

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

*The following Management's Discussion and Analysis ("MD&A") was prepared on August 4, 2009 and is management's assessment of the Company's financial and operating results for the quarters ended June 30, 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) and then subtracts royalties, transportation costs and operating expenses. Cash flow netback starts with the operating netback and further*

deducts general and administrative costs, interest expense and 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 the general financial strength of the company. Mark-to-market financial contracts are excluded from the net debt calculation. 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 June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Cash provided by operating activities	<b>8,444</b>	23,150	<b>2,596</b>	38,527
Add (deduct):				
Change in non-cash working capital	<b>(2,677)</b>	3,665	<b>11,373</b>	6,120
<b>Cash flow from operations</b>	<b>5,767</b>	26,805	<b>13,969</b>	44,647

### **Barrel of Oil Equivalent**

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.

### **HIGHLIGHTS FROM THE SECOND QUARTER OF 2009**

In the face of steadily declining natural gas prices in the second quarter of 2009, Vero delivered a solid, 16% increase in production levels from the second quarter of 2008 and a 21% increase for the year to date in 2009. Vero averaged 7,040 boe/d in the second quarter of 2009 versus 6,087 in the second quarter of 2008. Cash flow from operations in the second quarter was \$5,767 or \$0.15 per share compared with \$26,805 in the comparable quarter of 2008. Average prices declined 64% from 2008 in the most recent quarter. Vero curtailed its capital spending in the quarter to a “maintenance capital” level, only spending money on necessary capital projects. In aggregate Vero spent \$1,717 in capital during the quarter. The capital program is consistent with prior years wherein Vero has spent more aggressively in the first quarter and then let cash flow for the second quarter reduce the net debt. Vero remains optimistic and believes that natural gas prices will recover later this year and extending into 2010. Vero’s net debt was \$106,000 at June 30, 2009 and the reduction from \$123,973 at the end of the first quarter was attributable to both the cash flow realized in the second quarter as well as \$13,923 in net proceeds realized from an equity issuance, which closed in May.

## DETAILED FINANCIAL REVIEW

### PRODUCTION REVENUE AND VOLUMES

Vero increased aggregate production volumes by 16% in the second quarter of 2009 to 640,606 boe as compared to 553,934 boe in the second quarter of 2008. For the year-to-date the volumes increased 21% as compared to 2008. Production growth in 2009 was attributable to the successful drilling programs in the fourth quarter of 2008 and first quarter of 2009 mainly in Vero's core area of Edson. In addition, the corporate acquisition from November 2008 contributed to increased production levels over 2008. Vero delayed the commencement of production from 6 (4.5 net) of the gas wells drilled in the first quarter to take advantage of the 5% crown royalty rate for new wells commencing production on or after April 1, 2009. Gas production contributed 82% of total volumes while liquids came in at 14% and oil at 4%. This compares to 76% for gas in the second quarter of 2008, liquids at 13% and oil at 11%. For the balance of 2009 it is anticipated that the weighting to natural gas will remain at the 80-82% level as the bulk of our remaining drilling program for 2009 is for natural gas targets.

#### Aggregate Sales Volumes

	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	%	2009	2008	%
Natural gas (mcf)	3,132,865	2,521,194	24	6,327,840	4,953,590	28
Light/medium oil (bbl)	28,601	60,592	(53)	66,985	112,161	(40)
Natural gas liquids (bbl)	89,861	73,144	23	180,624	141,343	28
Barrels of oil equivalent (boe)	640,606	553,934	16	1,302,249	1,079,102	21

#### Daily Sales Volumes

Daily sales volumes increased 16% to 7,040 boe/d in the second quarter of 2009 from 6,087 boe/d in the second quarter of 2008. The increase was realized from a combination of our successful drilling program in the latter half of 2008 and the first quarter of 2009, as well as acquisitions completed in the second half of 2008. Natural gas production increased by 24% for the second quarter of 2009 and 28% for the year to date. Daily production from natural gas liquids increased by similar amounts at 23% for the quarter, and 28% for the year to date. Oil production declined by 53% in the second quarter of 2009 compared to 2008, and 40% for the year to date, as natural declines, coupled with no new oil well drilling resulted in the decrease. A variety of issues outside the control of the Company caused volumes to be lower than expected in the second quarter. An average of 540 boe/d for the quarter was lost due to three third party, non-operated, gas facility turnarounds. One of these turnarounds lasted three weeks. An additional 90 boe/d was shut-in for the quarter due to uneconomic prices. 180 boe/d for the quarter from a single well was shut-in while it was being re-routed to another facility. In total, approximately 810 boe/d was lost in the quarter due to these external influences.

Production averaged approximately 7,300 boe/d in July. Current curtailments are approximately 660 boe/d, including: 150 boe/d recently shut-in due to commodity price; 110 boe/d deferred due to requiring capital investment that is not justified at current commodity prices; and restrictions of approximately 400 boe/d. The Company will resume drilling in the third quarter. However, if commodity prices remain low, production may be restricted on the new wells by as much as 75% of the flush rates, which typically exceed 3 mmcf/d per well, until prices improve. As a result of a

combination of: the deferrals in starting-up wells drilled in the first quarter to April 1 to maximize the Alberta Royalty Incentive Program; previously mentioned reductions in the second quarter; current and potential future shut in production; and the potential for curbing rates of new wells in the upcoming months; the average rate for 2009 is now projected to be approximately 7,100-7,300 boe/d. Vero's team has spent a lot of time doing look-backs and evaluations and has a drilling program that will be able to add production quickly in a higher natural gas price environment.

