

## MANAGEMENT'S, DISCUSSION AND ANALYSIS

*The following Management's Discussion and Analysis ("MD&A") was prepared on October 24th, 2008 and is management's assessment of the Company's financial and operating results for the nine-months ended September 30, 2008. This MD&A should be read in conjunction with the unaudited financial statements as at September 30, 2008 as well as the audited, financial statements of the Company for the year ended December 31, 2007 with the notes related thereto.*

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

### READER ADVISORIES

#### *Forward Looking Statements*

*Information provided herein contains estimates and assumptions which management is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Forward looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. Although the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realized. The use of any of the words "anticipate", "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;*
- *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.*
- *The effects of weather and climate conditions;*
- *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, accept as may be required by applicable securities laws. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.*

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

*This Management, Discussion and Analysis uses the terms “cash flow from operations” and “netbacks” which are terms not recognized under Generally Accepted Accounting Principles (“GAAP”). The Company uses these measures to help evaluate its performance, leverage, and liquidity as well as to assess potential acquisitions. The Company considers cash flow from operations a key measure as it demonstrates the Company's ability to generate funds necessary to repay debt and to fund future growth through capital investment. Cash flow from operations should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with Canadian GAAP as an indicator of Vero's performance. Vero's determination of cash flow from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and cash flow from operations can be found in the statement of cash flows in the financial statements. Vero also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of net earnings per share, which per share amount is calculated under GAAP and is more fully described in the notes to the financial statements. The Company considers corporate netbacks as a key measure as it demonstrates its profitability relative to current commodity prices.*

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

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
<i>Cash provided by operating activities</i>	<b>19,231</b>	10,331	<b>57,759</b>	25,866
<i>Add (deduct):</i>				
<i>Change in non-cash working capital</i>	<b>(2,647)</b>	(906)	<b>3,473</b>	3,756
<b><i>Cash flow from operations</i></b>	<b>16,584</b>	9,425	<b>61,232</b>	29,622

### ***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 FOR THE THIRD QUARTER OF 2008**

Vero continued to grow in every respect during the third quarter of 2008. Revenues increased by 62% after hedging while production increased by 28% as compared to the same quarter last year. A portion of the increase was related to the two corporate acquisitions completed in the second quarter but also the asset acquisition that closed at the end of July. This latter acquisition was comprised of both producing properties and over 54,000 net acres of undeveloped lands and allowed us to increase our presence in our existing core areas. In addition, Vero continued to be very active in its exploration and development activities. During the quarter we spent \$48,234 including: \$16,698 drilling and completing 8 (5.3 net) wells; \$8,760 in equipping and tying-in new wells; \$1,089 in shooting 3D seismic; and \$1,007 in acquiring new Crown land acreage. Vero achieved average production of 6,236 boe/d in the quarter and this brings us to an average of 6,032 boe/d for the year to date. The combination of solid production gains and strong commodity prices generated \$16,584 of cash flows for the quarter or \$0.72 per share and \$61,232 for the year to date or \$1.93 per share. The main contributors to the increase in cash flow were the 35% increase in natural gas prices to \$7.81 per mcf, a 44% increase in natural gas liquids prices and a 49% increase in oil prices to average \$112.72 per barrel in the quarter. Following is a detailed discussion of the results from the third quarter.

## **DETAILED FINANCIAL REVIEW**

### **PRODUCTION REVENUE AND VOLUMES**

Vero increased aggregate production volumes by 28% in the third quarter of 2008 to 573,754 boe compared to 447,589 boe in the third quarter of 2007. Production growth over last year continues to be primarily attributable to Vero's successful drilling results. In addition, two corporate acquisitions in the second quarter and a producing asset acquisition at the end of July were contributors during 2008.

Gas production contributed 81% of total volumes for the third quarter while liquids came in at 11% and oil at 8%. This compares to 82% for gas in the same quarter of 2007, liquids at 10% and oil at 8%. For the balance of 2008 it is anticipated that the weighting to natural gas will remain around the 80% level.

### **Aggregate Sales Volumes**

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Natural gas (mcf)	<b>2,765,405</b>	2,205,655	25	<b>7,718,995</b>	6,020,159	28
Light/medium oil (bbl)	<b>47,414</b>	34,651	37	<b>159,575</b>	91,773	74
Natural gas liquids (bbl)	<b>65,439</b>	45,329	44	<b>206,782</b>	141,497	46
Barrels of oil equivalent (boe)	<b>573,754</b>	447,589	28	<b>1,652,856</b>	1,236,630	34

## Daily Sales Volumes

Daily sales volumes increased 28% to 6,236 boe/d in 2008 from 4,865 boe/d in the third quarter of 2007. Daily oil volumes increased by 37% in the third quarter of 2008 over 2007 as Vero was successful in the drilling of its oil targets in the Corbett and Edson areas. Third quarter production includes the impact of the two corporate acquisitions from the second quarter as well as a portion of production from the asset acquisition, which closed at the end of July. In the fourth quarter, planned capital spending on drilling and completions and the anticipated closing of a corporate acquisition is expected to increase our daily production up to our anticipated 2008 exit rate of between 8,400 and 8,800 boe/d.

