

## MANAGEMENT'S, DISCUSSION AND ANALYSIS

*The following Management's Discussion and Analysis ("MD&A") was prepared on November 4, 2009 and is management's assessment of the Company's financial and operating results for the quarters ended September 30, 2009 and 2008. This MD&A should be read in conjunction with the audited, consolidated, financial statements and MD&A of the Company for the year ended December 31, 2008 with the notes related thereto. The consolidated financial statements for the nine months ended September 30, 2009 and September 30, 2008, as well as the year ended December 31, 2008 have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.*

*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)).*

### READER ADVISORIES

#### *Forward Looking Statements*

*Information provided herein contains estimates and assumptions which management is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Management's assessment of future plans and operations, capital expenditures, methods of financing capital expenditures and the ability to fund financial liabilities, completion of the equity financing and timing thereof, expected commodity prices and the impact on Vero, expected increase in royalty rates, and the timing of and impact of adoption of IFRS and other accounting policies may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, the inability to fully realize the benefits of the acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources*

*Although the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realized. The use of any of the words "anticipate", "believe", "continue", "estimate", "expect", "forecast", "may", "will", "project", "plan", "should", and similar expressions are intended to identify forward-looking information. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The risks associated with these forward-looking statements include, but are not limited to, the following:*

- *Fluctuations in natural gas, natural gas liquids and oil production levels;*
- *Vero's ability to successfully market its oil and natural gas products;*
- *Volatility in market prices for natural gas, natural gas liquids and oil;*
- *Changes in foreign currency exchange and interest rates;*
- *Uncertainties associated with estimating reserves;*

- *Competition for capital, asset acquisitions, undeveloped lands and skilled personnel;*
- *Unexpected events that are inherent in the oil and gas industry such as: geological and drilling problems, production, pipeline and mechanical failures;*
- *Well production and decline rates;*
- *Successes in the finding and development of reserves;*
- *Changes in the general economic conditions in Western Canada, Canada, North America and Worldwide.*
- *The effects of weather and climate conditions;*
- *The ability of Vero to obtain financing on acceptable terms;*
- *Competitive actions taken by other companies;*
- *Actions taken and policies created by governmental or regulatory authorities including changes to tax laws, incentive programs, royalty calculations and environmental regulations.*

*Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, 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.*

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

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

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

*This Management, Discussion and Analysis uses the terms “funds 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 funds flow from operations as a key performance measure as it demonstrates the Company's ability to generate funds necessary to repay debt and to fund future growth through capital investment. Funds flow from operations and funds flow from operations per share 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 funds flow from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and funds flow from operations can be found in the statement of cash flows in the financial statements. Vero also presents funds 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, funds flow from operations and net earnings netbacks. Operating netback is calculated as the average sales price of its commodities (including financial instrument gains and losses) and then subtracts royalties, transportation costs and operating expenses. Funds flow netback starts with the*

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

Net debt and working capital deficiency, which terms represent current assets less current liabilities and bank debt is used to assess efficiency, liquidity and the general financial strength of the company. Mark-to-market financial contracts are excluded from the net debt calculation. There is no GAAP measure that is reasonably comparable to net debt and working capital.

The Company reconciles funds flow from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with GAAP as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Cash flow from operating activities	3,125	19,231	5,721	57,759
Add (deduct):				
Change in non-cash working capital	919	(2,647)	12,292	3,473
Funds flow from operations	4,044	16,584	18,013	61,232

### **Barrel of Oil Equivalent**

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

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

During the third quarter of 2009 the natural gas industry experienced further natural gas price declines to levels that have not been seen since the beginning of this decade. Since Vero is predominantly a natural gas producer, this has negatively impacted financial results. In this low price environment Vero intentionally curtailed its production rates during the quarter to preserve value in the expectation prices will recover in the near future. Despite this intentional reduction, the Company still experienced an increase in third quarter and year to date production levels over the same periods in 2008. Vero averaged 6,610 boe/d in the third quarter of 2009 versus 6,236 in the same quarter last year. Funds flow from operations in the third quarter was \$4,044 or \$0.09 per share compared with \$16,584 (\$0.50 per share) in the third quarter of 2008. Overall, average prices declined 56% from the third quarter of 2008 in the most recent quarter. Low natural gas prices were also the reason Vero significantly reduced its capital spending compared with 2008. To this end, Vero drilled and completed only one gas well during the quarter. In aggregate Vero spent \$4,973 in capital during the quarter compared with \$27,893 in the comparable quarter from

last year. Natural gas prices have strengthened somewhat after the end of the quarter despite the natural gas supply overhang, and Vero remains optimistic prices will continue to recover during the winter and into next year. Vero's net debt was \$106,936 at September 30, 2009, consistent with the second quarter of this year.