	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	%	2009	2008	%
Natural gas (mcf/d)	<b>34,427</b>	27,705	24	<b>34,960</b>	27,218	28
Light/medium oil (bbl/d)	<b>314</b>	666	(53)	<b>370</b>	616	(40)
Natural gas liquids (bbl/d)	<b>987</b>	804	23	<b>998</b>	777	28
Barrels of oil equivalent (boe/d)	<b>7,040</b>	6,087	16	<b>7,195</b>	5,929	21

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

Area (boe/d)	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	%	2009	2008	%
Edson	<b>5,168</b>	3,802	36	<b>5,088</b>	3,901	30
Whitecourt	<b>779</b>	856	(9)	<b>874</b>	654	34
Corbett	<b>426</b>	940	(55)	<b>517</b>	915	(43)
Wilson Creek	<b>308</b>	257	20	<b>345</b>	280	23
Other	<b>359</b>	232	55	<b>371</b>	179	107
Total	<b>7,040</b>	6,087	16	<b>7,195</b>	5,929	21

	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	%	2009	2008	%
<b>Natural gas</b>						
NYMEX (US \$/mmbtu)	<b>3.59</b>	10.69	(66)	<b>4.22</b>	9.38	(55)
AECO- Daily (CDN \$/mcf)	<b>3.46</b>	10.22	(66)	<b>4.21</b>	9.10	(54)
<b>Crude Oil</b>						
WTI (US \$/bbl)	<b>59.62</b>	123.98	(52)	<b>51.35</b>	110.94	(54)
Edmonton light (CDN \$/bbl)	<b>65.90</b>	126.07	(48)	<b>57.78</b>	111.79	(48)
<b>Foreign Exchange</b>						
Canadian to US dollar	<b>0.86</b>	0.99	(13)	<b>0.83</b>	0.99	(16)
US to Canadian dollar	<b>1.17</b>	1.01	16	<b>1.21</b>	1.01	20

### Benchmark Indices

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 66% lower in the second quarter of 2009 as compared to the same quarter in 2008. The slowdown in 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 in North America. Inventory of natural

gas built rapidly in the first and second quarters of 2009. While the winter was relatively cold in North America, the prime consuming regions in the U.S. and Canada experienced below seasonal temperatures in the second quarter. This caused prices to rapidly decline from April through June. AECO prices averaged \$3.46 per mcf in the second quarter of 2009 as compared to \$10.22 in the same quarter of 2008 and \$4.95 in the first quarter of 2009.

West Texas Intermediate at Cushing, Oklahoma (“WTI”) is the benchmark reference price for North America crude oil prices. Canadian crude prices are based upon postings at Edmonton, Alberta and represent the WTI price adjusted for quality and transportation differentials and the US/Canadian dollar exchange rate. Through the second quarter of 2009, WTI declined 52% to \$59.62 from \$123.98 in the same quarter in 2008. Coupled with the decline in WTI price, came a significant depreciation in the Canadian dollar. Recently, movements in the Canadian dollar and the price of oil have become highly correlated. While WTI declined significantly from 2008 levels, WTI and the Canadian dollar experienced some appreciation from the first quarter of 2009.

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

	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	%	2009	2008	%
Natural gas (\$/mcf)	3.92	11.10	(65)	4.56	9.83	(54)
Light / medium oil (\$/bbl)	59.28	120.61	(51)	51.30	105.65	(51)
Natural gas liquids (\$/bbl)	40.38	111.23	(64)	41.31	99.49	(58)
Barrels of oil equivalent (\$/boe)	27.49	76.30	(64)	30.52	68.05	(55)

The volatility in commodity prices continued in the second quarter of 2009 as Vero realized an average of 64% less compared to the second quarter of 2008. Realized natural gas prices decreased by 65% in the second quarter of 2009 compared to 2008. However, because of the higher quality of Vero’s natural gas, we averaged a 13% premium to the AECO standard throughout the quarter. Vero’s realized oil prices decreased by 51% in 2009 compared to 2008 and natural gas liquids prices showed a 64% 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 remaining summer months. Vero is anticipating natural gas price recoveries later in the year and into 2010 as declining production from natural gas wells, coupled with a lack of significant drilling throughout North America are expected to reduce storage levels.

### Production revenue

Vero realized a 59% decrease in aggregate revenues in the second quarter of 2009 compared to the same quarter of 2008. This parallels the 64% decline in realized commodity prices. The realized loss on financial contracts of \$462 was mitigated by revenue realized from increased production levels. Since natural gas was 82% of total production and gas prices declined by 65%, the result was that natural gas contributed 72% of total revenues. Liquids production was 14% of total volumes but contributed 21% of revenues while oil production was 4% of total volumes and contributed 10% of revenues. The realized loss of the hedges was a draw of 3% on total revenues. For the six months ended June 30, 2009 the decrease in production revenue was 47% to \$39,285 as compared to 73,432 in 2008.