Daily volumes broken down by product were as follows:

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Natural gas (mcf/d)	<b>30,059</b>	23,975	25	<b>28,172</b>	22,052	28
Light/medium oil (bbl/d)	<b>515</b>	377	37	<b>582</b>	336	73
Natural gas liquids (bbl/d)	<b>711</b>	493	44	<b>755</b>	518	46
Barrels of oil equivalent (boe/d)	<b>6,236</b>	4,865	28	<b>6,032</b>	4,530	33

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

Area (boe/d)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Edson	<b>3,564</b>	3,341	7	<b>3,788</b>	2,960	28
Whitecourt	<b>1,322</b>	458	189	<b>879</b>	476	85
Corbett	<b>766</b>	476	61	<b>865</b>	425	104
Wilson Creek	<b>256</b>	434	(41)	<b>272</b>	514	(47)
Other	<b>328</b>	156	110	<b>228</b>	155	47
Total	<b>6,236</b>	4,865	28	<b>6,032</b>	4,530	33

## Benchmark Indices

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
<b>Natural gas</b>						
NYMEX (US \$/mmbtu)	<b>10.10</b>	6.13	65	<b>9.62</b>	6.87	40
AECO- Daily (CDN \$/mcf)	<b>7.73</b>	5.16	50	<b>8.64</b>	6.55	32
<b>Crude Oil</b>						
WTI (US \$/bbl)	<b>117.98</b>	75.38	57	<b>113.29</b>	66.19	71
Edmonton light (CDN \$/bbl)	<b>121.85</b>	79.95	52	<b>115.14</b>	72.99	58
<b>Foreign Exchange</b>						
Canadian to US dollar	<b>0.96</b>	1.04	(8)	<b>0.98</b>	1.10	(11)
US to Canadian dollar	<b>1.04</b>	0.96	8	<b>1.02</b>	0.91	12

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 for the third quarter was 50% higher in 2008 as compared to 2007 levels. A cold start to the new year in 2008 reduced storage inventories and gave rise to the increase in AECO prices. This coupled with an active hurricane season to start the summer months caused gas prices to increase substantially in the second quarter. However, as storage fears subsided and a mild summer ensued, natural gas prices started coming down from double digit levels in July and continued their descent to the end of the third quarter. WTI oil prices for the third quarter of 2008 experienced an increase of 57% compared with 2007 as both supply and demand fears dominated the markets. The Canadian dollar started to decline against the U.S. dollar from parity in June and continued to decline through the end of September. The strengthening of the U.S. dollar had the effect of slightly muting the increase in WTI prices as the Edmonton light oil benchmark price increased by 52%.

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

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Natural gas (\$/mcf)	<b>7.81</b>	5.79	35	<b>9.11</b>	7.23	26
Gain (loss) on financial contracts (\$/mcf)	<b>(0.54)</b>	0.54	(200)	<b>(0.35)</b>	0.23	(252)
Realized price (\$/mcf)	<b>7.27</b>	6.33	15	<b>8.76</b>	7.46	17
Light / medium oil (\$/bbl)	<b>112.72</b>	75.59	49	<b>107.75</b>	69.01	56
Natural gas liquids (\$/bbl)	<b>100.07</b>	69.67	44	<b>99.67</b>	63.36	57
Barrels of oil equivalent (\$/boe)	<b>55.78</b>	44.08	27	<b>63.79</b>	48.67	31

Realized natural gas prices for the year to date increased by 26% as a result of significantly higher market prices in the second and third quarter of this year. Realized oil prices increased by 56% in 2008 compared to 2007. This closely parallels the 58% increase in Edmonton par oil pricing. Prices received for natural gas liquids increased by 57% in 2008, which is primarily due to a higher proportion of pentane production, which more closely parallels oil pricing.

### Production revenue

Revenues, net of hedging activities for the third quarter of 2008 were 62% higher compared with the same period in 2007. Both prices and production volumes for all commodities increased on a quarterly and year-to-date basis. For the third quarter, natural gas prices, after hedging, increased by 15% while volumes increased by 25%. Both of these combined contributed a net, \$6.2 million in additional revenue from the same quarter in 2007. Oil production in the quarter increased 37% over last year and prices increased by 49%, contributing an additional \$2.7 million in revenue. Liquids volumes also increased, up by 44%, and with prices also increasing by 44% the net effect was a \$3.4 million increase in related revenue. For the quarter, oil and liquids production have increased slightly from 18% of total production last year to 19% this year. However, because of higher relative commodity prices, revenues for oil and liquids have increased from 29% of total revenue in 2007 to 37% of total revenue this year.

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Natural gas	21,602	12,765	69	70,299	43,548	61
Light / medium oil	5,345	2,619	104	17,194	6,333	171
Natural gas liquids	6,548	3,158	107	20,610	8,965	130
Realized (loss) gain on financial contracts	(1,490)	1,189	(225)	(2,666)	1,344	(298)
Production revenue	32,005	19,731	62	105,437	60,190	75

## ROYALTIES

Royalties were \$8,857 for the third quarter of 2008 compared to \$5,551 in 2007. The 60% increase in aggregate dollars parallels the 62% increase in production revenues in 2008. On a per boe basis the rate increased to \$15.44 in the third quarter of 2008 from \$12.40 in 2007 mainly as a result of higher commodity prices. As a percentage of revenue, the rate for 2008 was marginally lower than 2007 at 27.7% in the third quarter of 2008 compared to 28.1% in 2007. As our older wells, which have gross over-riding royalties associated with them, decline in production, the effective royalty rate declines as well since our newer production is not burdened by the same type of royalties. Vero expects that its effective royalty rate will be in the 26%-28% range for the balance of the year.

