than last year, the gas crown royalties, which are now partially price sensitive, have decreased. On a per boe basis the rate decreased to \$7.95 from \$16.17 in the first quarter of 2008. As a percentage of revenue, the rate for 2009 was lower to 2008 as royalty expense averaged 23.7% of production revenue in the first quarter of 2009 as compared to 27.2% in 2008. Gas cost allowance and custom processing credits reduced the Crown royalty rate below that experienced in the first quarter of 2008. Vero anticipates this rate to remain in the mid-20% range throughout the year as the effect of any increase in commodity prices should be partially offset by the new Alberta royalty credits which came into effect on April 1 of 2009.

	\$			\$/boe		
	<b>Q1 2009</b>	Q1 2008	%	<b>Q1 2009</b>	Q1 2008	%
Crown – gross	<b>4,678</b>	<b>7,571</b>	(38)	<b>7.07</b>	14.42	(51)
Freehold/gross over-riding	<b>579</b>	<b>921</b>	(37)	<b>0.88</b>	1.75	(50)
Total royalties	<b>5,257</b>	<b>8,492</b>	(38)	<b>7.95</b>	16.17	(51)
Royalties - % of revenue	<b>23.7%</b>	<b>27.2%</b>	(13)			

### RISK MANAGEMENT ACTIVITIES

During the first quarter of 2009, the Company did not have any risk management contracts in place. However, in April of 2009 the Company entered into the following hedges:

Type	Amount	Term	Price (\$/bbl)	Type
Costless collar	1,500 bbl/day	May 1 – December 31, 2009	\$62.50 - \$68.25	Financial
Costless collar	1,000 bbl/day	January 1 – March 31, 2010	\$60.00 - \$80.30	Financial

These hedges are considered to be financial derivatives wherein the fair value of the contract will be recognized on the balance sheet with changes in fair value recorded in income. There were no realized gains or losses on hedges in the first quarter of 2009.

## OPERATING

Operating costs were \$5,821 or \$8.80 per boe in the first quarter of 2009 as compared to \$2,694 and \$5.13 per boe respectively in the first quarter of 2008. Aggregate operating costs, before processing recoveries, increased by 110% while production volumes increased by 26%. The increase was attributable to a combination of the higher operating cost acquisitions in 2008 and a continuing workover program from the fourth quarter of 2008 and extending into 2009. In addition more of Vero's gas has been delivered to third party facilities due to the deferral of the construction of our previously planned Pine Creek processing facility. All of these factors have resulted in operating expenses at the high \$8 range in the first quarter of 2009. The Company is embarking on a summer program to derive efficiencies in its operations and has already shut in certain high operating cost wells in this low price environment. For the balance of the year, Vero anticipates that operating costs will be in the mid-\$8 range.

<i>Operating</i>	Q1 2009	Q1 2008	% Change
Expense per financial statements	<b>5,821</b>	2,694	116
Add: processing income	<b>154</b>	147	5
Gross expense	<b>5,975</b>	2,841	110
Operating expense (\$ per boe)	<b>8.80</b>	5.13	72
Net expense (as a % revenue)	<b>26.3%</b>	8.6%	206

## TRANSPORTATION

Transportation expenses were \$864 for the first quarter of 2009 and amounted to 3.9% of production revenue for the period as compared to \$626 and 2.0% from the first quarter of 2008. For the first quarter of 2009 the cost per boe averaged \$1.31, which is 10% higher than the rate for the first quarter of 2008. Transportation costs include: clean oil trucking, trucking of natural gas liquids, and transportation and fuel costs associated with the usage of natural gas pipelines. 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.