<i>Production Revenue</i>	Three months ended June 30,			Six months ended June 30,		
	2009	2008	%	2009	2008	%
Natural gas	<b>12,288</b>	27,996	(56)	<b>28,849</b>	48,697	(41)
Light / medium oil	<b>1,696</b>	7,308	(77)	<b>3,437</b>	11,849	(71)
Natural gas liquids	<b>3,628</b>	8,136	(55)	<b>7,461</b>	14,062	(47)
Realized loss on financial contracts	<b>(462)</b>	(1,176)	(61)	<b>(462)</b>	(1,176)	(61)
Production revenue	<b>17,150</b>	42,264	(59)	<b>39,285</b>	73,432	(47)

## ROYALTIES

Royalties were \$2,177 for the second quarter of 2009 as compared to \$9,774 for the second quarter of 2008. For the year-to-date the decrease was 59% to \$7,434 from \$18,266 in 2008. The decrease is mainly attributable to the 64% decrease in average 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 2008, the gas crown royalties, which are now price sensitive, have decreased along with the significant decline in natural gas prices. On a per boe basis the rate decreased to \$3.40 in the second quarter of 2009 from \$17.65 in the second quarter of 2008. As a percentage of revenue, the rate for 2009 was lower as royalty expense averaged 12.7% of production revenue in the second quarter of 2009 as compared to 23.1% in 2008. The decline in Crown royalty rates in the second quarter of 2009 was attributable to the combination of: flush production from new wells brought on-stream after April 1, 2009 that became eligible for a 5% rate; under the New Royalty Framework, Crown royalties are price sensitive and as a result of declining natural gas prices, Vero experienced a significant reduction in Crown royalties; and favourable adjustments to the annual gas cost allowance and custom processing credits further reduced the effective Crown royalty rate. For the six months ended June 30, royalties as a percentage of revenue was 18.9% in 2009 as compared to 24.9% in 2008. Vero anticipates the aggregate royalty rate to average between 18-20% for the rest of 2009, but will be dependent on realized prices.

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	%	2009	2008	%
Crown – gross	<b>1,737</b>	8,667	(80)	<b>6,415</b>	16,238	(60)
Freehold/gross over-riding	<b>440</b>	1,107	(60)	<b>1,019</b>	2,028	(50)
Total royalties	<b>2,177</b>	9,774	(78)	<b>7,434</b>	18,266	(59)
Royalties (\$/boe)	<b>3.40</b>	17.65	(81)	<b>5.71</b>	16.93	(66)
Royalties - % of production revenue	<b>12.7</b>	23.1	(45)	<b>18.9</b>	24.9	(24)

## RISK MANAGEMENT ACTIVITIES

Vero enters into commodity contracts as part of its risk management program so as to manage commodity price fluctuations. This ensures that Vero has sufficient cash to fund its capital program. 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. Vero realized \$462 in hedging losses in the second quarter of 2009 as compared to \$1,176 in 2008. The mark-to-market unrealized loss for the hedges in place was \$5,344 at June 30, 2009 as compared to \$8,090 as at June 30, 2008

## OPERATING

Vero continually directs significant efforts to maintaining or reducing its controllable costs. Operating costs were \$5,583 or \$8.71 per boe in the second quarter of 2009 as compared to \$3,398 and \$6.13 per boe respectively in the second quarter of 2008. Aggregate operating costs, before processing recoveries, increased by 64% in the second quarter of 2009, while production volumes increased by 16%. For the six months ended June 30 operating costs per boe were \$8.76 as compared to \$5.65 for the same period in 2008. The increases were attributable to a combination of the higher operating cost acquisitions in 2008 and a continuing workover program from the fourth quarter of 2008 extending into 2009. Also, in the second half of 2008 and continuing into 2009, more of Vero's gas has been delivered to third party facilities resulting in higher processing costs. The majority of the second quarter production loss related to a three-week turnaround at a third party gas plant that shut-in sales volumes amounting to approximately 2,500 boe/d for that time frame. The downtime associated with the turnaround resulted in our fixed costs having been allocated to lower than anticipated volumes and consequently increased the per boe expense. These factors have resulted in operating expenses in the high \$8 range during the second quarter of 2009. The Company is continuing with its intense program to derive cost efficiencies in its operations and has already shut-in certain high operating cost wells. For the balance of the year, Vero anticipates that operating costs will be in the low to mid \$8 range.

	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	%	2009	2008	%
Expense per financial statements	<b>5,583</b>	3,398	64	<b>11,404</b>	6,092	87
Add: processing income	<b>169</b>	106	59	<b>322</b>	253	28
Gross expense	<b>5,752</b>	3,504	64	<b>11,726</b>	6,345	85
Operating expense (\$ per boe)	<b>8.71</b>	6.13	42	<b>8.76</b>	5.65	55
Net expense (as a % revenue)	<b>32.6</b>	8.0	308	<b>29.0</b>	8.3	249

## TRANSPORTATION

Transportation expenses were \$818 for the second quarter of 2009 and amounted to 4.8% of production revenue for the period as compared to \$669 and 1.6% from the second quarter of 2008. For the second quarter of 2009 the cost per boe averaged \$1.28, which is 6% higher than the rate for the second quarter of 2008. For the year to date, the cost per boe increased marginally by 8% from \$1.20 in 2008 to \$1.29 in 2009. 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 consistent with that experienced for the six months of 2009 as the majority of these costs are variable in nature.