## DETAILED FINANCIAL REVIEW

### PRODUCTION REVENUE AND VOLUMES

Vero increased aggregate production volumes by 6% in the third quarter of 2009 to 608,083 boe compared to 573,754 boe in the third quarter of 2008. Year-to-date volumes increased 16% compared to 2008. Production growth in 2009 was attributable to the successful drilling programs in the fourth quarter of 2008 and first quarter of 2009 mainly in Vero's core area of Edson. In addition, the corporate acquisition from November 2008 contributed to increased production levels over 2008. Vero delayed the commencement of production from 6 (4.5 net) gas wells drilled in the first quarter to take advantage of the 5% crown royalty rate for new wells commencing production on or after April 1, 2009. Gas production contributed 80% of total volumes while liquids came in at 15% and oil at 5%. This production mix is consistent with the third quarter of 2008 and it is anticipated that it will continue for the balance of the year.

#### Aggregate Sales Volumes

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Natural gas (mcf)	2,930,205	2,765,405	6	9,258,045	7,718,995	20
Light/medium oil (bbl)	26,469	47,414	(44)	93,454	159,575	(41)
Natural gas liquids (bbl)	93,246	65,439	42	273,870	206,782	32
Barrels of oil equivalent (boe)	608,083	573,754	6	1,910,332	1,652,856	16

#### Daily Sales Volumes

Daily sales volumes increased 6% to 6,610 boe/d in the third quarter of 2009 from 6,236 boe/d in the third quarter of 2008. The increase was realized from a combination of our successful drilling program in the latter half of 2008 and the first quarter of 2009, as well as acquisitions completed in the second half of 2008. Natural gas production increased by 6% for the quarter and 20% year-to-date. Daily production from natural gas liquids increased by 42% for the third quarter and 32% for the year to date. Oil production declined by 44% in the third quarter of 2009 compared to 2008, and 41% for the comparable nine month periods. Declining oil production has not been offset with any new wells.

Daily volumes were lower in the third quarter of 2009 than the previous quarter for a variety of reasons including: 250 boe/d shut-in due to higher operating cost wells that did not justify keeping them operating; 200 boe/d primarily due to down time at third party facilities; and voluntary, volume restrictions of approximately 400 boe/d due to low prices.

The Company resumed drilling in the third quarter, successfully completing and tying in a gas well that was producing restricted volumes of approximately 200 boe/d after it cleaned up and frac fluid recovered. If commodity prices continue to remain low, production may be restricted on new wells, which have typically exceeded 3 mmcf/d per well, until prices improve. As a result of a

combination of: the deferrals in starting-up wells drilled in the first quarter to April 1 to maximize the Alberta Royalty Incentive Program; current curtailed production; and, potential future shut in production, the average rate for 2009 is now projected to be between 6,800 and 6,900 boe/d.

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Natural gas (mcf/d)	<b>31,850</b>	30,059	6	<b>33,912</b>	28,172	20
Light/medium oil (bbl/d)	<b>288</b>	515	(44)	<b>342</b>	582	(41)
Natural gas liquids (bbl/d)	<b>1,014</b>	711	43	<b>1,003</b>	755	33
Barrels of oil equivalent (boe/d)	<b>6,610</b>	6,236	6	<b>6,998</b>	6,032	16

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,		
	2009	2008	%	2009	2008	%
Edson	<b>4,818</b>	3,564	35	<b>4,996</b>	3,788	32
Whitecourt	<b>754</b>	1,322	(43)	<b>834</b>	879	(5)
Corbett	<b>385</b>	766	(50)	<b>472</b>	865	(45)
Wilson Creek	<b>247</b>	256	(4)	<b>282</b>	272	4
Other	<b>406</b>	328	24	<b>414</b>	228	82
Total	<b>6,610</b>	6,236	6	<b>6,998</b>	6,032	16