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Crown – gross	7,924	4,964	60	24,162	15,150	59
Freehold/gross over-riding	933	586	59	2,961	1,863	59
Total royalties	8,857	5,551	60	27,123	17,013	59
Royalties (\$/boe)	15.44	12.40	25	16.41	13.76	19
Royalties - % of production revenue	27.7	28.1	(1)	25.7	28.3	(9)

## RISK MANAGEMENT ACTIVITIES

The Company entered into the following commodity contracts during 2008:

Type	Amount	Term	Price (\$/gj)	Type
Costless collar	5,000 gj/day	April 1 – October 31, 2008	\$6.50 - \$8.25	Financial
Swap	5,000 gj/day	April 1 – October 31, 2008	\$7.50	Financial
Costless collar	5,000 gj/day	April 1 – October 31, 2008	\$7.00 - \$8.80	Financial
Costless collar	10,000 gj/day	November 1 – December 31, 2008	\$7.75 - \$9.50	Financial

These hedges are 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. In the third quarter of 2008, the unrealized gain from the Company's hedging contracts was \$9,321 and for the nine months ended September 30 the unrealized gain was \$1,612. This compares with a loss of \$733 for the third quarter and \$nil for the nine month period of 2007. Realized gains or losses are recorded in income in the period in which they occur. For the third quarter of 2008 Vero

recorded \$1,490 in realized losses on hedging contracts, compared with a gain of \$1,189 in the same period last year.

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

Aggregate DD&A for the third quarter increased to \$10,039 from \$9,543 in the third quarter of 2007. The third quarter rate per boe of \$17.50 is down by 18% from \$21.32 in 2007, however significantly higher production volumes this year resulted in an increase in the recorded aggregate expense compared with 2007. The decrease in the DD&A rate from 2007 was primarily due to the positive reserve additions in the last half of 2007 and the first nine months of 2008. In addition, favourable acquisition metrics on the corporate acquisitions that closed earlier in the year, as well as the asset acquisition in July, kept this rate in line with Vero’s organic depletion rate. Accretion on asset retirement obligations increased by 80% quarter over quarter and 58% for the year to date as a result of abandonment obligations from the numerous wells acquired in the three recent acquisitions. For the balance of 2008 we anticipate the DD&A rate to be similar to the rate experienced in the third quarter of 2008.

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Depletion and depreciation	9,949	9,493	5	28,389	27,088	5
Accretion on asset retirement obligations	90	50	80	202	128	58
Total DD&A	10,039	9,543	5	28,591	27,216	5
DD&A (\$ / boe)	17.50	21.32	(18)	17.30	22.00	(21)

## OPERATING

Operating costs were \$3,903 or \$6.80 per boe in the third quarter of 2008 compared to \$2,754 and \$6.15 per boe in the third quarter of 2007. Aggregate operating costs increased by 42% while production volumes increased by 28%. Operating costs per boe for the quarter were up by 11% compared to 2007. The increase was twofold. First, the increase in net costs of 42% was not offset by the increase in production of 28%. This disproportionate increase was caused by numerous third party gas plant turnarounds that restricted Vero’s production in the quarter. Second, the operating costs attributable to the corporate and asset acquisitions have somewhat higher operating costs than Vero’s pre-acquisition production. While the Company continues to enjoy a low operating cost environment due to its concentration of operations in West Central Alberta, for the balance of 2008 it is anticipated that the operating cost per boe will be similar to that experienced in the third quarter.

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Expense per financial statements	3,903	2,754	42	9,994	7,558	32
Add: processing income	118	18	556	372	31	1,200
Gross expense	4,021	2,772	45	10,366	7,589	37
Net expense (\$ / per boe)	6.80	6.15	11	6.05	6.11	(1)
Net expense (% of revenue)	12.6	14.1	(11)	9.8	12.6	(22)

## TRANSPORTATION

Transportation expenses were \$787 for the quarter and amounted to 2.5% of production revenue for the period. Cost per boe for the quarter averaged \$1.37, which is 9% lower than the third quarter of 2007. Year to date, the cost per boe is slightly lower than 2007 at \$1.26 as Vero entered into additional firm gas transportation service contracts. 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 2008 is expected to be relatively consistent with the first nine months of the year as the majority of these costs are variable in nature.