<i>Transportation</i>	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	%	2009	2008	%
Expense per financial statements	<b>818</b>	669	22	<b>1,682</b>	1,295	30
Expense (\$ / boe)	<b>1.28</b>	1.21	6	<b>1.29</b>	1.20	8
Expense (% of revenue)	<b>4.8</b>	1.6	200	<b>4.3</b>	1.8	139

## GENERAL AND ADMINISTRATIVE (G&A)

Aggregate G&A expense, before recoveries, increased 36% to \$2,224 in 2009 from \$1,635 in 2008. Net G&A increased 63% to \$1,749 from \$1,072 for the same comparative quarter. 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. On a per boe basis, the rate increased by 18% on a gross basis in 2009 to \$3.48 and 41% on a net basis to \$2.73 for the quarters ended June 30, 2009 and 2008 respectively. For the six months to June 30, 2009, the increase in net G&A per boe was 24% to \$2.26 as compared to \$1.82 in 2008. Additional G&A costs were mitigated somewhat by the 16% increase in production in the second quarter. Overhead recoveries decreased by 33% in 2009 to \$221 from \$332 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. As a result of the significantly reduced activity in the second quarter of 2009, the recoveries were correspondingly lower. 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 second quarter of 2009 was \$254, representing a 10% increase from the second quarter in 2008. Vero is committed to delivering excellent results while prudently managing its G&A costs. Vero anticipates that G&A cost per boe for the rest of 2009 will be in the \$1.80 to \$2.00 range.

<i>G&amp;A</i>	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	%	2009	2008	%
Gross expense	<b>2,224</b>	1,635	36	<b>4,149</b>	2,894	43
Less:						
Overhead recoveries	<b>(221)</b>	(332)	(33)	<b>(720)</b>	(582)	24
Capitalized G&A	<b>(254)</b>	(231)	10	<b>(484)</b>	(348)	39
Net expense	<b>1,749</b>	1,072	63	<b>2,945</b>	1,964	50
Average cost (\$ per boe)						
Gross expense	<b>3.48</b>	2.96	18	<b>3.18</b>	2.68	19
Net expense	<b>2.73</b>	1.94	41	<b>2.26</b>	1.82	24

## INTEREST AND BANK CHARGES

Interest expense for the second quarter of 2009 increased 97% to \$1,077 from \$546 in the second quarter of 2008. While average, interest-bearing debt increased by 177% in 2009 compared to 2008, the effective interest rate declined by 31% to help offset this. Higher debt levels are attributable to the 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 coming into 2009. The per boe interest expense

rate was \$1.68 for the first quarter of 2009 as compared to \$0.99 for the second quarter of 2008, representing a 70% increase quarter to quarter. For the six months ended June 30, interest cost per boe increased by 34% to \$1.45 as compared to \$1.08 in 2008.

<i>Interest and bank charges</i>	Three months ended June 30,			Six months ended June 30,		
	<b>2009</b>	2008	%	<b>2009</b>	2008	%
Interest per financial statements	<b>1,077</b>	546	97	<b>1,893</b>	1,168	62
Deduct: Commitment & other fees	<b>(144)</b>	(71)	103	<b>(143)</b>	(73)	96
Debt bearing interest	<b>933</b>	475	96	<b>1,750</b>	1,095	60
Average debt outstanding	<b>102,681</b>	37,035	177	<b>95,885</b>	40,036	139
Average interest rate	<b>3.6%</b>	5.2%	(31)	<b>3.7%</b>	5.5%	(33)
Average interest cost (\$ per boe)	<b>1.68</b>	0.99	70	<b>1.45</b>	1.08	34

### STOCK BASED COMPENSATION

Stock based compensation expense was \$2,219 for the second quarter of 2009 as compared to \$314 for the second quarter of 2008. The 607% increase was the result of expensing \$1,116 attributable to the unamortized expense relating to the surrender of 682,125 stock options during the quarter. These options were surrendered for cancellation by non-executive, non-board employees of the Company. In addition, 562,000 in new stock options were granted during the second quarter. The per boe rate increased by 507% from 2008 levels to \$3.46 from \$0.57 in 2008. For the year-to-date, the per boe cost increased by 493% to \$2.73 compared to \$0.46 in 2008. 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>	Three months ended June 30,			Six months ended June 30,		
	<b>2009</b>	2008	%	<b>2009</b>	2008	%
Expense per financial statements	<b>2,219</b>	314	607	<b>3,558</b>	500	612
Expense (\$ / boe)	<b>3.46</b>	0.57	507	<b>2.73</b>	0.46	493

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

Aggregate DD&A increased from \$9,799 in the second quarter of 2008 to \$12,492 in the second quarter of 2009. The higher costs of finding and developing proved reserves in 2008 and the first quarter of 2009 lead to the 10% increase in the per boe depletion rate in 2009 to \$19.51 from \$17.69 experienced in 2008. As a result of Vero's drilling success over the last two years and its ability to add reserves through acquisitions that is similar or better than its finding costs, the Company still maintains one of the best DD&A rates in its peer group. For the balance of 2009 we anticipate the DD&A rate to be similar to the second quarter.

<i>DD&amp;A</i>	Three months ended June 30,			Six months ended June 30,		
	<b>2009</b>	2008	%	<b>2009</b>	2008	%
Depletion and depreciation	<b>12,379</b>	9,740	27	<b>24,883</b>	18,440	35
Accretion on asset retirement obligations	<b>112</b>	59	90	<b>218</b>	112	95
Total DD&A	<b>12,491</b>	9,799	27	<b>25,101</b>	18,552	35
DD&A (\$ / boe)	<b>19.51</b>	17.69	10	<b>19.28</b>	17.19	12

## INCOME TAXES

The income tax provision for the second quarter of 2009 was a recovery of \$3,539 and was comprised entirely of future income taxes. The tax provision represents a 195% decrease from the tax expense of \$3,712 for the comparable period in 2008. The recovery was primarily the result of the loss incurred in the second 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 June 30, 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 and into 2010.