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
<b>Natural gas</b>						
NYMEX (US \$/mmbtu)	<b>3.41</b>	10.10	(66)	<b>3.95</b>	9.62	(59)
AECO- Daily (CDN \$/mcf)	<b>2.94</b>	7.73	(62)	<b>3.78</b>	8.64	(56)
<b>Crude Oil</b>						
WTI (US \$/bbl)	<b>68.30</b>	117.98	(42)	<b>57.00</b>	113.29	(50)
Edmonton light (CDN \$/bbl)	<b>71.50</b>	121.85	(41)	<b>62.35</b>	115.14	(46)
<b>Foreign Exchange</b>						
Canadian to US dollar	<b>0.92</b>	0.96	(4)	<b>0.86</b>	0.98	(12)
US to Canadian dollar	<b>1.10</b>	1.04	6	<b>1.17</b>	1.02	15

### Benchmark Indices

United States natural gas prices are usually referenced to the New York Mercantile Exchange Henry Hub in Louisiana (NYMEX), while in Canada the generally recognized benchmark is the AECO hub in Alberta. Gas prices are influenced by a variety of factors such as: weather patterns; LNG imports; supplies in Western Alberta; demand in Eastern Canada and the United States, relative storage levels in North America and alternative fuel sources. AECO benchmark pricing was 62% lower in the third quarter of 2009 compared to the same quarter in 2008. Lower U.S. demand since late in 2008 and new supply sources from shale gas drilling in the U.S. have caused an over-supply situation in North America. Inventory of natural gas increased during 2009 and has now exceeded the previous five-year maximum. While last winter was relatively cold in North America, the prime consuming regions in the U.S. and Canada experienced cooler temperatures during the summer, reducing cooling demand. This also contributed to price

declines from April through September. AECO prices averaged \$2.94 per mcf in the third quarter of 2009 compared to \$7.73 in the same quarter last year.

West Texas Intermediate at Cushing, Oklahoma (“WTI”) is the benchmark reference price for North America crude oil prices. Canadian crude prices are based upon postings at Edmonton, Alberta and represent the WTI price adjusted for quality and transportation differentials and the US/Canadian dollar exchange rate. Through the third quarter of 2009, WTI declined 42% to \$68.30 from \$117.98 during the same quarter in 2008. Coupled with the decline in WTI price came a depreciation in the Canadian dollar. In recent years, movements in the Canadian dollar and the price of oil have become highly correlated. While WTI prices have declined from 2008 levels, both WTI and the Canadian dollar have increased significantly since the first quarter of 2009.

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

	Three months ended			Nine months ended		
	September 30,			September 30,		
	2009	2008	%	2009	2008	%
Natural gas (\$/mcf)	<b>3.23</b>	7.81	(59)	<b>4.14</b>	9.11	(55)
Light / medium oil (\$/bbl)	<b>64.35</b>	112.72	(43)	<b>55.00</b>	107.75	(49)
Natural gas liquids (\$/bbl)	<b>50.76</b>	100.07	(49)	<b>44.53</b>	99.67	(55)
Barrels of oil equivalent (\$/boe)	<b>24.64</b>	55.78	(56)	<b>28.41</b>	63.79	(55)

The volatility in commodity prices continued in the third quarter of 2009 as Vero realized an overall average price that was 56% lower than 2008. Realized natural gas prices decreased by 59% in the quarter compared to last year. However, because of the higher quality of Vero’s natural gas, we averaged a 10% premium to the AECO standard throughout the quarter. Vero’s realized third quarter oil prices decreased by 43% in 2009 compared to 2008 and natural gas liquids prices showed a 49% decrease in 2009. Although natural gas prices have recently recovered from current year lows, high storage levels continue to mute a price recovery in the near term. Vero anticipates that prices will continue to recover during the winter and into 2010 as declining production from natural gas wells, coupled with a lack of significant drilling throughout North America are expected to have an impact on supply.