<i>Transportation</i>	Q1 2009	Q1 2008	% Change
Expense	<b>864</b>	626	38
Expense (\$ per boe)	<b>1.31</b>	1.19	10
Expense (% revenue)	<b>3.9%</b>	2.0%	95

## GENERAL AND ADMINISTRATIVE (G&A)

Aggregate G&A expense, before recoveries, increased 51% to \$1,925 in 2009 from \$1,276 in 2008. Net G&A increased 34% to \$1,197 for the same period. The main cause of the increase in G&A was the hiring of additional staff to accommodate the additional activity resulting from the acquisitions made in 2008, as well as the drilling activity in the fourth quarter 2008 and first quarter 2009. These additional costs were mitigated somewhat by the 26% increase in production and the resulting cost per boe therefore increased by only 6%. On a per boe basis Vero realized net G&A of \$1.81 as compared to \$1.70 in 2008. Overhead recoveries increased by 99% in 2009 to \$498 from \$250 in 2008. 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 2009 was \$230, representing a 72% increase from the first quarter in 2008.

<b>G&amp;A</b>	<b>Q1 2009</b>	Q1 2008	%
			Change
Gross expense	<b>1,925</b>	1,276	51
Less:			
Overhead recoveries	<b>(498)</b>	(250)	99
Capitalized G&A	<b>(230)</b>	(134)	72
Net expense	<b>1,197</b>	892	34
<hr/>			
Average cost (\$ per boe)			
Gross expense	<b>2.91</b>	2.44	19
Net expense	<b>1.81</b>	1.70	6

## INTEREST AND BANK CHARGES

Interest expense for the first quarter of 2009 increased 31% to \$816 from \$622 in the first quarter of 2008. While average, interest-bearing debt increased by 105% in 2009 compared to 2008, the effective interest rate declined by 34% to offset this. Higher debt levels are attributable to the extensive capital expenditure program throughout the last quarter of 2008 and first quarter of 2009. In addition, the bank debt assumed on the corporate acquisition in November of 2008 contributed to the increase in debt levels. The per boe interest expense rate was \$1.23 for the first quarter of 2009 as compared to \$1.18 for the first quarter of 2008, representing a 4% increase quarter to quarter. Vero is anticipated to close an equity offering at the end of May 2009 that will assist in bringing debt levels down and consequently interest expense as well. The net proceeds of the offering are anticipated to be approximately \$13,875.

<b>Interest and bank charges</b>	<b>Q1 2009</b>	Q1 2008	%
			Change
Interest per financial statements	<b>816</b>	622	31
Deduct: Commitment & other fees	<b>(1)</b>	(2)	(50)
Debt bearing interest	<b>815</b>	620	31
Average debt outstanding	<b>88,068</b>	43,038	105
Average interest rate	<b>3.8%</b>	5.8%	(34)
Average interest cost (\$ per boe)	<b>1.23</b>	1.18	4

## STOCK BASED COMPENSATION

Stock based compensation expense was \$1,339 for the first quarter of 2009 as compared to \$186 for the first quarter of 2008. The 620% increase in expense is mainly attributable to the 1,583 stock options that were issued since March 31, 2008. New stock based compensation expense levels experienced from issuing options during a relatively high priced time in the stock market contributed to the large increase in expense. The per boe rate increased by 477% from 2008 levels as a result of significantly increased production in 2009. 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>	<b>Q1 2009</b>	Q1 2008	% Change
Expense	<b>1,339</b>	186	620
Expense (\$ per boe)	<b>2.02</b>	0.35	477

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

Aggregate DD&A increased from \$8,753 in the first quarter of 2008 to \$12,609 in the first quarter of 2009. Costs of finding and developing proved reserves escalated in the last quarter of 2008 and the first quarter of 2009 as compared to earlier in 2008 and this led to the 14% increase in the per boe depletion rate in 2009. For the balance of 2009 we anticipate the DD&A rate to be similar to the first quarter.

<i>DD&amp;A</i>	\$			\$/boe		
	<b>Q1 2009</b>	Q1 2008	%	<b>Q1 2009</b>	Q1 2008	%
Depletion and depreciation	<b>12,503</b>	8,700	44	<b>18.90</b>	16.57	14
Accretion on ARO	<b>106</b>	53	100	<b>0.16</b>	0.10	60
Total DD&A	<b>12,609</b>	8,753	44	<b>19.06</b>	16.67	14

## INCOME TAXES

The income tax provision for the first quarter of 2009 was a recovery of \$1,052 and was comprised entirely of future income taxes. The provision represents a 164% decrease from the tax expense for the comparable period in 2008. The recovery was primarily the result of the loss incurred in the first quarter of 2009.