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Expense per financial statements	<b>788</b>	674	17	<b>2,083</b>	1,652	26
Expense (\$ / boe)	<b>1.37</b>	1.51	(9)	<b>1.26</b>	1.34	(6)
Expense (% of revenue)	<b>2.5</b>	3.4	(26)	<b>2.0</b>	2.7	(26)

## GENERAL AND ADMINISTRATIVE (G&A)

Gross G&A expense for the third quarter increased 74% to \$1,863 in 2008 from \$1,069 in 2007. Net G&A for the quarter increased 73% to \$1,262 over the same period last year. Capital overhead recoveries in the quarter were higher this year as a result of higher, Vero-operated, activity levels. Included in G&A for the third quarter of 2008 is a bad debt provision of \$230 related to the partial default of a payment for one month by the gas marketer that was inherited from the corporate acquisition completed in April. This marketer had re-marketed a portion of its gas sales to SemCanada, who filed for creditor protection in Canada in July. As a result of the SemCanada default the marketer in turn passed along this default to all of the producers that it marketed gas for. The bad debt is a one-time charge which has increased G&A expense by \$0.40 per boe in the third quarter. Immediately subsequent to this default, steps were taken by the Company to mitigate any further losses and Vero does not expect any further write-downs related to this matter. Excluding the bad debt expense, gross G&A per boe would actually be only 19% higher for the quarter and 6% lower for the year to date as compared to 2007.

Another factor causing the increase in gross G&A was additional staffing requirements coinciding with our acquisitions and also those needed to pursue future growth opportunities. In addition, the third quarter of 2008 was the first full quarter of our expanded leased premises used for the staffing increases. Vero realized net G&A of \$2.20 per boe in the quarter compared to \$1.63 in 2007, an increase of 35%. Excluding the bad debt expense, net G&A per boe would be only 10% higher for the quarter and 12% lower for the year to date results. 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. Capitalized G&A for the third quarter of 2008 was \$140, representing a 35% increase from the same quarter in 2007. Vero is anticipating adding more staff before year end to further accommodate the anticipated corporate acquisition in November 2008.

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Gross expense	<b>1,863</b>	1,069	74	<b>4,789</b>	3,627	32
Less:						
Overhead recoveries	<b>(461)</b>	(236)	95	<b>(1,043)</b>	(674)	55
Capitalized G&A	<b>(140)</b>	(104)	35	<b>(520)</b>	(421)	24
Net expense	<b>1,262</b>	729	73	<b>3,226</b>	2,532	27
Average cost (\$ per boe)						
Gross expense	<b>3.25</b>	2.39	36	<b>2.90</b>	2.94	(1)
Net expense	<b>2.20</b>	1.63	35	<b>1.95</b>	2.05	(5)

## INTEREST AND BANK CHARGES

Interest expense for the third quarter of 2008 increased 2% to \$611 from \$598 in the third quarter of 2007. While average, interest-bearing debt increased by 29% in the third quarter of 2008 compared to 2007, the effective interest rate declined by 22% to help offset this. Higher debt levels at September 30, 2008 were the result of significant drilling and facility programs entered into by the Company during the first nine months of 2008. In addition one of the corporate acquisitions for \$2,441 plus the asset acquisition in July for \$20,312 were financed with the Company's bank line. These higher debt levels were mitigated by the private placement that Vero closed on February 28, 2008 which provided a net cash infusion of \$16,758. The per boe interest expense rate was \$1.06 for the third quarter of 2008 compared to \$1.34 for last year, representing a 21% decrease quarter to quarter. It is anticipated that the interest cost per boe will rise slightly for the fourth quarter as the capital expenditure program increases, but will be offset somewhat by higher production levels.

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Interest per financial statements	<b>611</b>	598	2	<b>1,779</b>	1,813	(2)
Deduct: Commitment & other fees	<b>(3)</b>	(2)	50	<b>(76)</b>	(52)	46
Debt bearing interest	<b>608</b>	596	2	<b>1,703</b>	1,761	(3)
Average debt outstanding	<b>48,074</b>	37,158	29	<b>42,941</b>	37,917	13
Average interest rate	<b>5.0</b>	6.4%	(22)	<b>5.3</b>	6.2%	(15)
Average interest cost (\$ per boe)	<b>1.06</b>	1.34	(21)	<b>1.08</b>	1.47	(27)

## STOCK BASED COMPENSATION

Stock based compensation expense was \$816 for the third quarter of 2008 compared to \$319 in 2007. The 156% increase in expense is attributable to the granting of 1,426 new options in the second and third quarters of this year. The third quarter per boe rate doubled from 2007 as a result of these additional option grants. The fair value of all stock options is amortized over the options' vesting period, which is three years for all options granted.

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Expense per financial statements	<b>816</b>	319	156	<b>1,316</b>	1,130	16
Expense (\$ / boe)	<b>1.42</b>	0.71	100	<b>0.80</b>	0.91	(12)

## INCOME TAXES

The income tax provision for the third quarter of 2008 was \$4,629 and was comprised entirely of future income taxes. This compares with a future tax recovery of \$268 in the same period last year. The effective 2008 tax rates are 30.8% in the third quarter and 30.3% for the year to date.

Pursuant to the flow-through share private placement financing, 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. Vero satisfied this commitment in full during 2007. The Company entered into another flow-through share financing in February of 2008. Under this financing Vero is committed to renounce \$17,945 of exploration expenses to subscribers by December 31, 2008. As of September 30, 2008, \$7,231 had been expended leaving \$10,714 to be spent by December 31, 2009. The tax effects of the renunciations are recorded when the documents relating to the renunciation are filed with the tax authorities. The future tax liability related to the April 2007 flow-through financing was recognized in the first quarter of 2008 and it is anticipated that the tax effect of the February 2008 financing will be recorded in the first quarter of 2009. At the time the renunciation is made the estimated tax effect of the foregone tax benefits is charged to share capital with a corresponding increase to the future income tax liability.