### Production revenue

Vero realized a 53% decrease in aggregate revenues in the third quarter of 2009 compared to the same quarter of 2008, corresponding to the 56% decline in realized commodity prices. The realized loss on financial contracts of \$912 was mitigated by revenue realized from increased production levels. Since natural gas was 80% of total production and gas prices declined by 56%, the result was that natural gas contributed 63% of total revenues. Liquids production was 15% of total volumes but contributed 32% of revenues while oil production was 4% of total volumes and contributed 11% of revenues. The realized loss of the hedges was a draw of 6% on total revenues. For the nine months ended September 30, 2009, the decrease in production revenue was 49% to \$54,270 as compared to \$105,437 in 2008.

<i>Revenues</i>	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Natural gas	9,461	21,602	(56)	38,310	70,299	(46)
Light / medium oil	1,703	5,345	(68)	5,140	17,194	(70)
Natural gas liquids	4,733	6,548	(28)	12,194	20,610	(41)
Production revenue	15,897	33,495	(52)	55,644	108,103	(49)
Realized loss on financial contracts	(912)	(1,490)	(39)	(1,374)	(2,666)	(48)
Aggregate revenue	14,985	32,005	(53)	54,270	105,437	(49)

## ROYALTIES

Royalties were \$1,607 for the third quarter of 2009 compared to \$8,857 for the third quarter of 2008. Year-to-date the decrease was 67% to \$9,041 from \$27,123 in 2008. The New Royalty Framework came into effect on January 1, 2009. While natural gas liquids have a higher effective rate than 2008, the gas crown royalties, which are now price sensitive, have decreased in accordance with the significant decline in natural gas prices. On a per boe basis the rate decreased to \$2.64 in the quarter from \$15.44 in the same quarter last year. As a percentage of revenue, the rate for 2009 was lower as royalty expense averaged 10.1% of production revenue in the third quarter compared to 26.4% in 2008. The decline in Crown royalty rates in the third quarter of 2009 was attributable to the combination of: flush production from new wells brought on-stream after April 1, 2009 that became eligible for a 5% rate; the New Royalty Framework, under which Crown royalties are price sensitive; and higher credits for gas cost allowance and custom processing. For the nine months ended September 30, royalties as a percentage of revenue were 16.2% in 2009 compared to 25.1% in 2008. Vero anticipates the aggregate royalty rate to average between 12 -14% for the rest of 2009, but will be dependent on realized commodity prices.

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Crown – gross	1,258	7,924	(84)	7,673	24,162	(68)
Freehold/gross over-riding	349	933	(63)	1,368	2,961	(54)
Total royalties	1,607	8,857	(82)	9,041	27,123	(67)
Royalties (\$/boe)	2.64	15.44	(83)	4.73	16.41	(71)
Royalties - % of production revenue	10.1	26.4	(62)	16.2	25.1	(35)

## RISK MANAGEMENT ACTIVITIES

Vero occasionally enters into commodity contracts as part of its risk management program so as to manage commodity price fluctuations. This ensures that Vero has sufficient cash to fund its capital program. In April of 2009 the Company entered into the following hedges:

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

These hedges are considered to be financial derivatives wherein the fair value of the contract will be recognized on the balance sheet with changes in fair value recorded in income. Vero realized \$912 in hedging losses in the third quarter of 2009 compared to \$1,490 in 2008. The mark-to-market unrealized loss for the hedges in place was \$2,073 at September 30, 2009 as compared to an unrealized gain of \$1,612 as at September 30, 2008.

## OPERATING EXPENSE

Vero continually directs significant efforts to maintaining or reducing its controllable costs. Operating costs were \$5,886 or \$9.68 per boe in the third quarter of 2009 compared to \$3,903 or \$6.80 per boe last year. Aggregate operating costs, before processing recoveries, increased by 51% in the quarter while production volumes increased by 6%. For the nine months ended September 30, 2009, operating costs per boe were \$9.05 compared to \$6.05 for the same period in 2008. The per boe increase in the quarter was attributable to a combination of: fixed costs being spread over lower volumes from restricted production; higher operating cost acquisitions in 2008 rolling forward into 2009; workover requirements on several wells; and, higher than expected third party throughput fees related to prior periods. Also, a majority of Vero's gas continues to be delivered to third party facilities resulting in higher processing costs. Vero continually strives to reduce its processing costs and this includes re-routing gas towards more cost efficient gas plants. The Company is continuing with its program to derive cost efficiencies in its operations and has already shut-in certain high operating cost wells. For the balance of the year, Vero anticipates that operating costs will be in the mid to high \$8 range.