Pursuant to the flow-through share private placement financing, which closed in February of 2008 Vero was committed to renounce \$17,945 of exploration expenses to subscribers by December 31, 2009. As of March 31, 2009, all amounts had been expended on qualifying expenditures. The tax effects of the renunciations are recorded when the documents relating to the renunciation are filed with the tax authorities. Therefore, the tax effect of the February 2008 flow-through financing was recognized in the first quarter of 2009. At the time the renunciation was made the estimated tax effect of the foregone tax benefits was charged to share capital with a corresponding increase to the future income tax liability. In the first quarter of 2009, \$4,844 was recorded as a future tax liability in respect of this renunciation.

Taking into account projected spending for 2009 as well as the anticipated production levels and commodity prices, it is anticipated that Vero will not be cash taxable throughout the remainder of 2009.

<i>Income Taxes</i>	\$			\$/boe		
	Q1 2009	Q1 2008	%	Q1 2009	Q1 2008	%
Future income tax expense	<b>(1,052)</b>	1,652	(164)	<b>(1.59)</b>	3.14	(151)
Effective tax rate	<b>(18.3)%</b>	30.4%	(160)			

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

<i>Tax Pools</i>	Rate %	Q1 2009	Q1 2008
Canadian exploration expenses	100	<b>13,508</b>	1,734
Canadian development expenses	30	<b>89,203</b>	48,284
Canadian oil and gas property expenses	10	<b>57,635</b>	29,110
Undepreciated capital costs	10 - 30	<b>63,523</b>	37,366
Financing costs	20%	<b>2,692</b>	2,831
Attributed Canadian Royalty Income	100 (Alberta)	<b>38</b>	3,310
Non-capital losses	100	<b>3,877</b>	-
Total		<b>230,476</b>	122,635

## NETBACKS

Operating netbacks of \$15.39 per boe for the first quarter of 2009 were lower by 58% as compared to the \$36.86 realized in the first quarter of 2008. The 44% decrease in commodity prices in the first quarter of 2009 was the largest single contributor to the decline in operating netbacks. While a 51% reduction in royalty expense per boe helped mitigate the reduction in prices, operating costs were 72% higher. The general and administrative expense and interest costs below the operating netback were slightly higher than the results from 2008 at 6% and 4%. However, the end result was a realized cash flow netback of \$12.38 that was 64% lower than 2008. Stock based compensation expense increased significantly with the issuance of new stock options late in 2008. DD&A charges were higher by 14% as increased costs of finding and developing reserves lifted the per boe rate to \$19.06. In line with the net loss sustained in the first quarter of 2009, Vero realized an income tax recovery of \$1.59 per boe. The net loss for the first quarter of 2009 was \$7.11 per boe as compared to income of \$7.22 in 2008. It is anticipated that the corporate netback in the second and third quarters of 2009 will be similar to that experienced in the first quarter.

<i>Netbacks (\$ per boe)</i>	<b>Q1 2009</b>	Q1 2008	% Change
Realized price	<b>33.45</b>	59.35	(44)
Royalties (net of ARTC)	<b>(7.95)</b>	(16.17)	(51)
Operating expenses	<b>(8.80)</b>	(5.13)	72
Transportation expenses	<b>(1.31)</b>	(1.19)	10
Operating netback	<b>15.39</b>	36.86	(58)
G&A	<b>(1.81)</b>	(1.70)	6
Interest expense	<b>(1.23)</b>	(1.18)	4
Interest income	<b>0.03</b>	-	-
Cash flow netback	<b>12.38</b>	33.98	(64)
Unrealized loss on hedges	-	(6.60)	-
Stock based compensation	<b>(2.02)</b>	(0.35)	477
D,D&A	<b>(19.06)</b>	(16.67)	14
Future income taxes	<b>1.59</b>	(3.14)	(151)
Net (loss) earnings netback	<b>(7.11)</b>	7.22	(198)

