

## **MANAGEMENT, DISCUSSION AND ANALYSIS**

*The following Management's Discussion and Analysis ("MD&A") was prepared on October 31, 2007 and is management's assessment of the Company's financial and operating results for the nine months ended September 30, 2007. 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, 2006 with the notes related thereto and the unaudited financial statements with the notes related thereto for the nine months ended September 30, 2007.*

*Additional information on the financial statements, this MD&A and other factors that could affect the company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)), or at the company's website ([www.veroenergy.ca](http://www.veroenergy.ca)). Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, accept as may be required by applicable securities laws.*

### **READER ADVISORIES**

#### ***Forward Looking Statements***

*Information provided herein contains estimates and assumptions which management is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Forward looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. Although the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realized. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "plan", "should", "believe", and similar expressions are intended to identify forward-looking information. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The risks associated with these forward-looking statements include the following:*

- Fluctuations in natural gas, natural gas liquids and oil production levels;*
- Volatility in market prices for natural gas, natural gas liquids and oil;*
- Changes in foreign currency exchange and interest rates;*
- Uncertainties associated with estimating reserves;*
- Competition for capital, asset acquisitions, undeveloped lands and skilled personnel;*
- Unexpected events that are inherent in the oil and gas industry such as: geological and drilling problems, production, pipeline and mechanical failures;*
- Successes in the finding and development of reserves;*
- Changes in the general economic conditions in Western Canada, Canada, North America and Worldwide.*
- Actions taken and policies created by governmental or regulatory authorities including changes to tax laws, incentive programs, royalty calculations and environmental regulations;*

*The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.*

## **Non-GAAP Terms**

*This Management, Discussion and Analysis uses the terms “cash flow from operations”, “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 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 unit sales price 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 current income tax expense. Net earnings netback takes the cash flow netback and deducts unrealized gains/losses on hedges, stock-based compensation expense, depletion, depreciation and amortization charges and future income tax expense. 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 and corporately.*

*Net debt and working capital, 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.*

## **Barrel of Oil Equivalents**

*Where amounts are expressed in a barrel of oil equivalent (“boe”), or barrel of oil equivalent per day (“boe/d”), natural gas volumes have been converted to barrels of oil equivalent at 6 thousand cubic feet (“mcf”) to one barrel. Use of the term boe may be misleading particularly if used in isolation. The boe conversion ratio of 6 mcf to 1 barrel (“bbl”) of oil or natural gas liquids is based on an energy equivalency conversion methodology primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms to the Canadian Securities Regulators’ National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.*

## **Dollar amounts**

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

## FINANCIAL HIGHLIGHTS FROM THE THIRD QUARTER OF 2007

The third quarter of 2007 had Vero re-establish its drilling program wherein 10 (6.6 net) wells were drilled. The result of the new drilling plus the wells drilled in the first and second quarters translated into an increase in daily production from 4,290 in the second quarter to 4,865 in the third quarter. The increased production was offset by a 21% decline in natural gas prices from the second quarter. Vero was able to mitigate a portion of the falling natural gas prices with its successful hedges which netted the Company \$1,189 in realized gains in the quarter. All of this culminated in cash flow for the current quarter of \$9,425 or \$0.32 per share on a diluted basis. In addition to the resumption of our drilling program, the Company commenced the construction of its 20 mmcf/d gas processing plant in the Edson area. This project will allow Vero to take control of the processing of its own gas, and more importantly, secure Vero's future ability of delivering all new gas added as a result of future drilling to the market. Vero spent \$18,513 in the quarter including two million dollars on Crown land acquisitions and just over thirteen million dollars on its drilling program. The Company exited the third quarter with net debt of \$53,002. Below is the detailed discussion of the results from the third quarter with comparative results from 2006.

## DETAILED FINANCIAL REVIEW

### PRODUCTION REVENUE AND VOLUMES

Vero increased aggregate production volumes by 79% in the third quarter of 2007 to 447,589 boe as compared to 249,588 boe in the third quarter of 2006. For the nine month periods, the growth of 109% in 2007 was led by a 134% increase in natural gas volumes and was further supported by a 95% growth in the associated natural gas liquids volumes. Production growth was largely attributable to the continued success in the drilling program mainly in the core areas of Edson and Corbett. Four new natural gas wells were put into production and an additional five wells with combined gas and oil production were added in the third quarter. In the third quarter of 2007 gas production contributed 82% of total production while liquids came in at 10% and oil was 8%. This compares to a 77% contribution from natural gas in the comparable period of 2006, while oil was 11% and liquids were 12%. The year-to-date production mix for 2007 is similar to that of the third quarter with 81% coming from gas, 11% from liquids and 7% from oil. For the balance of 2007 it is anticipated that the weighting to natural gas will remain at approximately the 80% level.

#### Aggregate Sales Volumes

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Natural gas (mcf)	<b>2,205,655</b>	1,143,012	93	<b>6,020,159</b>	2,572,557	134
Light/medium oil (bbl)	<b>34,651</b>	28,190	23	<b>91,773</b>	90,673	1
Natural gas liquids (bbl)	<b>45,329</b>	30,896	47	<b>141,497</b>	72,397	95
Barrels of oil equivalent (boe)	<b>447,589</b>	249,588	79	<b>1,236,630</b>	591,829	109

## Daily Sales Volumes

Daily sales volumes increased to 4,865 boe/d in the third quarter of 2007 from 2,713 boe/d in the same quarter of 2006, which represents a 79% increase. For the year-to-date we averaged 4,530 boe/d, representing a 109% increase from the 2006 level of 2,168. Vero's natural gas drilling program and the resulting increase to natural gas and associated liquid production has created the significant growth in volumes produced. Crude oil production was 23% higher than the comparative quarter in 2006. The majority of this increase was attributable to the growth in the Corbett area. Natural gas liquid production increased 47% quarter to quarter and 96% for year-to-date numbers. The increases from 2006 were predominantly the result of new production from the liquids-rich gas wells drilled in the Edson area. Vero recently increased its year-end exit rate guidance to 5,400 – 5,600 boe/d and is on target to meet the new numbers.