<i>Operating</i>	Three months ended			Nine months ended		
	September 30,			September 30,		
	2009	2008	%	2009	2008	%
Expense per financial statements	<b>5,886</b>	3,903	51	<b>17,290</b>	9,994	73
Add: processing income	<b>183</b>	118	54	<b>505</b>	372	36
Gross expense	<b>6,069</b>	4,021	51	<b>17,795</b>	10,366	72
Operating expense (\$ per boe)	<b>9.68</b>	6.80	42	<b>9.05</b>	6.05	50
Net expense (as a % revenue)	<b>39.3</b>	12.6	222	<b>31.9</b>	9.8	236

## TRANSPORTATION EXPENSE

Transportation expenses were \$778 for the third quarter of 2009 and amounted to 4.9% of production revenue for the period as compared to \$788 or 2.4% from the same quarter of 2008. For the third quarter of 2009 the cost per boe averaged \$1.28, which is 7% lower than the rate for the third quarter of 2008. Year-to-date the cost per boe increased a marginal 2% from \$1.26 in 2008 to \$1.29 in 2009. Transportation costs include: clean oil trucking, trucking of natural gas liquids, and transportation and fuel costs associated with the usage of natural gas pipelines. Transportation costs are dependent on a variety of factors such as: the type of production facilities; the method of transportation; the distances covered; the rates charged by the carriers; quantities shipped; cost of the carrier's fuel; the type of service offered (interruptible versus firm service) as well as ownership of the transportation facilities. The cost per boe for the balance of the year is expected to be consistent with that experienced for the nine months of 2009 as the majority of these costs are variable in nature.

<i>Transportation</i>	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Expense per financial statements	<b>778</b>	788	(1)	<b>2,460</b>	2,083	18
Expense (\$ / boe)	<b>1.28</b>	1.37	(7)	<b>1.29</b>	1.26	2
Expense (% of revenue)	<b>4.9</b>	2.4	104	<b>4.4</b>	1.9	132

## GENERAL AND ADMINISTRATIVE (G&A)

Aggregate G&A expense, before recoveries, increased 4% during the quarter to \$1,944 in 2009 from \$1,863 in 2008. Net G&A increased 17% to \$1,472 from \$1,263 for the same comparative quarter. The main cause of the increase in G&A was the hiring of additional staff late in 2008 to accommodate additional activity resulting from the acquisitions made in 2008. On a per boe basis, the rate decreased by 1% on a gross basis to \$3.20 and increased by 10% on a net basis to \$2.42 for the quarter ended September 30, 2009 compared with 2008. For the nine months to September 30, 2009, the increase in net G&A per boe was 18% to \$2.31 compared to \$1.95 in 2008. Additional per unit G&A costs were mitigated somewhat by the increase in production in the third quarter. Quarterly overhead recoveries decreased by 49% in 2009 to \$235 from \$460 in 2008. Overhead recoveries are a function of field operating activity as well as the number of wells drilled during the year for which the Company is the operator. As a result of the reduced field activity levels in the third quarter of 2009, the recoveries were correspondingly lower. The Company capitalizes a portion of its G&A for the salaries of its technical staff, which are directly related to exploration and development activities. G&A capitalized for the third quarter of 2009 was \$237, representing a 70% increase from the same quarter in 2008. Vero is committed to prudently managing its G&A costs. Vero anticipates that net G&A cost per boe for the rest of 2009 will be in the low \$2 per boe range. Aggregate G&A costs are expected to remain stable for the rest of the year while increased production from drilling activities will reduce the per boe cost.

<i>G&amp;A</i>	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Gross expense	<b>1,944</b>	1,863	4	<b>6,093</b>	4,789	27
Less:						
Overhead recoveries	<b>(235)</b>	(460)	(49)	<b>(954)</b>	(1,043)	(9)
Capitalized G&A	<b>(237)</b>	(140)	70	<b>(722)</b>	(520)	39
Net expense	<b>1,472</b>	1,263	17	<b>4,417</b>	3,226	37
Average cost (\$ per boe)						
Gross expense	<b>3.20</b>	3.25	(1)	<b>3.19</b>	2.90	10
Net expense	<b>2.42</b>	2.20	10	<b>2.31</b>	1.95	18