<i>Natural gas (\$/mcf)</i>	<b>Q1 2009</b>	Q1 2008	% Change
Production revenue	5.18	8.51	(39)
Royalties (excluding ARTC)	(1.15)	(2.38)	(52)
Operating expenses	(1.21)	(0.75)	61
Transportation costs	(0.17)	(0.18)	(6)
Operating netback	2.65	5.20	(49)

<i>Crude oil (\$/bbl)</i>	<b>Q1 2009</b>	Q1 2008	% Change
Production revenue	45.36	88.07	(48)
Royalties (excluding ARTC)	(4.18)	(11.85)	(65)
Operating expenses	(10.11)	(8.25)	23
Transportation costs	(2.38)	(2.31)	3
Operating netback	28.69	65.66	(56)

<i>Natural gas liquids (\$/bbl)</i>	<b>Q1 2009</b>	Q1 2008	% Change
Production revenue	42.23	86.89	(51)
Royalties (excluding ARTC)	(15.80)	(30.82)	(49)
Operating expenses	(17.43)	(6.56)	166
Transportation costs	(2.51)	(1.10)	128
Operating netback	6.49	48.41	(87)

## CASH FLOW AND NET EARNINGS

Cash flow from operations in the first quarter of 2009 was \$8,201, a decrease of 54% from \$17,842 realized in the first quarter of 2008. The decline was largely attributable to the 44% decline in corporate average commodity prices. In addition operating costs were 116% higher than in 2009. The cumulative effect was a reduction in both cash flow and net earnings. Net earnings decreased from \$3,783 in the first quarter of 2008 to a loss of \$4,695 in the first quarter

of 2009. Higher interest costs from elevated debt levels and an increase in the DD&A rate were only partially offset by an income tax recovery in the period. Cash flow from operations is calculated as follows:

	Q1 2009	Q1 2008	% Change
Net (loss) earnings	(4,695)	3,783	(224)
Adjustments for:			
Unrealized loss on risk management activities	-	3,468	-
Depletion, depreciation and accretion	12,609	8,753	44
Future income tax	(1,052)	1,652	(164)
Stock based compensation expense	1,339	186	620
Cash flow from operations	8,201	17,842	(54)

On a per share basis, Vero realized a loss of \$0.13 for both basic and diluted earnings per share. This was a 200% decrease from the \$0.13 (basic and diluted) of earnings per share realized in the first quarter of 2008. Cash flow per share in the first quarter of 2009 was \$0.22 (basic and diluted) representing a 63% decline from \$0.60 (basic) and \$0.59 (diluted) realized in the first quarter of 2008.

<i>Per share data (\$)</i>	Q1 2009	Q1 2008	% Change
Net (loss) earnings	(4,695)	3,783	(224)
Basic	(0.13)	0.13	(200)
Diluted	(0.13)	0.13	(200)
Cash flow	8,201	17,842	(54)
Basic	0.22	0.60	(63)
Diluted	0.22	0.59	(63)

## CAPITAL EXPENDITURES

Vero spent \$28,322 in capital expenditures during the first quarter of 2009 representing an increase of 42% from the first quarter of 2008. Included in the 2009 program was the drilling of 7 (6.4 net) wells as compared to 8 (5.5 net) wells in the first quarter of 2008. 71% of the Company's exploration and development capital was devoted to drilling new wells, of which 4 (4.0 net) were horizontal wells. A breakdown of the costs incurred during each quarter is as follows:

<i>Capital expenditures</i>	Q1 2009	Q1 2008	% Change
Exploration and development			
Land acquisitions and lease rentals	832	634	31
Geological and geophysical	1,033	406	154
Drilling and completions	20,163	14,292	41
Well equipment and facilities	6,289	4,551	38
Exploration and development expenditures	28,317	19,883	42
Other expenditures	5	5	-
Total capital expenditures	28,322	19,888	42
Property disposition	(145)	-	-
Net capital expenditures before ARO	28,177	19,888	42
Capitalized asset retirement obligations	27	21	29
Total capital additions	28,204	19,909	42