<i>Income Taxes</i>	Three months ended			Six months ended		
	2009	2008	%	2009	2008	%
Future income tax expense	<b>(3,539)</b>	3,712	(195)	<b>(4,591)</b>	5,364	(186)
Tax expense (\$ / boe)	<b>(5.52)</b>	6.70	(182)	<b>(3.53)</b>	4.97	(171)
Effective tax rate	<b>24.8%</b>	29.8%	(17)	<b>22.9%</b>	30.0%	(24)

The estimated income tax pools available at June 30 for each year were follows:

<i>Tax Pools</i>	Rate %	2009	2008
Canadian exploration expenses	100	<b>8,420</b>	5,868
Canadian development expenses	30	<b>91,368</b>	52,974
Canadian oil and gas property expenses	10	<b>57,845</b>	33,386
Undepreciated capital costs	10 - 30	<b>62,419</b>	41,043
Financing costs	20%	<b>3,486</b>	2,872
Attributed Canadian Royalty Income	100 (Alberta)	<b>38</b>	847
Non-capital losses	100	<b>3,914</b>	-
Total		<b>227,490</b>	136,990

## NETBACKS

Operating netbacks of \$13.38 per boe for the second quarter of 2009 were lower by 74% as compared to the \$51.31 realized in the second quarter of 2008. The 64% decrease in average commodity prices in the second quarter of 2009 was the largest single contributor to the decline in operating netbacks. While an 81% reduction in royalty expense per boe helped mitigate the decrease in prices, operating costs were 42% higher. Continuing below the operating netback, the general and administrative expense and interest costs were also higher than those experienced in 2008 at 41% and 70% respectively. The resulting cash flow netback was \$9.00 and was 81%

lower than that in the second quarter of 2008. The unrealized loss on hedging contracts was higher by 9% in the second quarter of 2009 at \$8.33 as compared to \$7.66 in the second quarter of 2008. This amount represents the mark-to-market loss on these contracts and may or may not be reflective of the ultimate cash settlements under the contracts. Stock based compensation expense increased significantly as a result of the combination of stock options being cancelled and the issuance of new stock options in the second quarter of 2009. DD&A charges were higher by 10% as increased costs of finding and developing reserves lifted the per boe rate to \$19.51. In line with the net loss sustained in the second quarter of 2009, Vero realized an income tax recovery of \$5.52 per boe. The net loss for the second quarter of 2009 was \$16.78 per boe as compared to income of \$15.76 in 2008. It is anticipated that the net earnings netback for the rest of 2009 will improve somewhat from the second quarter as a levelling off of G&A and elimination of the one-time stock based compensation charge will not be present in those periods. However, the volatility in natural gas prices could cause the netbacks to have a significant range.

<i>Netbacks (\$ per boe)</i>	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	%	2009	2008	%
Realized price	<b>27.49</b>	79.06	(65)	<b>30.52</b>	69.49	(56)
Realized loss on hedges	<b>(0.72)</b>	(2.76)	(74)	<b>(0.35)</b>	(1.44)	(76)
Royalties (net of ARTC)	<b>(3.40)</b>	(17.65)	(81)	<b>(5.71)</b>	(16.93)	(66)
Operating expenses	<b>(8.71)</b>	(6.13)	42	<b>(8.76)</b>	(5.65)	55
Transportation expenses	<b>(1.28)</b>	(1.21)	6	<b>(1.29)</b>	(1.20)	8
Operating netback	<b>13.38</b>	51.31	(74)	<b>14.41</b>	44.27	(67)
G&A	<b>(2.73)</b>	(1.94)	41	<b>(2.26)</b>	(1.82)	24
Interest expense	<b>(1.68)</b>	(0.99)	70	<b>(1.45)</b>	(1.08)	34
Interest income	<b>0.03</b>	-	-	<b>0.03</b>	-	-
Cash flow netback	<b>9.00</b>	48.38	(81)	<b>10.73</b>	41.37	(74)
Unrealized loss on hedges	<b>(8.33)</b>	(7.66)	9	<b>(4.11)</b>	(7.14)	(42)
Stock based compensation	<b>(3.46)</b>	(0.57)	507	<b>(2.73)</b>	(0.46)	493
D,D&A	<b>(19.51)</b>	(17.69)	10	<b>(19.28)</b>	(17.19)	12
Future income taxes	<b>5.52</b>	(6.70)	(182)	<b>3.53</b>	(4.97)	(71)
Net (loss) earnings netback	<b>(16.78)</b>	15.76	206	<b>(11.86)</b>	11.61	(202)

### Operating Netback by Commodity Type

<i>Natural gas (\$/mcf)</i>	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	%	2009	2008	%
Production revenue	<b>3.92</b>	10.64	(63)	<b>4.56</b>	9.59	(53)
Royalties (excluding ARTC)	<b>(0.26)</b>	(2.36)	(89)	<b>(0.71)</b>	(2.37)	(70)
Operating expenses	<b>(1.15)</b>	(0.82)	40	<b>(1.18)</b>	(0.79)	49
Transportation costs	<b>(0.19)</b>	(0.15)	27	<b>(0.18)</b>	(0.16)	13
Operating netback	<b>2.32</b>	7.31	(68)	<b>2.49</b>	6.27	(60)