## STOCK BASED COMPENSATION

Stock based compensation expense was \$664 for the third quarter of 2009 compared to \$816 for 2008. The 19% decrease in the current quarter's expense was due to the recognition of the unamortized expense associated with the cancelled options in the second quarter of 2009. A portion of these cancelled options had incurred compensation expense during the third quarter of 2008. Third quarter 2009 results include expense related to the addition of 203,100 in new stock

options that were granted during the quarter. The per boe rate decreased by 23% from 2008 levels to \$1.09 from \$1.42 in 2008. For the year-to-date, the per boe cost increased by 176% to \$2.21 compared to \$0.80 in 2008. The fair value of all stock options is amortized over the options' vesting period, which is three years for all options granted.

<i>Stock Based Compensation</i>	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Expense per financial statements	<b>664</b>	816	(19)	<b>4,222</b>	1,316	221
Expense (\$ / boe)	<b>1.09</b>	1.42	(23)	<b>2.21</b>	0.80	176

## INTEREST AND BANK CHARGES

Interest expense for the third quarter of 2009 increased 99% to \$1,218 from \$611 in 2008. While average, interest-bearing debt increased by 115% in 2009 compared to 2008, the effective interest rate declined by 18% to help offset this. Higher debt levels are attributable to the capital expenditure program throughout the last quarter of 2008 and first quarter of 2009. In addition, the bank debt assumed on the corporate acquisition in November of 2008 contributed to the increase in debt levels coming into 2009. The per boe interest expense rate was \$2.00 for the quarter compared to \$1.06 for the third quarter of 2008, representing a 89% increase. For the nine months ended September 30, 2009, interest cost per boe increased by 51% to \$1.63 compared to \$1.08 in 2008. Bank commitment fees in 2009 became more significant as banks were paid more fees to renew existing bank lines.

<i>Interest and bank charges</i>	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Interest per financial statements	<b>1,218</b>	611	99	<b>3,111</b>	1,779	75
Deduct: Commitment & other fees	<b>(155)</b>	(3)	5,067	<b>(297)</b>	(76)	291
Debt bearing interest	<b>1,063</b>	608	75	<b>2,814</b>	1,703	65
Average debt outstanding	<b>103,576</b>	48,074	115	<b>95,885</b>	42,941	123
Average interest rate	<b>4.1</b>	5.0	(18)	<b>3.9</b>	5.3	(26)
Average interest cost (\$ per boe)	<b>2.00</b>	1.06	89	<b>1.63</b>	1.08	51

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

Aggregate DD&A increased from \$10,039 in the third quarter of 2008 to \$11,973 in the third quarter of 2009. For the nine months ended September 30, DD&A increased by 30% from \$28,591 in 2008 to \$37,073 in 2009. On a per boe basis the rate increased 12% for the third quarter from 2008 to \$19.68 as compared to \$17.50 in 2008. The Company's DD&A rate has been maintained under the \$20 level as a result of the prudent acquisitions in 2008 as well as Vero's own drilling success of 100% in 2008 and into 2009. For the balance of 2009 we anticipate the DD&A per boe rate to be similar to the third quarter.

<i>DD&amp;A</i>	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Depletion and depreciation	<b>11,856</b>	9,949	19	<b>36,738</b>	28,389	29
Accretion on asset retirement obligations	<b>117</b>	90	30	<b>335</b>	202	66
Total DD&A	<b>11,973</b>	10,039	19	<b>37,073</b>	28,591	30
DD&A (\$ / boe)	<b>19.69</b>	17.50	12	<b>19.41</b>	17.30	12

## INCOME TAXES

The income tax provision for the third quarter of 2009 was a recovery of \$1,640 and was comprised entirely of future income taxes. The tax provision represents a 135% decrease from the tax expense of \$4,629 for the comparable period in 2008. The recovery was primarily the result of the loss incurred in the third quarter of 2009. For the nine months to date the recovery was \$6,230 as compared to a provision of \$9,993 in 2008. The rapid decline in commodity prices from 2008 levels have yielded a recovery of the future income tax liability as the tax pool utilization is not as significant given the current year pricing environment.