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Natural gas (mcf/d)	<b>23,975</b>	12,424	93	<b>22,052</b>	9,423	134
Light/medium oil (bbl/d)	<b>377</b>	306	23	<b>336</b>	332	1
Natural gas liquids (bbl/d)	<b>493</b>	336	47	<b>518</b>	265	96
Barrels of oil equivalent (boe/d)	<b>4,865</b>	2,713	79	<b>4,530</b>	2,168	109

## Benchmark Indices

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
<b>Natural gas</b>						
NYMEX (US \$/mmbtu)	<b>6.13</b>	6.53	(6)	<b>6.87</b>	7.48	(8)
AECO- Daily (CDN \$/mcf)	<b>5.16</b>	5.65	(9)	<b>6.55</b>	6.40	2
<b>Crude Oil</b>						
WTI (US \$/bbl)	<b>75.38</b>	70.48	7	<b>66.19</b>	68.22	(3)
Edmonton light (CDN \$/bbl)	<b>79.95</b>	79.08	1	<b>72.99</b>	75.53	(3)
<b>Foreign Exchange</b>						
Canadian to US dollar	<b>1.04</b>	1.12	(7)	<b>1.10</b>	1.13	(3)
US to Canadian dollar	<b>0.96</b>	0.89	8	<b>0.91</b>	0.88	3

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 9% lower in the recent quarter and 2% higher for the year-to-date as compared to 2006 levels. The reductions are the combination of reduced U.S. demand, lower than expected hurricane activity and all translating into higher storage levels. The stronger WTI oil prices in the quarter were offset by the strengthening Canadian dollar in relation to its U.S. counterpart resulting in a small 1% increase in the Edmonton par realized price.

Commodity prices realized by Vero for the respective three and nine month periods were as follows:

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
Natural gas (\$/mcf)	<b>5.79</b>	6.21	(7)	<b>7.23</b>	6.84	6
Gain on financial contracts (\$/mcf)	<b>0.54</b>	-	-	<b>0.23</b>	-	-
Realized gas price (\$/mcf)	<b>6.33</b>	6.21	2	<b>7.46</b>	6.84	9
Light/medium oil (\$/bbl)	<b>75.59</b>	77.52	(2)	<b>69.01</b>	75.13	(8)
Natural gas liquids (\$/bbl)	<b>69.67</b>	69.70	-	<b>63.36</b>	65.00	(3)
Barrels of oil equivalent (\$/boe)	<b>44.08</b>	45.82	(4)	<b>48.67</b>	49.17	(1)

Excluding the effects of its hedging program, Vero realized an average 12% premium to the AECO benchmark for its natural gas in the third quarter and 10% for the year-to-date. The liquids rich, higher heat content gas is the primary reason for the premium. Overall, Vero realized 4% lower prices in the third quarter than it did in the same quarter of 2006. For the year-to-date, we realized 1% lower aggregate prices in 2007 than we did in 2006. 2007 has been marked by declining gas prices for the reasons mentioned above. Until gas storage levels show a significant decline, gas prices are not expected to increase from current levels. Oil prices decreased by 2% in the current quarter and declined 8% for the year-to-date. The strength in the WTI price is being offset by the decline in the U.S. dollar. Natural gas liquids prices were flat in the third quarter and decreased by 3% for the nine month periods of 2007 and 2006. The gas hedging program boosted Vero's realized prices by \$0.54 per mcf in the quarter and \$0.23 for the year-to-date. The Company had two hedges in place during the period: one for 5,000 gj/day for the entire quarter, and an additional hedge for 5,000 gj/day for the last two months of the quarter. For the winter of 2007/2008, the Company will currently be exposed to the spot rates for all commodities.

### Production revenue

Aggregate revenues increased 107% for the nine months of 2007 over 2006 levels. The predominant factor in this increase was the 109% increase in production volumes since aggregate realized prices declined by 1%. Revenue for the third quarter of 2007 increased by 73% from 2006 and this was lead by the 79% increase in production volumes. In addition, natural gas prices (excluding hedges) were 7% lower in the third quarter of 2007 compared to 2006 and 6% higher for the year-to-date. For the third quarter of 2007, natural gas revenues (excluding hedges) accounted for 65% of corporate revenues followed by liquids at 16%, oil revenues at 13% and hedges for 6%. The revenue profile from the same quarter of 2006 was: natural gas 62% of revenue while oil and liquids came in at 19% each. There were no hedges in place in 2006.

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Natural gas	<b>12,765</b>	7,097	80	<b>43,547</b>	17,584	148
Light/medium oil	<b>2,619</b>	2,185	20	<b>6,333</b>	6,813	(7)
Natural gas liquids	<b>3,158</b>	2,154	47	<b>8,965</b>	4,706	91
Realized gain on financial contracts	<b>1,189</b>	-	-	<b>1,344</b>	-	-
Production revenue	<b>19,731</b>	11,436	73	<b>60,189</b>	29,103	107

## ROYALTIES

Vero's royalty expense consists mainly of Crown royalties and these rates can fluctuate due to commodity price changes or production volume changes on a well by well basis as the Crown has varying royalty rates depending on the productivity of the well. Gross over-riding and freehold royalty rates are fairly consistent and fluctuate with commodity prices and volumes produced. Royalties were \$5,551 for the third quarter of 2007 as compared to \$2,868 for the third quarter of 2006. The increase is directly tied to the significant increase in production revenues in 2007. On a per boe basis the rate increased to \$12.40 from \$10.88 per boe due to a combination of higher Crown royalty rates on the initial production from newly drilled wells as well as gross-over-riding royalties on a significant portion of the production throughout 2007. In addition, the Alberta Government cancelled the Alberta Royalty Tax Credit program effective January 1, 2007 and this increased the royalty rate from 2006 levels. As a percentage of revenue, royalty expense averaged 28.1% of production revenue in the third quarter of 2007, and 28.3% for the year-to-date. Vero anticipates for the balance of the year that this rate will decline slightly from that of the third quarter as the new wells being drilled are not encumbered by gross over-riding royalties.

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Crown – gross	<b>4,964</b>	2,445	103	<b>15,149</b>	6,423	136
Freehold/gross over-riding	<b>586</b>	423	39	<b>1,863</b>	1,136	64
Total royalties	<b>5,551</b>	2,868	94	<b>17,012</b>	7,559	125
ARTC	-	(154)	(100)	-	(500)	(100)
Royalty expense, net of ARTC	<b>5,551</b>	2,714	104	<b>17,012</b>	7,059	141
Royalties (\$/boe)	<b>12.40</b>	10.88	14	<b>13.76</b>	11.93	15
Royalties - % of production revenue	<b>28.1</b>	23.7	19	<b>28.3</b>	24.3	16

The New Royalty Framework (“NRF”) for Alberta was released on October 25<sup>th</sup> by the Alberta Government and is proposed to become effective January 1, 2009. Vero has reviewed the modifications proposed by the government and while more detailed analysis remains to be done once various anomalies in the NRF are clarified, based upon the public information available to date, Vero provides the following observations. The NRF is very sensitive to production rates and gas prices. Vero has a wide range of wells with low and high rates of production and the higher rate wells tend to come from deeper wells, and predominantly our horizontal wells that reach measured depths over 3,400 meters. These higher rate wells should be less affected due to the expansion of “deep gas” relief to include the measured depth of a well, as opposed to true vertical depth. Based upon our review of the new royalty structure, we currently anticipate that the wells, in our largest producing area of Edson (representing approximately 65% of aggregate current production), which have measured depths in the range of 2,200 to 3,500 meters, will be affected only in a modest way at current prices. In some cases, such as with our horizontal wells, the royalty rates will actually be lower than current Crown rates depending on their respective rates of production in 2009 and beyond. On this basis, and assuming current prices, we believe that the majority of our inventory will continue to provide economic returns. Our detailed analysis is continuing, but based upon the information currently available we estimate that the potential effect of the NRF on Vero's cash flows, using current gas prices and existing production, could be up to 5% lower. The actual effect of the NRF on Vero will be determined based on, among other things, the actual legislation enacted, and clarity of anomalies, production rates, commodity prices, foreign exchange rates, and product mix as they exist after January 1, 2009.