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

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Future income tax expense	<b>4,629</b>	(268)	1,827	<b>9,993</b>	954	947
Tax expense (\$ / boe)	<b>8.07</b>	(0.60)	1,145	<b>6.05</b>	0.77	686
Effective tax rate (%)	<b>30.8</b>	(22.9)	234	<b>30.3</b>	74.8	(59)

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

<i><b>Tax Pools</b></i>	<i><b>Rate %</b></i>	<i><b>2008</b></i>	<i><b>2007</b></i>
Canadian exploration expenses	100	<b>3,997</b>	15,779
Canadian development expenses	30	<b>54,834</b>	40,133
Canadian oil and gas property expenses	10	<b>48,443</b>	29,368
Undepreciated capital costs	10 - 30	<b>50,009</b>	30,914
Financing costs	20%	<b>2,629</b>	1,991
Attributed Canadian Royalty Income	100 (Alberta)	<b>38</b>	2,195
<b>Total</b>		<b>159,950</b>	120,380

## NETBACKS

Operating netbacks of \$32.17 per boe for the third quarter of 2008 were 34% higher than those realized for the same quarter in 2007. The 27% increase in average prices per boe for the quarter was the main reason for the change. For the nine months to date the increase in operating netbacks was 46%. Operating cost efficiencies continue even though the two acquisitions in the second quarter and the asset acquisition in the third quarter had higher operating costs per boe than what Vero had on its own production. For the third quarter, operating costs increased by 11% while on a year to date basis there was a decrease of 1%. Cash flow netbacks in 2008 were higher by 37% on the quarter and 55% year-to-date compared with 2007. Higher production volumes translated into a cash flow netback of \$28.91 per boe for the third quarter. G&A cost per boe increased by 35% in the quarter mainly the result of the bad debt provision which contributed \$0.40 per boe on the quarter and \$0.14 per boe for the nine month period. The single largest expense for Vero is the DD&A provision. Vero was able to reduce this amount by 18% on the quarter and 21% for the year to date compared to 2007 mainly as a result of the successful drilling program. In addition, the two acquisitions had favourable metrics and this allowed the Company to achieve a \$17.50 per boe rate for the quarter. The second largest non-cash item was the unrealized gain on the mark-to-market measurement of Vero's hedges. Although these hedges include future periods starting after September 30, 2008, the unrealized amount is brought into the income calculation in its entirety. Stock based compensation expense per boe increased by 100% in the third quarter from 2007 levels due to the granting of additional options and the resulting amortization of the increased expense in the quarter. Future income tax expense per boe in 2008 is higher relative to 2007 as the prior year amounts included the recognition of tax rate reductions.

<i>Netbacks (\$ per boe)</i>	Three months ended September 30,			Nine Months ended September 30,		
	<b>2008</b>	2007	%	<b>2008</b>	2007	%
Realized price	<b>55.78</b>	44.08	27	<b>63.79</b>	48.67	31
Royalties (net of ARTC)	<b>(15.44)</b>	(12.40)	25	<b>(16.41)</b>	(13.76)	19
Operating expenses	<b>(6.80)</b>	(6.15)	11	<b>(6.05)</b>	(6.11)	(1)
Transportation expenses	<b>(1.37)</b>	(1.51)	(9)	<b>(1.26)</b>	(1.34)	(6)
<b>Operating</b>	<b>32.17</b>	24.02	34	<b>40.07</b>	27.46	46
G&A	<b>(2.20)</b>	(1.63)	35	<b>(1.95)</b>	(2.05)	(5)
Interest expense	<b>(1.06)</b>	(1.34)	(21)	<b>(1.08)</b>	(1.47)	(27)
<b>Cash flow</b>	<b>28.91</b>	21.05	37	<b>37.04</b>	23.94	55
Unrealized gain (loss) on hedges	<b>16.25</b>	(1.64)	1,091	<b>0.98</b>	-	-
Stock based compensation	<b>(1.42)</b>	(0.71)	100	<b>(0.80)</b>	(0.91)	(12)
D,D&A	<b>(17.50)</b>	(21.32)	(18)	<b>(17.30)</b>	(22.00)	(21)
Future income taxes	<b>(8.07)</b>	0.60	1,445	<b>(6.05)</b>	(0.77)	686
<b>Net earnings</b>	<b>18.17</b>	(2.02)	1,000	<b>13.87</b>	0.26	5,235

## Operating Netback by Commodity Type

<i>Natural gas (\$/mcf)</i>	Three months ended			Nine months ended		
	September 30,			September 30,		
	2008	2007	%	2008	2007	%
Production revenue	<b>7.27</b>	6.33	15	<b>8.76</b>	7.46	17
Royalties (excluding ARTC)	<b>(2.08)</b>	(1.84)	13	<b>(2.26)</b>	(2.12)	7
Operating expenses	<b>(0.96)</b>	(0.59)	63	<b>(0.85)</b>	(0.62)	37
Transportation costs	<b>(0.20)</b>	(0.27)	(26)	<b>(0.18)</b>	(0.24)	(25)
Operating netback	<b>4.03</b>	3.63	11	<b>5.47</b>	4.48	22