<i>Crude oil (\$/bbl)</i>	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	%	2009	2008	%
Production revenue	<b>59.29</b>	120.61	(51)	<b>51.31</b>	105.65	(51)
Royalties (excluding ARTC)	<b>(2.15)</b>	(14.65)	(85)	<b>(3.31)</b>	(13.36)	(75)
Operating expenses	<b>(9.27)</b>	(8.62)	8	<b>(9.75)</b>	(8.45)	15
Transportation costs	<b>(1.96)</b>	(3.36)	(42)	<b>(2.20)</b>	(2.88)	(24)
Operating netback	<b>45.91</b>	93.98	(51)	<b>36.05</b>	80.96	(56)

<i>Natural gas liquids (\$/bbl)</i>	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	%	2009	2008	%
Production revenue	<b>40.38</b>	111.23	(64)	<b>41.31</b>	99.49	(59)
Royalties (excluding ARTC)	<b>(14.45)</b>	(40.13)	(64)	<b>(15.13)</b>	(35.64)	(58)
Operating expenses	<b>(19.25)</b>	(10.91)	76	<b>(18.33)</b>	(8.81)	108
Transportation costs	<b>(1.77)</b>	(1.14)	55	<b>(2.14)</b>	(1.12)	91
Operating netback	<b>4.91</b>	59.05	(92)	<b>5.71</b>	53.92	(89)

## CASH FLOW AND NET EARNINGS

Cash flow from operations in the second quarter of 2009 was \$5,767, representing a decrease of 78% from \$26,805 realized in the second quarter of 2008. The decline was largely attributable to the 64% decline in corporate average commodity prices. In addition Vero experienced a hedging loss of \$462 in the quarter. The cumulative effect was a reduction in both cash flow and net earnings. Net earnings decreased from \$8,740 in the second quarter of 2008 to a loss of \$10,748 in the second quarter of 2009. Higher interest costs from elevated debt levels, increased G&A expense from higher levels of activity and an increase in the DD&A rate were only partially offset by the significant income tax recovery in the period. Cash flow from operations was calculated as follows:

	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	%	2009	2008	%
Net (loss) earnings	(10,748)	8,740	(223)	(15,443)	12,523	(223)
<u>Adjustments for:</u>						
Unrealized (loss) on risk management	5,344	4,240	26	5,344	7,708	(31)
Stock based compensation expense	2,219	314	607	3,558	500	612
Depletion, depreciation and accretion	12,491	9,799	27	25,101	18,552	35
Future income tax	(3,539)	3,712	(195)	(4,591)	5,364	(186)
Cash flow from operations	<b>5,767</b>	26,805	(78)	<b>13,969</b>	44,647	(69)

On a per share basis, Vero realized a loss of \$0.28 for both basic and diluted earnings per share. This was a 203% decrease from the \$0.27 of earnings per basic share and a 206% decrease from the \$0.26 per diluted share realized in the second quarter of 2008. Cash flow per share in the second quarter of 2009 was \$0.15 (basic and diluted) representing an 82% decline from \$0.84 (basic) and \$0.82 (diluted) realized in the second quarter of 2008. For the year-to-date in 2009 the loss per share was \$0.41 (basic and diluted) as compared to earnings per share of \$0.40 (basic) and \$0.39 (diluted) in 2008.

<i>Per share data (\$)</i>	Three months ended June 30,			Six months ended June 30,		
	2009	2008	%	2009	2008	%
Net (loss) earnings	<b>(10,748)</b>	8,740	(223)	<b>(15,443)</b>	12,523	(223)
Basic	<b>(0.28)</b>	0.27	(203)	<b>(0.41)</b>	0.40	(203)
Diluted	<b>(0.28)</b>	0.26	(206)	<b>(0.41)</b>	0.39	(205)
Cash flow	<b>5,767</b>	26,805	(78)	<b>13,969</b>	44,647	(69)
Basic	<b>0.15</b>	0.84	(82)	<b>0.37</b>	1.44	(74)
Diluted	<b>0.15</b>	0.82	(82)	<b>0.37</b>	1.41	(74)

## CAPITAL EXPENDITURES

Vero spent \$1,717 in capital expenditures during the second quarter of 2009 as capital spending was reduced to a “maintenance” level. This decrease in spending represents a decrease of 88% from the \$13,805 expended in the second quarter of 2008. This brings net capital expenditures for the year-to-date in 2009 to \$29,895 as compared to \$36,299 in 2008, representing an 18% reduction year over year. Vero felt that it was prudent, in this uncertain pricing environment to curtail its spending and not bring on any new production into mid-\$3/mcf gas prices. A breakdown of the costs incurred during each of the comparable quarters and year to date is as follows:

<i>Capital expenditures</i>	Three months ended June 30,			Six months ended June 30,		
	2009	2008	%	2009	2008	%
Exploration and development						
Land acquisitions and lease rentals	<b>456</b>	749	(39)	<b>1,288</b>	1,383	(7)
Geological and geophysical	<b>855</b>	391	119	<b>1,888</b>	797	137
Drilling and completions	-	9,905	-	<b>20,164</b>	24,197	(17)
Well equipment and facilities	<b>404</b>	2,747	(85)	<b>6,693</b>	7,298	(8)
Exploration and development expenditures	<b>1,715</b>	13,792	(88)	<b>30,033</b>	33,675	(11)
Other expenditures	<b>2</b>	13	(85)	<b>7</b>	18	(61)
Total capital expenditures	<b>1,717</b>	13,805	(88)	<b>30,040</b>	33,693	(11)
Corporate acquisition (cash outlay)	-	2,606	-	-	2,606	-
Property acquisition (disposal)	-	-	-	<b>(145)</b>	-	-
Net capital expenditures before ARO	<b>1,717</b>	16,411	(90)	<b>29,895</b>	36,299	(18)
Capitalized asset retirement obligations	-	8	-	<b>27</b>	28	(4)
Total capital additions	<b>1,717</b>	16,419	(90)	<b>29,922</b>	36,327	(18)

<i>Wells drilled</i>	Three months ended June 30,				Six months ended June 30,			
	2009		2008		2009		2008	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploration	-	-	-	-	<b>1</b>	<b>1.0</b>	2	1.2
Development	-	-	6	4.4	<b>6</b>	<b>5.4</b>	12	8.8
Dry holes	-	-	-	-	-	-	-	-
Total wells	-	-	6	4.4	<b>7</b>	<b>6.4</b>	14	9.9
Success rate	-	-	100%	100%	<b>100%</b>	<b>100%</b>	100%	100%

Given the current economic environment, Vero's goal is to keep its capital budget flexible for 2009. Vero is pacing itself in its capital spending but does anticipate drilling 6-7 wells prior to the end of 2009.

## LAND HOLDINGS

The undeveloped land holdings at June 30, 2009 are as follows:

<b>Area</b>	<b>Gross Acres</b>	<b>Net Acres</b>	<b>Average WI %</b>
Corbett	19,520	17,385	89
Edson	67,200	50,984	76
Whitecourt	57,760	43,705	76
Other Alberta	48,380	29,548	61
Saskatchewan and B.C.	11,585	11,034	95
<b>Total</b>	<b>204,445</b>	<b>152,656</b>	<b>75</b>

## LIQUIDITY AND CAPITAL RESOURCES

	as at June 30,		
<b>Debt and working capital</b>	<b>2009</b>	2008	%
Bank debt	<b>103,969</b>	36,344	186
Working capital deficiency (excluding unrealized hedging losses)	<b>2,031</b>	2,084	(3)
<b>Net debt</b>	<b>106,000</b>	46,518	128

	Three months ended			Six months ended		
	June 30,			June 30,		
<b>Capital Program Funding</b>	<b>2009</b>	2008	%	<b>2009</b>	2008	%
Cash, beginning of period	-	-	-	-	-	-
Cash flow from operations	<b>5,767</b>	26,805	(78)	<b>13,969</b>	44,647	(69)
Increase decrease in bank debt	<b>1,521</b>	(3,529)	143	<b>28,550</b>	(13,464)	312
Share issuance, net of costs	<b>13,923</b>	17,936	(22)	<b>13,923</b>	16,758	(17)
Exercise of stock options	-	945	-	-	945	-
Repurchase of shares	-	-	-	<b>(86)</b>	-	-
Loans to officers/director	<b>1,167</b>	-	-	<b>(2,506)</b>	-	-
Change in non-cash working capital	<b>(20,661)</b>	(7,807)	165	<b>(23,955)</b>	(12,587)	90
<b>Net capital expenditures</b>	<b>1,717</b>	16,411	(90)	<b>29,895</b>	36,299	(18)

The Company funded its \$1,717 in capital expenditures in the second quarter of 2009 exclusively from cash flow. Vero's cash flow from the second quarter of \$5,767 was more than sufficient to fund the capital program. The \$103,911 of net debt brought forward from December 31, 2008 plus the financial activity of the first and second quarters culminated in net debt at June 30, 2009 of \$106,000 or 2% higher than at the end of 2008. Using annualized cash flow for the second quarter of 2009 the net debt to cash flow ratio was 4.6x. Based on Vero's current forecast for 2009, we anticipate the net debt to cash flow ratio to be approximately 3-3.5 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 approved capital budget for 2009 is currently authorized at a maximum of \$50 million. However, this threshold will 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 60% of its authorized upper limit of \$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, and the undrawn credit facility with our banks. These resources give Vero the flexibility to execute its currently planned capital program, which provides good growth in production for the year. The key driver for Vero is to remain flexible and prepare for the expected upward movement in commodity prices. Vero currently has over 245 identified, drilling locations that can be accessed to take advantage of the recovery.

The bank facility at June 30, 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 a semi-annual borrowing base review. The semi-annual review is currently expected to occur in September. Corporate working-capital liquidity is maintained by drawing from the unutilized facility as needed and then repaying it periodically through production revenues.

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. On May 21, 2009 the Company closed a prospectus offering for the issuance of 4,000 Common Shares at a price of \$3.75 per share. The net proceeds of issuance of \$13,923 were comprised of gross proceeds of \$15,000 less expenses of the issue of \$1,077.

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

	<b>Q2 2009</b>	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
High	<b>4.29</b>	5.94	7.84	10.90	11.34	8.25
Low	<b>3.18</b>	2.70	4.48	6.55	7.50	5.61
Close	<b>3.24</b>	3.28	5.44	7.40	9.48	7.65
Volume (000's)	<b>16,617</b>	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 reduced their demand loans during the three months ended June 30, 2009 by an aggregate of \$1,167. This brings the total principal amount receivable from related parties at June 30, 2009 to \$2,856. 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 \$43 of interest receivable from these related parties.