## RISK MANAGEMENT ACTIVITIES

During the period ended September 30, 2007 the Company had the following commodity contracts:

Type	Amount	Term	Price (\$/gj)	Type
Collar	5,000 gj/day	April 1 – September 30, 2007	\$7.00 - \$8.80	Financial
Swap	5,000 gj/day	September 1 – September 30, 2007	\$5.65	Financial

These hedges were considered to be financial derivatives wherein the fair value of the contract was recognized on the balance sheet with changes in fair value recorded in income. Realized gains or losses are recorded in income in the period in which they occur. For the three months ended September 30, 2007, the realized gain from the Company's hedging contracts was \$1,189.

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

DD&A expense is determined by both the successes of Vero's drilling program and the cost of any acquisitions. These factors plus the increase in production caused aggregate DD&A expense to increase from \$6,139 in the third quarter of 2006 to \$9,543 in the third quarter of 2007. The 55% increase was primarily due to the increased depletion base from Vero's 2006 and 2007 capital programs. In addition, the 79% increase in production volumes in the third quarter caused more DD&A to be recognized as depletion uses the unit-of-production method in its computation. However, Vero's successful drilling program throughout the first three quarters of 2007 caused the DD&A rate per boe to drop 13% to \$21.32 per boe from the third-quarter 2006 amount of \$24.60. For the year-to-date the decrease was 17% on a per boe rate to \$22.00. Accretion expense for the three months ended September 30, 2007 increased 69% from 2006 due to new wells being drilled throughout the year. For the balance of 2007 we anticipate the DD&A rate to be similar to the rate realized in the third quarter of 2007 as new reserve additions are balanced against the increased cost of finding and developing the reserves.

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Depletion and depreciation	<b>9,493</b>	6,109	55	<b>27,088</b>	15,565	74
Accretion on asset retirement obligations	<b>50</b>	30	69	<b>128</b>	70	82
Total DD&A	<b>9,543</b>	6,139	55	<b>27,216</b>	15,635	74
DD&A (\$/boe)	<b>21.32</b>	24.60	(13)	<b>22.00</b>	26.42	(17)

## OPERATING

Operating costs were \$2,754 in aggregate or \$6.15 per boe in the third quarter of 2007 as compared to \$1,423 and \$5.70 per boe respectively in the third quarter of 2006. While aggregate operating costs increased 94% quarter-to-quarter, the increase on a per boe was less significant at 8%. The increase in the aggregate expense is consistent with the 79% increase in production volumes. Part of this increase and, also directly contributing to the per boe rate increase were one-time workovers and a plant turnaround in Corbett. For the balance of 2007 it is anticipated that the per boe expense will decline for two significant

reasons. First, higher production levels will reduce the fixed costs burden per boe. Second, the start-up of the new gas processing facility in Edson later in the year will reduce our third party processing fees.

Processing income represents the recovery of processing costs incurred by third parties at Vero's facilities. The amount of processing income is completely variable with the volume of third-party gas being flowed through the Vero facilities. There are no long-term fixed contracts in respect of this throughput.

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Expense per financial statements	<b>2,754</b>	1,423	94	<b>7,558</b>	3,530	114
Add: processing income	<b>19</b>	8	141	<b>31</b>	8	288
Gross expense	<b>2,772</b>	1,431	94	<b>7,589</b>	3,538	114
Net expense (\$ per boe)	<b>6.15</b>	5.70	8	<b>6.11</b>	5.96	3
Net expense (% of revenue)	<b>14.0</b>	12.4	13	<b>12.6</b>	12.1	4

## TRANSPORTATION

Transportation expenses were \$674 for the current quarter and amounted to 3.4% of production revenue for the period as compared to \$214 and 1.9% for the comparable quarter in 2006. For the year-to-date in 2007 the cost per boe averaged \$1.34, which is 60% higher than the rate for the year-to-date in 2006 of \$0.84. The increase in aggregate transportation expense in both the third quarter and year-to-date results of 2007 was mainly attributable to the increased utilization of trucking for new liquids and oil volumes, as well as the utilization of partner pipeline infrastructure. Transportation costs are comprised of gas transportation, pipeline tariffs for oil and liquids transportation as well as trucking charges. The charges for the current period are not necessarily indicative of future costs and will depend on the type of production additions (oil and liquids versus natural gas). These 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 2007 is expected to be relatively consistent with that of the year-to-date rates as the majority of these costs are variable in nature and there is no unutilized firm service contracts.

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Expense per financial statements	<b>674</b>	214	216	<b>1,652</b>	500	231
Expense (\$ per boe)	<b>1.51</b>	0.86	76	<b>1.34</b>	0.84	60
Expense (% of revenue)	<b>3.4</b>	1.9	79	<b>2.7</b>	1.7	59

## GENERAL AND ADMINISTRATIVE (G&A)

Gross G&A expense increased 30% to \$1,069 in the third quarter of 2007 from \$820 in the same quarter of 2006. Net G&A increased 88% to \$729 from \$387 for the same periods. One of the significant differences was that we moved to new office space in March of 2007 to accommodate additional growth. The higher rent costs and larger leased space at the new location were higher than what Vero had been paying throughout 2006. On a per boe basis Vero realized net G&A of \$1.63 in the third quarter of 2007 as compared to \$1.55 during the similar period in 2006. This represents a 5% increase in G&A costs on a per boe basis. Overhead recoveries decreased by 32% in the third quarter of 2007 as compared to 2006. This decrease occurred despite exploration and development spending being higher by 19% in 2007 and was the result of a lower number of Vero operated projects. Overhead recoveries are a function of field operating activity as well as the number projects 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 third quarter of 2007 was \$104, representing a 20% increase from the same quarter in 2006. The year-to-date G&A rate of \$2.05 was 2% lower than the \$2.10 experienced in 2006 due mainly to higher production volumes. As production volumes grow in the fourth quarter the G&A rate is expected to drop from third quarter levels since the levels of staff and other overhead are expected to remain stable.