<i>Crude oil (\$/bbl)</i>	Three months ended			Nine months ended		
	September 30,			September 30,		
	2008	2007	%	2008	2007	%
Production revenue	<b>112.72</b>	75.59	49	<b>107.75</b>	69.01	56
Royalties (excluding ARTC)	<b>(20.86)</b>	(13.21)	58	<b>(15.59)</b>	(12.99)	20
Operating expenses	<b>(8.95)</b>	(7.79)	15	<b>(8.60)</b>	(7.95)	8
Transportation costs	<b>(2.76)</b>	(1.11)	149	<b>(2.85)</b>	(0.95)	200
Operating netback	<b>80.15</b>	53.48	50	<b>80.71</b>	47.12	71

<i>Natural gas liquids (\$/bbl)</i>	Three months ended			Nine months ended		
	September 30,			September 30,		
	2008	2007	%	2008	2007	%
Production revenue	<b>100.07</b>	69.67	44	<b>99.67</b>	63.36	57
Royalties (excluding ARTC)	<b>(32.54)</b>	(22.68)	43	<b>(34.66)</b>	(21.46)	62
Operating expenses	<b>(12.68)</b>	(25.95)	(51)	<b>(10.03)</b>	(22.04)	(54)
Transportation costs	<b>(1.53)</b>	(1.01)	51	<b>(1.25)</b>	(0.88)	42
Operating netback	<b>53.32</b>	20.03	166	<b>53.73</b>	18.98	183

## CASH FLOW AND NET EARNINGS

Cash flow from operations in the third quarter of 2008 was \$16,584, an increase of 76% from \$9,425 realized in the third quarter of 2007. The production volume increase of 28% and the increase in average commodity prices of 27% both contributed to the significant gain in cash flow. Net earnings were also higher by 1,255% compared to 2007 as a result of increasing commodity prices, but was also assisted by the growth in production and the declining DD&A rate. Cash flow from operations is calculated as follows:

	Three months ended			Nine months ended		
	September 30,			September 30,		
	2008	2007	%	2008	2007	%
Net earnings (loss)	<b>10,421</b>	(902)	1,255	<b>22,944</b>	322	7,025
Adjustments for:						
Unrealized (gain) loss on risk management	<b>(9,321)</b>	733	(1,372)	<b>(1,612)</b>	-	-
Stock based compensation expense	<b>816</b>	319	156	<b>1,316</b>	1,130	16
Depletion, depreciation and accretion	<b>10,039</b>	9,543	5	<b>28,591</b>	27,216	5
Future income tax (recovery)	<b>4,629</b>	(268)	1,827	<b>9,993</b>	954	947
Cash flow from operations	<b>16,584</b>	9,425	76	<b>61,232</b>	29,622	107

On a basic weighted average per share basis, Vero realized \$0.32 for basic earnings per share for the third quarter and \$0.72 for year to date. These amounts represent 1,167% and 7,100% increases respectively from the same periods of 2007. Cash flow per share in the third quarter of 2008 was \$0.50 (basic and diluted) representing a 52% and 56% increase, respectively over the same quarter of 2007. For the nine months ended September 30, Vero achieved \$1.93 in cash flow on a basic basis and \$1.92 on a diluted basis.

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Net earnings						
Basic	<b>0.32</b>	(0.03)	1,167	<b>0.72</b>	0.01	7,100
Diluted	<b>0.31</b>	(0.03)	1,133	<b>0.72</b>	0.01	7,100
Cash flow						
Basic	<b>0.50</b>	0.33	52	<b>1.93</b>	1.06	82
Diluted	<b>0.50</b>	0.32	56	<b>1.92</b>	1.05	83

## CAPITAL EXPENDITURES

Vero's capital spending in the third quarter totalled \$48,234, of which \$27,893 was spent on exploration and development activities. The Company drilled 8 (5.3 net) wells as compared to 10 (6.2 net) wells in the third quarter of 2007. Vero devoted 60% of its total exploration and development capital to drilling and completing new wells in the quarter, of which 3 (3.0 net) were horizontal wells. In July, Vero also acquired producing assets, non-producing lands and an increase of working interest in several existing properties from an industry partner for \$20,312. This cash purchase represented 42% of third quarter capital spending and 24% of year to date capital spending. The breakdown of costs incurred during each period is as follows:

<i>Capital expenditures</i>	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Exploration and development						
Land acquisitions and lease rentals	<b>1,007</b>	2,030	(50)	<b>2,390</b>	2,991	(20)
Geological and geophysical	<b>1,428</b>	239	497	<b>2,225</b>	2,197	1
Drilling and completions	<b>16,698</b>	13,018	28	<b>40,895</b>	32,924	24
Well equipment and facilities	<b>8,760</b>	3,226	172	<b>16,058</b>	10,418	54
Exploration and development expenditures	<b>27,893</b>	18,513	51	<b>61,568</b>	48,530	27
Other expenditures	<b>29</b>	9	222	<b>47</b>	33	42
Total capital expenditures	<b>27,922</b>	18,522	51	<b>61,615</b>	48,563	27
Corporate acquisition (cash outlay)	-	-	-	<b>2,606</b>	-	-
Property acquisition	<b>20,312</b>	-	-	<b>20,312</b>	2,478	720
Net capital expenditures before ARO	<b>48,234</b>	18,522	160	<b>84,533</b>	51,041	66
Capitalized asset retirement obligations	<b>1,664</b>	398	318	<b>1,692</b>	490	245
Total capital additions	<b>49,898</b>	18,920	164	<b>86,225</b>	51,531	67

	Three months ended September 30,				Nine months ended September 30,			
	2008		2007		2008		2007	
<i>Wells drilled</i>	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploration	2	2.0	4	2.2	4	3.2	6	2.9
Development	5	2.8	5	4.3	17	11.6	18	11.8
Dry holes	1	0.5	1	0.1	1	0.5	4	3.1
Total wells	8	5.3	10	6.6	22	15.2	28	17.8
Success rate	88	91	90	98	95	97	86	82

Capital spending is reviewed and updated by management on a continuous basis. Increases to the capital budget are approved quarterly by the Board of Directors. While spending for the rest of the year 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 cash flows from forecasted production levels, plus cash flow contributed from the corporate acquisitions will be sufficient to fund our planned capital expenditure program.

## LAND HOLDINGS

The undeveloped land holdings at September 30, 2008 are as follows:

Area	Gross Acres	Net Acres	Average WI %
Whitecourt	77,280	61,271	79
Edson	41,760	28,604	68
Corbett	30,400	23,155	76
Other Alberta	59,006	35,707	61
Saskatchewan	10,926	10,869	99
Total	219,372	159,606	73

## LIQUIDITY AND CAPITAL RESOURCES

Debt and working capital	as at September 30,		
	2008	2007	%
Bank debt	57,712	37,999	52
Working capital deficiency (excluding hedges)	10,013	15,003	(33)
Net debt	67,725	53,002	28

Capital Program Funding	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	%	2008	2007	%
Cash, beginning of period	-	-	-	-	-	-
Funds provided by operations	16,584	9,425	76	61,232	29,622	107
(Decrease) increase in bank debt	21,368	(773)	2,864	7,904	2,348	237
Share issuance, net of costs	-	-	-	16,758	17,936	(7)
Repurchase of shares	(1,081)	-	-	(1,081)	-	-
Stock option exercises	3,434	-	-	4,378	21	20,748
Change in non-cash working capital	7,929	9,870	(20)	(4,658)	1,114	(518)
Net capital expenditures	48,234	18,522	160	84,533	51,041	66

The Company funded its \$84,533 in total capital expenditures for the nine months ended September 30, 2008 from a variety of sources. Vero's cash flow for the first nine months was \$61,232, and when combined with \$16,758 in net proceeds from a private placement; \$4,378 from stock option exercises; and a draw-down of \$7,904 in its bank operating loan, more than sufficient funds were generated to fund the program to date. The net debt brought forward from December 31, 2007 of \$61,774 plus the financial activity for the nine months to date culminated in net debt at September 30, 2008 of \$67,725. This net debt calculation excludes the \$1,231 of the mark-to-market asset for its natural gas hedges as this is a non-cash asset until it is settled. Using annualized cash flow for the third quarter, this net debt level results in a net debt to cash flow ratio of 1.0x.

Vero continually revisits its capital program with a view to expanding it for additional projects it has in its inventory plus new projects made available to us through industry partners while operating within the limits approved by the Board. As a result of Vero management's assessment of the financial strength of the company, the strength and perceived direction of commodity prices, and the resources and opportunities available to the company, the Board of Directors will review the remaining 2008 and 2009 capital budgets. Guidance will be issued by the Company for the remainder of 2008 and 2009 in mid-November. To fund the remaining capital program for 2008, Vero expects to generate approximately \$22-\$24 million of cash flow in the last quarter of the year. The shortfall of the cash flow from the anticipated capital spending in the fourth quarter will be more than covered by Vero's existing bank line of credit.

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, 2007. The bank facility is subject to periodic borrowing base reviews. The most recent review by the bank was completed in April 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 as the financing needs of the company are expanded, Vero will apply for interim reviews of the credit facility with a view to upgrading it. To ensure that Vero continues to take advantage of opportunities that present themselves, the Company is in the process of an interim review of our bank line of credit with a view to expanding the current authorized facility. These financial resources give Vero the opportunity to expand its capital program while maintaining a very healthy balance sheet throughout 2009.

Below is a summary of the trading history of the Company's shares for 2008 and 2007.

	2008				2007		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
High	<b>10.90</b>	11.34	8.25	6.23	7.50	8.09	6.25
Low	<b>6.55</b>	7.50	5.61	5.36	5.30	5.79	5.21
Close	<b>7.40</b>	9.48	7.65	5.80	5.68	7.50	5.77
Volume (000's)	<b>7,048</b>	15,024	10,624	8,807	6,671	7,514	9,417

## 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

There were no related-party transactions during the quarters ended September 30, 2008 and September 30, 2007.