<i>Wells drilled</i>	Q1 2009		Q1 2008	
	Gross	Net	Gross	Net
Exploration	1	1.0	2	1.2
Development	6	5.4	6	4.2
Dry holes	-	-	-	-
Total wells	7	6.4	8	5.5
Success rate	100%	100%	100%	100%

The Company reduced its planned expenditures in the first quarter of 2009 in the face of rapidly declining natural gas prices. The revised, but flexible capital budget for 2009 of between \$45-50 million is approximately half of the original budget established in October of 2008. The capital program for the next few months is going to be primarily one of optimization and maintenance. During this period Vero will let its cash flow catch up to its net debt. We will monitor gas prices closely and prepare ourselves for any rebound in prices later in the year.

## LAND HOLDINGS

The undeveloped land holdings (all Alberta) at March 31, 2009 are as follows:

Area	Gross Acres	Net Acres	Average WI %
Corbett	28,480	22,195	78
Edson	67,840	53,208	78
Whitecourt	61,280	50,097	82
Other Alberta	52,618	32,774	62
Saskatchewan and B.C.	11,585	11,034	95
Total	221,803	169,308	76

## LIQUIDITY AND CAPITAL RESOURCES

<b>Debt and working capital</b>	as at March 31,		
	2009	2008	%
Bank debt	102,448	36,078	184
Working capital deficiency	21,525	14,449	49
Net debt	123,973	50,527	145

<b>Capital Program Funding</b>	Q1 2009	Q1 2008	%
Cash, beginning of period	-	-	-
Cash flow from operations	8,201	17,842	(54)
Increase decrease in bank debt	27,029	(9,935)	272
Share issuance, net of costs	-	16,761	-
Repurchase of shares	(86)	-	-
Loans to officers/director	(3,673)	-	-
Change in non-cash working capital	(3,294)	(4,780)	(31)
Net capital expenditures	28,177	19,888	42

The Company funded its \$28,177 in net capital expenditures from a variety of resources. Vero's cash flow from the first quarter of \$8,201 coupled with the increase in bank debt utilization funded the capital spending. The \$103,911 of net debt brought forward from December 31, 2008 plus the financial activity of the first quarter culminated in net debt at March 31, 2009 of \$123,973 or 19% higher than at the end of 2008. Using annualized cash flow for the first quarter of 2009, this resulted in a net debt to cash flow ratio of 3.8x. Based on Vero's current forecast for 2009, we anticipate the net debt to cash flow ratio to be approximately 2.0 times by the end of the year.

Vero continually revisits its capital program as these volatile times dictate good management of the net debt position. The Board of Directors had previously approved a \$90,000 capital budget for 2009 in October of 2008. The dramatic change in natural gas prices caused us to re-visit our 2009 planned spending numerous times during the first quarter. The Board approved capital budget for 2009 is currently authorized at a maximum of \$50 million, but will also be under continual review during the year as Vero finds it prudent to maintain as much financial flexibility as possible given the current commodity price environment. Vero has already spent 44% of its authorized \$50 million to date. The balance of the capital program for 2009 will be financed through expected cash flows for the remainder of the year, the undrawn line of credit with our banks; and the equity financing expected to close at the end of May (subject to customary conditions and regulatory approval), which will bring in anticipated net proceeds of \$13.9 million. These resources give Vero the flexibility to execute its currently planned capital program, which provides reasonable growth in production for the year. The key driver for Vero is to remain flexible and prepare for any rebound in prices. Vero currently has over 245 identified, drilling locations that can be accessed to take advantage of the recovery.

The bank facility at March 31, 2009 is a \$115 million extendible revolving credit facility. This facility is available until March 31, 2010. Upon request by the Company the facility may be extended for an additional 364 days beyond this date subject to acceptance by the syndicate of lenders. 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, 2008. The bank facility is subject to semi-annual borrowing base reviews. The most recent review by the bank was completed in March of 2009. This upgraded facility will further enhance our flexibility to expand the capital program if warranted. 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 credit facility with a view to upgrading it.