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Gross expense	<b>1,069</b>	820	30	<b>3,627</b>	2,156	68
Less:						
Overhead recoveries	<b>(236)</b>	(346)	(32)	<b>(674)</b>	(674)	-
Capitalized G&A	<b>(104)</b>	(87)	20	<b>(421)</b>	(236)	79
Net expense	<b>729</b>	387	88	<b>2,532</b>	1,246	103
Average cost (\$ per boe)						
Gross expense	<b>2.39</b>	3.29	(27)	<b>2.94</b>	3.64	(19)
Net expense	<b>1.63</b>	1.55	5	<b>2.05</b>	2.10	(2)

## INTEREST AND BANK CHARGES

Interest expense for the third quarter of 2007 increased 42% to \$598 from \$422 in the third quarter of 2006. This was mainly the result of the 40% increase in bank debt outstanding during the quarter. The costs associated with the resumption of Vero's drilling program in the third quarter and preparatory work for the winter 2007/2008 drilling program increased the debt to current levels. In addition, effective interest rates increased by 5% from 6.1% in the third quarter of 2006 to 6.4% in 2007. The per boe interest expense rate was \$1.34 for the third quarter of 2007 and averaged \$1.47 for the year-to-date. This compares to \$1.69 for the third quarter of 2006, and \$1.50 for the nine months of 2006. The per boe rate represents a 21% decline comparing the most recent quarter to the same quarter of 2006. A 79% increase in production levels in the current quarter as compared to 2006 levels was able to reduce the interest cost per boe while the average debt outstanding increased. It is anticipated that the interest cost per boe will increase in the fourth quarters to approximately \$1.50 per boe as the capital expenditure program is ramped up again.

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Interest per financial statements	<b>598</b>	422	42	<b>1,813</b>	885	105
Deduct: Commitment & other fees	<b>(2)</b>	(10)	(77)	<b>(52)</b>	(49)	4
Debt bearing interest	<b>596</b>	412	45	<b>1,761</b>	836	111
Average bank debt outstanding	<b>37,158</b>	26,631	40	<b>37,917</b>	23,575	61
Average interest rate	<b>6.4%</b>	6.1%	5	<b>6.2%</b>	4.7%	32
Average interest cost (\$ per boe)	<b>1.34</b>	1.69	(21)	<b>1.47</b>	1.50	(2)

## STOCK BASED COMPENSATION

Stock based compensation expense represents the amortization of the expense associated with the notional fair value of stock options granted. The fair value of the options is determined by the price of the stock, its volatility, risk-free rates of return and the vesting periods. The fair value of all stock options is amortized over the options' vesting period, which is three years for all options granted. Stock based compensation expense in the third quarter of 2007 decreased by 48% to \$319 from the third quarter of 2006 which was \$610. Aggregate expense decreased in 2007 as compared to 2006 as no new options were granted during the quarter and only 111 net options have been issued in total for 2007. Amortization of the expense from options issued in 2005 and 2006 hit their peak late in 2006. For the nine months of 2007 the expense was \$1,130 as compared to \$1,502 in 2006. The per boe rate for the current quarter dropped 71% to \$0.71 from 2006 level of \$2.45 as a result of significantly higher production levels in 2007 as well as the expense being weighted more towards the early vesting periods of 2005 and 2006.

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Expense per financial statements	<b>319</b>	610	(48)	<b>1,130</b>	1,502	(25)
Expense (\$ per boe)	<b>0.71</b>	2.45	(71)	<b>0.91</b>	2.54	(64)

## INCOME TAXES

The total income tax provision for the third quarter of 2007 was a recovery of \$268 and this was comprised entirely of future income taxes. This provision represents a 45% increase in tax expense from the comparable period in 2006. For the year-to-date in 2007, the tax expense was \$954 or 163% higher than the recovery of \$1,508 in 2006. The large recoveries in 2006 were attributable to the passing of legislation to reduce corporate tax rates from 2006 to 2010. The gradual reduction of income tax rates as previously passed into law by the Federal Government continues until it is fully implemented in 2010. However, all of the future benefits of these rate reductions were recognized in the third quarter of 2006. In addition, there was a new tax rate reduction as a result of the federal budget in March of 2007. On June 12, 2007, Bill C-52, an Act to implement a reduction to the general corporate income tax rate from 19% to 18.5% on January 1, 2011 received third reading in Parliament. Accordingly, the law is considered to be substantively enacted and the rate reduction was reflected in the second quarter 2007 financial statements.

Pursuant to the flow-through share private placement, which closed in April of 2007 the Company entered into a commitment to renounce \$10,875 of exploration expenses to subscribers by December 31 of 2007. As at September 30, 2007, \$8,431 was still outstanding on this commitment. The Company will have until December 31, 2008 to incur the remaining eligible costs under the agreements. The tax effects of the renunciation will be made when the documents are filed with the tax authorities. It is anticipated that this will occur on or before the end of March of 2008. At the time the renunciation is made the estimated tax effect of the foregone tax benefits will be charged to share capital with a corresponding increase to the future income tax liability.

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

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Current income tax expense	-	-	-	-	(292)	100
Future income tax expense	(268)	(485)	45	954	(1,216)	178
Total income taxes	(268)	(485)	45	954	(1,508)	163
Tax expense (\$/boe)	(0.60)	(1.94)	69	0.77	(2.54)	(130)

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

<i>Tax Pools</i>	<b>Rate %</b>	<b>September 30, 2007</b>	September 30, 2006
Canadian exploration expenses	100	15,779	10,039
Canadian development expenses	30	40,133	31,362
Canadian oil and gas property expenses	10	29,368	26,860
Undepreciated capital costs	10 - 30	30,914	18,217
Financing costs	20% S.L.	1,991	1,062
Attributed Canadian Royalty Income	100 (Alberta)	2,195	2,797
<b>Total</b>		<b>120,380</b>	90,337