## CONTRACTUAL OBLIGATIONS

The Company is obligated, at June 30, 2009 to make the following payments under the terms of long-term contracts it has entered into:

	<b>Payments Due by Period</b>			
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>
Transportation obligations	<b>1,311</b>	420	790	101
Head Office Lease	<b>2,304</b>	1,134	1,170	-
Farm-in obligations	<b>1,300</b>	1,300	-	-
<b>Total contractual obligations</b>	<b>4,915</b>	2,854	1,960	101

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 June 30, 2009 Vero was committed to drill 1 (1.0 net) wells in Alberta. This project has a commencement date later in 2009. This commitment is 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 this MD&A and the preceding year-end:

	August 4, 2009	Period ended June 30, 2009		December 31, 2008
		3 months	Six months	
000's				
Common shares outstanding	40,952	<b>40,952</b>	<b>40,952</b>	36,969
Stock options outstanding	2,965	<b>2,965</b>	<b>2,965</b>	3,085
Fully diluted shares	43,917	<b>43,917</b>	<b>43,917</b>	40,054
Weighted average common shares				
Basic		<b>38,710</b>	<b>37,837</b>	32,623
Diluted		<b>38,710</b>	<b>37,837</b>	32,762

## SELECTED QUARTERLY INFORMATION

Below is summarized quarterly information for the previous eight quarters.

<i>(000's except as noted)</i>	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008
Production (boe/d)	7,040	7,352	7,076	6,236
Average prices realized (\$/boe)	27.49	33.45	49.80	55.78
Production revenue	17,150	22,135	32,419	32,005
Net (loss) earnings	(10,748)	(4,695)	(1,075)	10,421
Basic - per share (\$/share)	(0.28)	(0.13)	(0.03)	0.31
Diluted - per share (\$/share)	(0.28)	(0.13)	(0.03)	0.31
Cash flow	5,767	8,201	14,370	16,584
Basic - per share (\$/share)	0.15	0.22	0.40	0.50
Diluted - per share (\$/share)	0.15	0.22	0.40	0.50
Total assets	349,482	364,612	352,472	291,733
Net capital expenditures	1,717	28,177	44,152	48,234
Long term financial liabilities	-	-	-	-
Net debt	106,000	123,973	103,911	67,725
Dividends paid	-	-	-	-

<i>(000's except as noted)</i>	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007
Production (boe/d)	6,087	5,771	5,241	4,865
Average prices realized (\$/boe)	76.30	59.35	48.16	44.08
Production revenue	42,264	31,167	23,218	19,731
Net earnings	8,740	3,783	2,842	(902)
Basic - per share (\$/share)	0.26	0.13	0.09	(0.03)
Diluted - per share (\$/share)	0.26	0.13	0.09	(0.03)
Cash flow	26,805	17,842	11,662	9,425
Basic - per share (\$/share)	0.82	0.60	0.40	0.33
Diluted - per share (\$/share)	0.82	0.59	0.40	0.32
Total assets	254,078	220,682	207,051	187,706
Net capital expenditures	16,411	19,888	20,412	18,522
Long term financial liabilities	-	-	-	-
Net debt (surplus)	38,428	50,527	61,774	53,002
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 continental and/or 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, which are 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. The following contracts were outstanding as at June 30, 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

The unrealized loss on these contracts as at June 30, 2009 was \$5,344. 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 an average of approximately 1.9% for 2009 to the end of June. 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, 2011. This two-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 up to 500 mmcf of natural gas or 50,000 bbl of oil. This program also commences on April 1, 2009 and runs for two years.
- 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.

For 2009, both the NRF, in combination with low natural gas prices plus the new initiative announced on March 3, 2009, has already has a positive impact on Vero's Crown royalty rates. It is envisioned that these benefits will continue into 2010 given the current environment.

## **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 International Accounting Standards Board (IASB) has issued an exposure draft relating to certain amendments to IFRS 1 which addresses first time adoption of IFRS. The IASB is proposing additional optional exemptions, one of which relates to full cost oil and gas accounting, resulting in a reduced administrative transition from the current Canadian full cost accounting for oil and gas activities to IFRS. The exemption would permit the Company to measure exploration and evaluation assets under IFRS at the carrying amount determined under GAAP at the date of transition to IFRS. In addition, the carrying amount under GAAP of production or development assets could be allocated on a pro rata basis to the underlying assets using either reserve volumes or reserve values at the date of transition. The assets to which this exemption is applied would be required to be tested for impairment at the date of transition under IFRS standards.

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. During the quarter ended June 30, 2009 Vero implemented a new accounting system, which will provide for better data capture and better reporting. This will facilitate the conversion to IFRS. In the third quarter of 2009 Vero will analyze and assess the various accounting policy alternatives available under IFRS as well as the determination of changes required to existing information systems and business processes. It is envisioned that Vero will also make its selections of its IFRS accounting policies available. 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.

Vero will be required to adopt the following CICA Handbook sections as of January 1, 2011:

- 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 new standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the acquisition date. 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.
- "Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. It is not anticipated that the adoption of this standard will have a material impact on Vero's Consolidated Financial Statements.
- "Non-controlling Interests", Section 1602. The standard establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. It is not anticipated that the adoption of this standard will have a material impact on Vero's Consolidated Financial Statements.

## **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 June 30, 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 June 30, 2009.

Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 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 June 30, 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.