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. 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 \$16,759 were comprised of gross proceeds of \$17,945 less expenses of the issue of \$1,186. 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 \$17,945 prior to December 31, 2009. As at March 31, 2009 the flow-through commitment has been satisfied.

Below is a summary of the trading history of the Company's shares for 2009 and 2008.

	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
High	5.94	7.84	10.90	11.34	8.25
Low	2.70	4.48	6.55	7.50	5.61
Close	3.28	5.44	7.40	9.48	7.65
Volume (000's)	10,562	8,313	7,048	15,024	10,624

### 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

Three officers and one director of the corporation received demand loans during the three months ended March 31, 2009 totaling \$3,673. This brings the total principal amount receivable from related parties at March 31, 2009 to \$4,023. The loans bear interest at the company's rate of borrowing from its chartered bank plus 25 basis points. Included in the accounts receivable balances is \$21 of interest receivable from these related parties. On May 1 \$1,167 of these loans were repaid.

### CONTRACTUAL OBLIGATIONS

The Company is obligated, at March 31, 2009 to make the following payments under the terms of long-term contracts it has entered into:

	Payments Due by Period			
	Total	Less than 1 year	1-3 Years	4-5 Years
Transportation obligations	1,417	424	812	181
Head Office Lease	2,609	1,176	1,433	-
Farm-in obligations	1,300	1,300	-	-
Total contractual obligations	5,326	2,900	2,245	181

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. The head office lease obligations are comprised of the lease (including parking and a reasonable estimate of occupancy costs) of the Company's head office space, certain of the furnishings contained therein as well as leased space assumed on two of the corporate acquisitions in 2008. In addition and as at March 31, 2009 Vero was committed to drill 1 (1.0 net) wells in Alberta. This project has a commencement date in 2009. These commitments are pursuant to a farm-in agreement with an industry partner. The Company expects to satisfy the net portion of this drilling commitment in 2009 at an estimated cost of \$1,300.

## 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 7, 2009	March 31, 2009	December 31, 2008
Common shares outstanding	<b>36,952</b>	<b>36,952</b>	36,969
Stock options outstanding	<b>3,146</b>	<b>3,146</b>	3,085
Fully diluted shares	<b>40,098</b>	<b>40,098</b>	40,054
Weighted average common shares			
Basic		<b>36,955</b>	32,623
Diluted		<b>36,955</b>	32,762

## SELECTED QUARTERLY INFORMATION

Below is summarized quarterly information for the previous eight quarters.

(000's except as noted)	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
Production (boe/d)	<b>7,352</b>	7,076	6,236	6,087
Average prices realized (\$/boe)	<b>33.45</b>	49.80	55.78	76.30
Production revenue	<b>22,135</b>	32,419	32,005	42,264
Net (loss) earnings	<b>(4,695)</b>	(1,075)	10,421	8,740
Basic - per share (\$/share)	<b>(0.13)</b>	(0.03)	0.31	0.26
Diluted - per share (\$/share)	<b>(0.13)</b>	(0.03)	0.31	0.26
Cash flow	<b>8,201</b>	14,370	16,584	26,805
Basic - per share (\$/share)	<b>0.22</b>	0.40	0.50	0.82
Diluted - per share (\$/share)	<b>0.22</b>	0.40	0.50	0.82
Total assets	<b>364,612</b>	352,472	291,733	254,078
Net capital expenditures	<b>28,177</b>	44,152	48,234	16,411
Long term financial liabilities	-	-	-	-
Net debt	<b>123,973</b>	103,911	67,725	38,428
Dividends paid	-	-	-	-

(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	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	19,888	20,412	18,522	5,621
Long term financial liabilities	-	-	-	-
Net debt (surplus)	50,527	61,774	53,002	43,172
Dividends paid	-	-	-	-