## NETBACKS

Operating netbacks of \$24.02 per boe for the third quarter of 2007 were 15% lower than those realized for the third quarter of 2006. For the nine months ended September 30, 2007 the net back was \$27.46, a 10% reduction to the \$30.44 realized in 2006. While the declines in gas prices were mitigated by our favourable hedges in 2007 to produce declines in realized prices of 4% for the third quarter and 1% for the quarter and year-to-date respectively, the declines in operating netbacks were attributable to two major items. The first was the 14% increase in royalty expense for the quarter and 15% for the year-to-date. The second item is an increase in transportation costs by 76% in the quarter to \$1.51 per boe and 60% for the year-to-date to \$1.34. Increased utilization of gathering systems and increased trucking for new oil production were the main reasons for the increased transportation expenses. Cash flow netbacks were lower by 16% for the third quarter of 2007 as the gains Vero realized in reducing interest expense on a boe basis were more than offset by the royalty rate increase and the lower gas prices in the third quarter. For the net earnings netback, the largest single expense was DD&A at \$21.32 per boe for the third quarter and \$22.00 for the year-to-date. Vero was successful in reducing this expense from 2006 levels as we

increased our proved reserves through a successful drilling program. Stock based compensation expense declined by 71% for the quarter to quarter results and 64% for the year-to-date as the amortization of the expense reached its peak in mid-2007, plus it is now being amortized over larger production volumes. It is anticipated that netbacks will increase as the winter season approaches. Natural gas storage levels remain high, but the onset of an early cold winter can increase the netbacks quickly in the fourth quarter. Below is the breakdown of the boe netbacks for the Company.

### Corporate Netbacks

<i>Netbacks (\$ per boe)</i>	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Realized price (including hedges)	<b>44.08</b>	45.82	(4)	<b>48.67</b>	49.17	(1)
Royalties (net of ARTC)	<b>(12.40)</b>	(10.88)	14	<b>(13.76)</b>	(11.93)	15
Operating expenses	<b>(6.15)</b>	(5.70)	8	<b>(6.11)</b>	(5.96)	3
Transportation expenses	<b>(1.51)</b>	(0.86)	76	<b>(1.34)</b>	(0.84)	60
Operating netback	<b>24.02</b>	28.38	(15)	<b>27.46</b>	30.44	(10)
G&A	<b>(1.63)</b>	(1.55)	5	<b>(2.05)</b>	(2.10)	(2)
Interest expense	<b>(1.34)</b>	(1.69)	(21)	<b>(1.47)</b>	(1.50)	(2)
Interest and other income	-	0.02	(100)	-	0.16	(100)
Current income taxes	-	-	-	-	0.49	(100)
Cash flow netback	<b>21.05</b>	25.16	(16)	<b>23.94</b>	27.49	(13)
Unrealized (loss) gain on hedges	<b>(1.64)</b>	-	-	-	-	-
Stock based compensation	<b>(0.71)</b>	(2.45)	(71)	<b>(0.91)</b>	(2.54)	(64)
D,D&A	<b>(21.32)</b>	(24.60)	(13)	<b>(22.00)</b>	(26.42)	(17)
Future income taxes	<b>0.60</b>	1.94	(69)	<b>(0.77)</b>	2.05	138
Net (loss) earnings netback	<b>(2.02)</b>	0.05	(4,220)	<b>0.26</b>	0.58	(57)

### Operating Netback by Commodity Type

<i>Operating netback Natural gas (\$/mcf)</i>	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Realized price	<b>6.33</b>	6.21	2	<b>7.46</b>	6.84	9
Royalties (excluding ARTC)	<b>(1.84)</b>	(1.57)	17	<b>(2.12)</b>	(1.73)	23
Operating expenses	<b>(0.59)</b>	(1.02)	(42)	<b>(0.62)</b>	(1.04)	(40)
Transportation costs	<b>(0.27)</b>	(0.13)	108	<b>(0.24)</b>	(0.12)	100
Operating netback	<b>3.63</b>	3.49	4	<b>4.48</b>	3.95	13

<i>Operating netback Crude oil (\$/bbl)</i>	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Realized price	<b>75.59</b>	77.52	(2)	<b>69.01</b>	75.13	(8)
Royalties (excluding ARTC)	<b>(13.21)</b>	(13.65)	(3)	<b>(12.99)</b>	(15.17)	(14)
Operating expenses	<b>(7.79)</b>	(7.51)	4	<b>(7.95)</b>	(7.95)	-
Transportation costs	<b>(1.11)</b>	(2.00)	(45)	<b>(0.95)</b>	(1.39)	(32)
Operating netback	<b>53.48</b>	54.36	(2)	<b>47.12</b>	50.62	(7)

Operating expenses with respect to liquids extraction are solely attributable to processing fee charges as these represent the incremental charges to extract and collect natural gas liquids. The large increase in the per boe processing rates from the prior year are attributable to third party charges at the non-operated gas plants to which the liquids-rich gas was delivered. These charges will start decreasing at the end of the year as the facility that will be used to extract the liquids is under construction and will commence operations later in the year.

<i>Operating netback Natural gas liquids (\$/bbl)</i>	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Realized price	<b>69.67</b>	69.70	-	<b>63.36</b>	65.00	(3)
Royalties (excluding ARTC)	<b>(22.68)</b>	(17.25)	31	<b>(21.46)</b>	(17.04)	26
Operating expenses	<b>(25.95)</b>	(1.41)	1,740	<b>(22.04)</b>	(1.75)	1,159
Transportation costs	<b>(1.01)</b>	(0.46)	120	<b>(0.88)</b>	(0.89)	(1)
Operating netback	<b>20.03</b>	50.58	(60)	<b>18.98</b>	45.32	(58)

## CASH FLOW AND NET EARNINGS

Cash flow from operations in the third quarter of 2007 was \$9,425, an increase of 50% from \$6,280 realized in the third quarter of 2006. For the nine months ended September 30, 2007 cash flow reached \$29,622, an 82% increase from \$16,268 realized in 2006. The major contributors to the increase in cash flow for the third quarter compared to last year were the combination of a 79% increase in production volumes. In addition, Vero realized \$1,189 from its hedging activities during the third quarter of 2007, which helped offset the 7% decline in natural gas prices from the third quarter of 2006. Consequently, Vero was able to realize significant growth in cash flow. Vero realized a net loss in the current quarter of \$902. A 55% increase in depletion charges; coupled with lower gas prices were more than enough to offset the growth in production. Net earnings for the year-to-date of \$322 were 7% lower than the same period in 2006. For the nine months ended September 30, 2007 Vero had 82% growth in cash flow mainly due to higher production volumes. Cash flow from operations is calculated as follows:

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Net (loss) earnings	<b>(902)</b>	16	5,738	<b>322</b>	347	(7)
Adjustments for:						
Unrealized loss on risk management	<b>733</b>	-	-	-	-	-
Stock based compensation expense	<b>319</b>	610	(8)	<b>1,130</b>	1,502	(25)
Depletion, depreciation and accretion	<b>9,543</b>	6,139	55	<b>27,216</b>	15,635	74
Future income tax	<b>(268)</b>	(485)	45	<b>954</b>	(1,216)	178
Cash flow from operations	<b>9,425</b>	6,280	50	<b>29,622</b>	16,268	82

On a per share basis, Vero had a loss of \$0.03 for both basic and diluted earnings per share for the third quarter of 2007 as compared to nil earnings per share for the same period of 2006. For the year-to-date, Vero's earnings per share were the same for both 2007 and 2006 at \$0.01 per share, basic and diluted. Cash flow per share in the third quarter of 2007 was \$0.33 basic and \$0.32 diluted representing 38% and 33% increases respectively from the \$0.24 basic and diluted per share results from the third quarter of 2006.