## CONTRACTUAL OBLIGATIONS

The Company is obligated, at September 30, 2008 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	<b>1,487</b>	387	749	351
Office Leases	<b>3,023</b>	1,066	1,868	89
Farm-in obligations	<b>12,175</b>	12,175	-	-
Total contractual obligations	<b>16,685</b>	13,628	2,617	440

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. Office leases are comprised of a four year lease for Vero's head office plus two office leases assumed with the two corporate acquisitions during the second quarter of 2008. Vero has mitigated these latter obligations by entering into sub-lease agreements that virtually offset the amounts we are obliged to pay. As at September 30, 2008 Vero had committed to drill a total of nine wells in Alberta with varying commencement dates in 2008 pursuant to farm-in agreements with industry partners. Vero estimates it will take approximately \$12,175 to fulfill these farm-in commitments.

## 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 end of the most recent quarter and the preceding year-end:

(000's)	Periods ended September 30, 2008			
	October 24, 2008	3 months	Nine months	December 31, 2007
Common shares outstanding	33,332	<b>33,433</b>	<b>33,433</b>	28,915
Stock options outstanding	2,977	<b>2,983</b>	<b>2,983</b>	2,434
Fully diluted shares	36,309	<b>36,416</b>	<b>36,416</b>	31,349
Weighted average common shares				
Basic	<b>N/A</b>	<b>32,955</b>	<b>31,680</b>	28,129
Diluted	<b>N/A</b>	<b>33,160</b>	<b>31,916</b>	28,318

## SELECTED QUARTERLY INFORMATION

Below is summarized quarterly information for the previous eight quarters.

<i>(000's except as noted)</i>	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
Production (boe/d)	6,236	6,087	5,771	5,241
Average prices realized (\$/boe)	55.78	76.30	59.35	48.16
Production revenue (inc. hedges)	32,005	42,264	31,167	23,218
Net earnings	10,421	8,740	3,783	2,842
Basic - per share (\$/share)	0.32	0.27	0.13	0.09
Diluted - per share (\$/share)	0.31	0.26	0.13	0.09
Cash flow	16,584	26,805	17,842	11,662
Basic - per share (\$/share)	0.50	0.84	0.60	0.40
Diluted - per share (\$/share)	0.50	0.82	0.59	0.40
Total assets	291,733	254,078	220,682	207,051
Net capital expenditures	48,234	16,411	19,908	20,412
Long term financial liabilities	-	-	-	-
Net debt	67,725	38,428	50,527	61,774
Dividends paid	-	-	-	-

<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 (inc. hedges)	19,731	20,051	20,407	14,846
Net earnings (loss)	(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 (surplus)	53,002	43,172	65,934	49,540
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, 2007.

### 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, 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.

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

The government has previously stated its intention to consult with industry and potentially revise the New Royalty Framework ("NRF") for unintended consequences. This consultation has now been concluded and on April 10, 2008 the government released its clarifications as well as a new "deep resource program". Highlights of this release are as follows:

### *Deep oil wells*

- A five-year oil program for exploration wells over 2,000 meters will provide royalty adjustments to offset higher drilling costs and provide a greater incentive for producers to continue to pursue new, deeper oil plays.
- Wells deeper than 2,000 meters represented 20 per cent of oil wells drilled and 26 per cent of new conventional oil production between 2002 and 2007.
- Wells will qualify for up to \$1 million or 12 months of royalty offsets, whichever comes first.

### *Deep natural gas*

- To encourage continued deep gas exploration, the government will replace the existing Royalty Adjustment Program with the Natural Gas Deep Drilling Program for wells deeper than 2,500 meters.
- Wells over 2,500 meters represented five per cent of natural gas wells drilled and 27 per cent of natural gas production between 2002 and 2007.
- The Natural Gas Deep Drilling Program will provide greater benefits to deeper wells, creating a sliding scale of royalty credit according to depth, up to \$3,750 per meter.

### *Other clarifications as a result of the unintended consequences analysis*

- Under the NRF, four par prices instead of two will be used to calculate royalties on oil, allowing royalties to be charged at a price closer to that received by the producer.
- Natural gas royalty will be calculated based on the sum of vertical drill depth and all laterals, encouraging greater development of coalbed methane. Greater use of laterals may significantly lessen land use and the environmental footprint of CBM development.

Vero has reviewed the new program as well as the “clarifications” and it has determined that they do not materially alter the impact of the NRF as we mentioned in our public disclosures throughout 2007.

## **CRITICAL ACCOUNTING ESTIMATES**

Management is often required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. There were no changes to Vero’s critical accounting estimates in the period from those used in the audited financial statements from 2007.

## **ACCOUNTING STANDARDS CHANGES**

### *Accounting Standard Changes*

As of January 1, 2008 Vero adopted the 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.

Also effective January 1, 2008, the Corporation adopted 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.

#### *Future Accounting Pronouncements*

In January 2006, the CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards (“IFRS”) by the end of 2011. The Corporation continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS

In February 2008, 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, 2008 and early adoption is permitted. Vero is currently evaluating the impact this section will have on our results of operations and financial position.

## **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, 2008, 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, 2008, 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.