## RISK MANAGEMENT

The risks in the oil and gas industry are varied and wide-ranging. The primary risks and how the Company mitigates them are as follows:

### Commodity price and exchange rate volatility

Revenues and the resulting cash flows fluctuate with commodity prices and the US/Canadian dollar exchange rate. Commodity prices are determined on a global basis and circumstances that occur in various parts of the world are outside of the control of the Company. The Company protects itself from fluctuations in prices by maintaining an appropriate hedging strategy, diversifying its asset mix and strengthening its balance sheet in order to take advantage of low price environments by making strategic acquisitions. We enter into commodity price contracts to actively manage the risks associated with price volatility and thereby protect our cash flows used to fund our capital program. We have used costless collars and swap contracts to manage these risks and to take advantage of market conditions. There were no contracts outstanding as at March 31, 2008. However the Company entered into the following hedges on April 29, 2009:

Type	Amount	Term	CDN \$/bbl	Type
Costless collar	1,500 bbl/day	May 1 – December 31, 2009	\$62.50 - \$68.25	Financial
Costless collar	1,000 bbl/day	January 1 – March 31, 2010	\$60.00 - \$80.30	Financial

Vero is also exposed to fluctuations in the exchange rate between the Canadian and US dollar. Most commodity prices are based on U.S. dollar benchmarks, which result in our realized prices being influenced by the Canadian/U.S. currency exchange rates.

### Credit risk

Credit risk arises from the potential loss resulting from a counterparty failing to meet its obligations in accordance with the agreed terms. The Company may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner. 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. In many cases, the Company has offsetting receivables and payables with its partners and makes use of these offsets to mitigate any payment risk. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence.

Receivables related to the sale of the Company's petroleum and natural gas production are mainly from major marketing companies who have excellent credit ratings. These revenues are normally collected on the 25<sup>th</sup> day of the month following delivery.

The counter-party with which the Company maintains its risk management contracts is a major Canadian chartered bank and has an investment grade rating.

#### Access to Capital Risk

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As the Company's revenues may decline as a result of decreased commodity pricing, it may be required to reduce capital expenditures. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes the Company to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business financial condition, results of operations and prospects.

#### Interest rate risk

Vero is exposed to interest rate fluctuations. The Company has made a decided effort to not lock in interest rates at current levels as we view the risk of rates increasing significantly to be minimal. The economy in the United States continues to slow and this will certainly have an impact in Canada. Inflation rates were running at approximately 2% for 2009 to the end of March. In addition the credit problems in the U.S. did impact the stock market in Canada and both the Canadian and U.S. governments moved to reduce interest rates to mitigate this. There being no perceived upward pressure on interest rates, Vero will maintain its exposure to the spot rates for the near term.

#### The maturing Western Canadian Sedimentary Basin

Land and producing assets are becoming increasingly scarce and more expensive. The Company mitigates these risks by developing its core areas to gain efficiencies. In addition, the Company participates in several farm-in opportunities wherein its exposure to increasing land prices is minimized. For riskier, exploration projects, the Company will solicit partner participation to limit the downside exposure.

#### Operating and finding and development costs are increasing each year

Generally all companies have experienced increased costs for services in the past two years. There was a softening of service costs towards the mid to latter part of the year as activity levels were reducing along with commodity price declines. The Company mitigates risks by entering into strategic joint ventures to reduce exposure to high costs and diversify drilling risks. The Company employs experienced and motivated staff to evaluate and generate high quality drilling prospects. In addition the Company seeks to utilize appropriate technology and responsible operating practices in operating its wells. The Company utilizes appropriate safety programs and insurance coverage to guard against potential losses. Concentrating on core areas wherein Vero has high degrees of ownership and operatorship further mitigates increasing operating costs as economies of scale are gained. Vero attempts to minimize finding risk by:

- Focussing its efforts on its core areas wherein its expertise and experiences can be properly leveraged;
- Generating as many internal projects as possible;

- Being the operator of most of the projects we participate in;
- Identifying drilling opportunities with multi-zone prospects; and
- Making prudent use of seismic data to identify prospects – either by purchasing trade data or by shooting it ourselves.