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Net (loss) earnings per share						
Basic	<b>(0.03)</b>	-	-	<b>0.01</b>	0.01	-
Diluted	<b>(0.03)</b>	-	-	<b>0.01</b>	0.01	-
Cash flow per share						
Basic	<b>0.33</b>	0.24	38	<b>1.06</b>	0.67	58
Diluted	<b>0.32</b>	0.24	33	<b>1.05</b>	0.67	57

## CAPITAL EXPENDITURES

Vero resumed its drilling program in the third quarter after a reduced level of activity in the second quarter to allow our cash flow to reduce the increased net debt resulting from the first quarter activity. 70% of the exploration and development dollars were devoted to drilling and completions. 10 (6.6 net) wells were drilled in the quarter, which was similar to the 11 (6.2 net) wells drilled in the same quarter of 2006. In addition Vero spent \$2,030 on new land additions in its core areas and commenced the construction of its \$4 million gas processing facility in Edson. A summary of the costs incurred in each comparative quarter and for the year-to-date is as follows:

	Three Months Ended, September 30,			Nine Months Ended, September 30,		
	2007	2006	%	2007	2006	%
Exploration and development						
Land acquisitions and lease rentals	<b>2,030</b>	907	124	<b>2,991</b>	3,731	(20)
Geological and geophysical	<b>239</b>	274	(13)	<b>2,197</b>	596	269
Drilling and completions	<b>13,018</b>	9,258	41	<b>32,924</b>	25,758	28
Well equipment and facilities	<b>3,226</b>	5,112	(37)	<b>10,418</b>	8,988	16
Disposals	-	-	-	-	(300)	100
Total exploration and development	<b>18,513</b>	15,551	19	<b>48,530</b>	38,773	25
Other expenditures	<b>8</b>	5	60	<b>33</b>	129	(74)
Total capital expenditures	<b>18,522</b>	15,556	19	<b>48,563</b>	38,902	25
Corporate acquisition (cash outlay)	-	-	-	-	18,887	(100)
Property acquisition	-	-	-	<b>2,478</b>	-	-
Net capital expenditures before ARO	<b>18,522</b>	15,556	19	<b>51,041</b>	57,789	(12)
Capitalized asset retirement obligations	<b>398</b>	192	107	<b>490</b>	394	24
Total capital additions	<b>18,920</b>	15,748	20	<b>51,531</b>	58,183	(11)

	Three Months Ended, September 30,				Nine Months Ended, September 30,			
	2007		2006		2007		2006	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Wells drilled</b>								
Exploration	<b>4</b>	<b>2.2</b>	1	0.5	<b>6</b>	<b>2.9</b>	4	3.3
Development	<b>5</b>	<b>4.3</b>	9	4.8	<b>18</b>	<b>11.8</b>	21	10.5
Dry holes	<b>1</b>	<b>0.1</b>	1	1	<b>4</b>	<b>3.1</b>	2	2
Standing wells	-	-	-	-	-	-	-	-
Total wells	<b>10</b>	<b>6.6</b>	11	6.2	<b>28</b>	<b>17.8</b>	27	15.8
Success rate (%)	<b>90</b>	<b>98</b>	91	84	<b>86</b>	<b>82</b>	93	87

Spending for the third and fourth quarters will be dependent on many factors such as: weather, commodity prices, rig and services availability and success rates on wells that may require follow-up locations. The Company is on target to drill its planned 39 (26.2 net) wells in its capital budget for 2007. Due to Vero's participation at additional Crown land sales and the construction of the new gas plant that was not anticipated when the Board approved the initial capital budget of \$60 million, Vero has recently obtained approval to increase its capital budget for 2007 to \$70 million.

## LAND HOLDINGS

The undeveloped land holdings (all Alberta) at September 30, 2007 are as follows:

Area	Gross Acres	Net Acres	Average WI %
Corbett	17,280	15,776	91
Edson	20,800	13,675	66
Whitecourt	37,600	31,424	84
Other Alberta	17,920	12,565	70
Total	93,600	73,440	78

## LIQUIDITY AND CAPITAL RESOURCES

	September 30,			December 31,	
	2007	2006	%	2006	%
<b>Debt and working capital</b>					
Bank debt	<b>37,999</b>	31,550	20	35,651	7
Working capital deficiency	<b>15,003</b>	7,859	91	13,889	8
Net debt	<b>53,002</b>	39,409	34	49,540	7

<b>Capital Program Funding</b>	Three months ended, September 30,			Nine months ended, September 30,		
	<b>2007</b>	2006	%	<b>2007</b>	2006	%
Cash, beginning of period	-	-	-	-	12,523	(100)
Funds provided by operations	<b>9,425</b>	6,280	50	<b>29,622</b>	16,268	82
(Decrease) increase in bank debt	<b>(773)</b>	9,996	(107)	<b>2,348</b>	13,030	(82)
Share issuance, net of costs	-	-	-	<b>17,957</b>	12,061	49
Change in non-cash working capital	<b>9,870</b>	(720)	1,471	<b>1,114</b>	3,907	(71)
Net capital expenditures	<b>18,522</b>	15,556	19	<b>51,041</b>	57,789	(12)

The Company funded its \$51,041 in total capital expenditures for the nine months ended September 30, 2007 from a variety of resources. Vero realized cash flow of \$29,622; increased its bank debt by \$2,348; closed a private placement (plus a small stock option exercise) which netted the Company \$17,957; and increased its non-cash working capital by \$1,114. All of this activity resulted in net debt at September 30, 2007 of \$53,002. The oil and gas industry, by its nature, requires significant amounts of capital to fund its capital programs with a view to maintaining and expanding its production and reserves. The Company plans to spend approximately \$70 million in 2007 and of this amount to September 30 Vero has spent \$51 million. To fund its remaining capital program for 2007, Vero expects to generate an additional \$12 million of cash flow in the fourth quarter. This coupled with the Company's unutilized bank line of approximately \$32 million at September 30, 2007 will be more than sufficient to fund Vero's remaining capital program for 2007, which is currently anticipated to be approximately \$19 million.

Available borrowings on the bank credit facility are limited by the borrowing base, which is established by the bank. The amount of available credit is based mainly upon the value of petroleum and natural gas assets. The most recent formal evaluation by our external engineers determined these reserve values as at December 31, 2006. The bank facility is subject to periodic borrowing base reviews. The most recent annual review by the bank was completed in March of 2007 and the next review, is scheduled for March of 2008. 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 the financing needs of the company are expanded, Vero will apply to the bank for interim review of the borrowing base. The credit facility is currently authorized at \$70 million.

Vero's stock has maintained its high levels of liquidity. For 2007, the stock has traded over 107 thousand shares per day in the third quarter and almost 125 thousand shares per day for the year-to-date. Below is a summary of the trading history of the Company's shares for 2007 and 2006.

	2007			2006			
	<b>Q3</b>	Q2	Q1	Q4	Q3	Q2	Q1
High	<b>7.50</b>	8.09	6.25	6.70	6.00	7.06	7.18
Low	<b>5.30</b>	5.79	5.21	4.20	4.60	5.02	5.00
Close	<b>5.68</b>	7.50	5.77	6.06	4.69	5.43	6.15
Volume (000's)	<b>6,671</b>	7,514	9,417	3,467	3,683	3,773	11,409

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

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

## RELATED PARTY TRANSACTIONS

Five officers of the Company subscribed for 26 thousand common shares at a price of \$5.55 per share and 21 thousand flow-through common shares at a price of \$7.25 per share in the April 5, 2007 private placement. The prices at which the shares were issued were the same as those used in the subscription agreements entered into with non-related parties.

## CONTRACTUAL OBLIGATIONS

In the normal course of operations, the Company has entered into contracts and incurred obligations that will impact future liquidity. Based on current cash flow forecast and resources, Vero expects to fulfil the obligations summarized in the below table as they come due. As at September 30, 2007 Vero is obligated to make the following payments under the terms of long-term contracts it has entered into:

	Total	Payments Due by Period		
		Less than 1 year	1-3 Years	4-5 Years
Transportation obligations	941	209	411	321
Head office lease	3,541	931	1,623	987
Farm-in obligations	7,800	7,800	-	-
Total contractual obligations	12,282	8,940	2,034	1,308

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 on the Company's head office space as well as certain of the furnishings contained therein. Vero entered into a four-year lease for its new head office space with the lease term commencing March 1, 2007. As at September 30, 2007 Vero had committed to drill a total of four wells in Alberta with varying commencement dates in 2007 pursuant to farm-in agreements with industry partners.

## SHARE CAPITAL

The following table provides a summary of the outstanding common shares and other equity instruments as at the date of these MD&A, the most recent quarter, and the preceding year-end:

(000's)	October 31, 2007	September 30, 2007		December 31, 2006
		3 months ended	9 months ended	
Common shares outstanding	28,915	28,911	28,911	25,907
Stock options outstanding	2,424	2,428	2,428	2,321
Fully diluted shares	31,339	31,339	31,339	28,228
Weighted average common shares				
Basic	-	28,911	27,865	24,589
Diluted	-	29,124	28,087	24,589

## SELECTED QUARTERLY INFORMATION

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

<i>(000's except as noted)</i>	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006
Production (boe/d)	4,865	4,290	4,430	3,301
Average prices realized (\$/boe)	44.08	51.36	51.19	48.89
Production revenue	19,731	20,051	20,407	14,846
Net (loss) earnings	(902)	502	722	688
Basic - per share (\$/share)	(0.03)	0.02	0.03	0.03
Diluted - per share (\$/share)	(0.03)	0.02	0.03	0.03
Cash flow	9,425	9,693	10,504	7,835
Basic - per share (\$/share)	0.33	0.33	0.41	0.31
Diluted - per share (\$/share)	0.32	0.32	0.41	0.31
Total assets	187,706	178,377	182,470	166,858
Net capital expenditures	18,522	5,621	26,898	17,966
Long term financial liabilities	-	-	-	-
Net debt	53,002	43,172	65,934	49,540
Dividends paid	-	-	-	-

<i>(000's except as noted)</i>	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
Production (boe/d)	2,713	2,350	1,427	980
Average prices realized (\$/boe)	45.82	49.44	55.26	71.65
Production revenue	11,436	10,571	7,096	4,212
Net earnings	16	79	252	665
Basic - per share (\$/share)	-	-	0.01	0.07
Diluted - per share (\$/share)	-	-	0.01	0.07
Cash flow	6,280	5,854	4,133	1,896
Basic - per share (\$/share)	0.24	0.23	0.20	0.20
Diluted - per share (\$/share)	0.24	0.23	0.20	0.20
Total assets	155,480	142,344	132,787	53,131
Net capital expenditures	15,556	12,322	29,911	35,021
Long term financial liabilities	-	-	-	-
Net debt (surplus)	39,409	30,133	35,768	(8,412)
Dividends paid	-	-	-	-

## **RISK MANAGEMENT**

Except as detailed below, there were no changes to Vero's risk management policies during the period from those described in our audited financial statements for the period ended December 31, 2006.

### **Environmental Regulation and Risk**

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to specified levels. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Protocol or as otherwise determined could have a material impact on the nature of oil and natural gas operations, including those of the Company.

The Federal Government released on April 26, 2007, its Action Plan to Reduce Greenhouse Gases and Air Pollution (the "Action Plan"), also known as ecoACTION and which includes the Regulatory Framework for Air Emissions. This Action Plan covers not only large industry, but regulates the fuel efficiency of vehicles and the strengthening of energy standards for a number of energy-using products. Regarding large industry and industry related projects the Government's Action Plan intends to achieve the following: (i) an absolute reduction of 150 megatonnes in greenhouse gas emissions by 2020 by imposing mandatory targets; and (ii) air pollution from industry is to be cut in half by 2015 by setting certain targets. New facilities using cleaner fuels and technologies will have a grace period of three years. In order to facilitate the companies' compliance of the Action Plan's requirements, while at the same time allowing them to be cost-effective, innovative and adopt cleaner technologies, certain options are provided. These are: (i) in-house reductions; (ii) contributions to technology funds; (iii) trading of emissions with below-target emission companies; (iv) offsets; and (v) access to Kyoto's Clean Development Mechanism.