### Administrative risks

The increased transparency required by the securities regulators and constantly evolving accounting guidelines dictate significant resources be devoted to these areas. Vero maintains processes designed to comply with the required disclosures; has a strong Board of Directors and engages technical advisors to assist in meeting securities guidelines. In addition the industry will continue to experience competitiveness with respect to finding and retaining qualified employees. Retention issues are at least partially mitigated by having all employees participate in its stock option program.

### Environmental Regulations

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, 2008, 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.

### **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 2008.

### **UPDATE ON THE NEW ROYALTY FRAMEWORK**

On October 25, 2007 issued its final report on the direction of royalties in the province, which was entitled "The New Royalty Framework" ("NRF"). The *Mines and Minerals (New Royalty Framework) Amendment Act, 2008* which contained the new NRF legislation was given royal assent on December 2, 2008. The NRF and its applicable legislation became effective on January 1, 2009. The NRF establishes new royalty rates for conventional oil, natural gas and oil sands.

In response to the significant reduction in activity and the global economic crisis, on November 19, 2008 the Alberta Government announced that for wells that commenced drilling after this date companies can elect, on a well by well basis to either have the NRF apply to the production from that well or have the new transitional royalty rates apply for new wells with depths between 1,000 and 3,500 metres. This five-year transitional royalty system is designed to help stimulate drilling in Alberta. Vero will make a determination on each well to see which method is most advantageous.

On March 3, 2009 The Alberta Government released a three-point incentive program aimed at stimulating new and continued economic activity for conventional producers. A summary of the plan is as follows:

The highlights of the province's three-point plan include the following.

- A drilling royalty credit for new, conventional, oil and natural gas wells drilled between April 1, 2009 and March 31, 2010. This one-year program will provide a \$200-per-metre-drilled royalty credit to companies on a sliding scale based on

their production levels from the prior year. Based on last years production, Vero will qualify for the maximum credit under this plan.

- A new well incentive program, which offers a maximum five-per-cent royalty rate for the first year of production from new oil or gas wells. This program also commences on April 1, 2009 and runs for one year.
- To encourage the clean-up of inactive oil and gas wells, the province will invest \$30 million in a fund committed to abandoning and reclaiming old well sites.

It is envisaged for 2009 that both the NRF, in combination with low natural gas prices plus the new initiative announced on March 3, 2009 will have a positive impact on Vero's Crown royalty rates.

## **ACCOUNTING STANDARDS CHANGES**

### *Accounting Standard Changes*

In February 2009, 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, 2009 and early adoption is permitted.

### *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 has completed its initial phase of the implementation which included conceptual application of the new rules, diagnostic analysis of Vero's accounting data and a high-level assessment of key areas that may be impacted by the adoption of IFRS. The next phase will include the analysis of accounting policy alternatives available under IFRS as well as the determination of changes required to existing information systems and business processes. Vero continues to assess the impact of the conversion on internal controls over financial reporting and disclosure controls and procedures and will continue to invest in training and resources throughout the transition period. Changes in accounting policy are highly probable and may materially impact the financial statements. Due to anticipated changes in IFRS policies and applications, especially for the oil and gas industry, the final impact of the conversion on Vero's financial statements cannot currently be measured.

The CICA issued Handbook Section 1582 *Business Combinations*, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2011. The adoption of the revised standard is expected to impact Vero's financial statements only to the extent that business combinations are entered into after the effective date.

## **DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES**

### Disclosure Controls and Procedures

Vero's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of Vero's disclosure controls and procedures at the financial year end of the Company and have concluded that the Company's disclosure controls and procedures are effective at March 31, 2009 for the foregoing purposes.

### Internal Controls

Vero's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting at March 31, 2009.

Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2009, the Company's internal controls and procedures are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian 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.

No material changes in Vero's internal controls over financial reporting were identified during the three months ended March 31, 2009, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.