On March 8, 2007, the Alberta Government introduced Bill 3, the Climate Change and Emissions Management Amendment Act, which intends to reduce greenhouse gas emission intensity from large industries. Bill 3 states that facilities emitting more than 100,000 tonnes of greenhouse gases a year must reduce their emissions intensity by 12% starting July 1, 2007; if such reduction is not initially possible the companies owning the large emitting facilities will be required to pay \$15 per tonne for every tonne above the 12% target. These payments will be deposited into an Alberta-based technology fund that will be used to develop infrastructure to reduce emissions or to support research into innovative climate change solutions. As an alternate option, large emitters can invest in projects outside of their operations that reduce or offset emissions on their behalf, provided that these projects are based in Alberta. Prior to investing, the offset reductions, offered by a prospective operation, must be verified by a third party to ensure that the emission reductions are real.

Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact of those requirements on the Company and its operations and financial condition.

## **Review of Alberta Royalty and Tax Regime**

On February 16, 2007, the Alberta Government announced that a review of the province's royalty and tax regime (including income tax and freehold mineral rights tax) pertaining to oil and gas resources, including oil sands, conventional oil and gas and coal bed methane, will be conducted by a panel of experts, with the assistance of individual Albertans and key stakeholders. The review panel produced its report and recommendations on September 18, 2007. The Government of Alberta considered these recommendations and obtained input from the public and the oil and gas sector on the recommendations and on October 25, 2007 issued its decision on the direction of royalties in the province. A summary of the Alberta Governments final framework that will impact Vero is as follows:

### Conventional Oil

Price-sensitive and volume-sensitive conventional oil royalty rates will become separate elements within a single sliding rate formula. New royalty rates will range from 0% to 50%, up from the current maximums of 30% and 35% for new and old vintages. Royalties will be calculated on a monthly production rate as is done currently and as collected, reported and used by industry.

The following royalty programs will be eliminated:

- Third Tier Exploratory Well Royalty Exemption
- Re-activated Well Royalty Reduction
- Low Productivity Well Royalty Reduction
- Horizontal Re-entry Well Royalty Program
- Experimental Project Petroleum Royalty

Oil project royalty programs like Enhanced Oil Recovery and the Innovative Energy Technology Program will be retained to encourage research and additional oil recovery. The tiers in conventional oil that distinguish vintages based on the discovery date will be eliminated. Rate caps on price will be raised for conventional oil to \$120 per barrel. Currently maximums are reached at around \$30 per barrel for conventional oil.

### Natural Gas

New royalty rates will range from 5% to 50%, up from ranges of 5% to 30% for new and 5% to 35% for old vintages.

The government will revamp the Deep Gas Drilling Program. The Government announced that royalty reductions will be available for deep gas wells. Deep gas wells included those over 2,000 meters of drilling length. Included in the deep well regime will be entire length of horizontal wells. The government will raise rate caps on the price of natural gas to \$16.59/GJ. The cap will ensure the royalty system is sensitive over a broad range of prices. Currently maximums are reached at around \$3.70/GJ for natural gas.

Royalties for natural gas liquids will now be set at 40% for pentanes, a change from 22-50% for old tiers and 22-35% for new. The new royalties for butanes and propane will be 30%, up from 15-30%. The government will eliminate the option to use the Corporate Average Price to determine natural gas royalties.

For gas processing facilities, the government will move from using corporate effective royalty rates to calculate costs of the Crown's share of capital to establishing facility effective royalty rates. This will improve the link of capital costs for natural gas to a particular facility. The Alberta Royalty Review Panel had recommended going to deemed or set fees, an approach tried before in Alberta, but it does not recognize significant actual cost differences in processing plants. For gathering and compression, the government will continue to use set fees which recognize actual costs. The government will eliminate the tiers in conventional natural gas that distinguish vintages based on the discovery date to simplify the system. The Government views that under current economic conditions the difference between tiers is minimal. The government will retain the Otherwise Flared Solution Gas Royalty (OFSG) Waiver Program and extend it to bitumen wells. This program encourages solution gas conservation, rather than venting the gas, resulting in improved air quality.

Vero is currently assessing the impact of these changes on its future cash flows and reserve valuations.

## **CRITICAL ACCOUNTING ESTIMATES**

Management is often required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. There were no changes to Vero's critical accounting estimates in the period from those used in the audited financial statements from 2006.

## **ACCOUNTING STANDARDS CHANGES**

### *Financial Instruments*

Vero prospectively adopted the following new CICA Handbook Sections effective January 1, 2007:

- Section 1530, Comprehensive Income
- Section 3251, Equity
- Section 3855, Financial Instruments – Recognition and Measurement
- Section 3865, Hedges

These new accounting standards provide requirements for the recognition and measurement of financial instruments and the use of hedge accounting. The standards have been adopted prospectively and the comparative interim financial statements have not been restated.

Derivatives embedded in other financial instruments or contracts, are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract. The Company has never had any contracts or financial instruments with embedded derivatives that require bifurcation.

Comprehensive income is the change in shareholder's equity, which results from transactions and events from sources other than the Company's shareholders. These transactions and events include changes in the currency translation adjustment relating to self-sustaining foreign operations and unrealized gains and losses resulting from changes in the fair value of certain financial instruments. The Company did not have any items to record as transitional adjustments with respect to comprehensive income. Upon adoption of Section 1530, the Company revised the heading on its financial statements from "Statements of Operations" to include the newly required Statement of Comprehensive Income by creating a combined "Statement of Operations, Comprehensive Income and Retained Earnings".

### *Accounting Changes*

Effective January 1, 2007 Vero adopted the recommendations of CICA Handbook Section 1506, Accounting Changes. These standards are effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007. There was no effect on the current or prior period financial statements as a result of this adoption.

### *Future Accounting Pronouncements*

As of January 1, 2008 Vero will be required to adopt two new CICA standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation", which will replace Section 3861 "Financial Instruments – Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in December 2006 and the corporation is assessing the impact on its financial statements.

As of January 1, 2008, the Corporation will be required to adopt CICA 1535 "Capital Disclosures", which will require additional disclosures of objectives, policies and processes for managing capital. IN addition, disclosures will include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in December 2006 and the Corporation is assessing the impact on its financial statements.

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 continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Vero's Chief Executive Officer and Chief Financial Officer are required to cause the Company to disclose herein any change in Vero's internal controls over financial reporting that occurred during the Company's most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in Vero's internal controls over financial reporting were identified during the three months ended September 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

The Company has a Corporate Disclosure Policy to ensure that communications with the public about the Company are timely, factual and accurate; disseminated in accordance with all applicable legal and regulatory requirements; and that all material information in respect of the Company is communicated to the Chief Executive Officer and the Chief Financial Officer and where appropriate, the Board of Directors and/or committees thereof. Vero's Chief Executive Officer and the Chief Financial Officer have evaluated the design of the Company's internal controls over financial reporting. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2007, the Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's 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.

It should be noted that while the Corporation's Chief Executive Officer and Chief Financial Officer believe that the Corporation's controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.