Pursuant to the flow-through share private placement financing, which closed in February of 2008 Vero was committed to renounce \$17,945 of Canadian exploration expenses to subscribers by December 31, 2009. As of September 30, 2009, all amounts had been expended on qualifying expenditures. The tax effects of the renunciations are recorded when the documents relating to the renunciation are filed with the tax authorities. Therefore, the tax effect of the February 2008 flow-through financing was recognized in the first quarter of 2009. At the time the renunciation was made the estimated tax effect of the foregone tax benefits was charged to share capital with a corresponding increase to the future income tax liability. In the first quarter of 2009, \$4,844 was recorded as a future tax liability in respect of this renunciation.

Taking into account projected spending for 2009 as well as the anticipated production levels and commodity prices, it is anticipated that Vero will not be cash taxable throughout the remainder of 2009 and into 2010.

<i>Income Taxes</i>	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Future income tax (recovery) expense	<b>(1,640)</b>	4,629	135	<b>(6,230)</b>	9,993	(162)
Tax expense (\$ / boe)	<b>(2.70)</b>	8.07	134	<b>(3.26)</b>	6.05	(154)
Effective tax rate	<b>30.8%</b>	30.8	-	<b>24.6%</b>	30.3	(19)

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

<i>Tax Pools</i>	Rate %	2009	2008
Canadian exploration expenses	100	<b>10,401</b>	3,997
Canadian development expenses	30	<b>90,111</b>	54,834
Canadian oil and gas property expenses	10	<b>56,501</b>	48,443
Undepreciated capital costs	10 - 30	<b>64,226</b>	50,009
Financing costs	20%	<b>3,231</b>	2,629
Attributed Canadian Royalty Income	100 (Alberta)	<b>38</b>	38
Non-capital losses	100	<b>3,914</b>	-
Total		<b>228,422</b>	159,950

## NETBACKS

Operating netbacks of \$11.04 per boe for the third quarter of 2009 were lower by 66% as compared to the \$32.17 realized in the third quarter of 2008. The 53% decrease in average commodity prices in the third quarter of 2009 was the largest single contributor to the decline in operating netbacks. While an 83% reduction in royalty expense per boe helped mitigate the decrease in prices, operating costs were 42% higher. Continuing below the operating netback, the general and administrative expense and interest costs were also higher than those experienced in 2008 at 10% and 89% respectively. The resulting funds flow netback was \$6.65 and was 77% lower than that in the third quarter of 2008. The unrealized gain on hedging contracts was lower by 67% in the third quarter of 2009 at \$5.38 as compared to \$16.25 in the third quarter of 2008. This amount represents the mark-to-market change in these contracts and may or may not be reflective of the ultimate cash settlements under the contracts. Stock based compensation expense decreased significantly as a result of the combination of stock options being cancelled and the issuance of new stock options in the third quarter of 2009 at a much lower cost per share. DD&A charges were higher by 13% as the cost of the corporate acquisition in late 2008 increased the boe rate to \$19.69. In line with the net loss sustained in the third quarter of 2009, Vero realized an income tax recovery of \$2.70 per boe. The net loss for the third quarter of 2009 was \$6.05 per boe as compared to net earnings of \$18.17 in 2008. It is anticipated that the net earnings netback for the rest of 2009 will improve as oil and gas prices have starting to rise for the winter months.

<i>Netbacks (\$ per boe)</i>	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Realized prices	<b>26.14</b>	55.78	<b>(53)</b>	<b>29.13</b>	63.79	(54)
Royalties	<b>(2.64)</b>	(15.44)	<b>(83)</b>	<b>(4.73)</b>	(16.41)	(71)
Operating expenses	<b>(9.68)</b>	(6.80)	<b>42</b>	<b>(9.05)</b>	(6.05)	50
Transportation expenses	<b>(1.28)</b>	(1.37)	<b>(7)</b>	<b>(1.29)</b>	(1.26)	2
Operating netback	<b>12.54</b>	32.17	<b>(61)</b>	<b>14.06</b>	40.07	(65)
Realized loss on hedges	<b>(1.50)</b>	-	-	<b>(0.72)</b>	-	-
G&A	<b>(2.42)</b>	(2.20)	<b>10</b>	<b>(2.31)</b>	(1.95)	18
Interest expense	<b>(2.00)</b>	(1.06)	<b>89</b>	<b>(1.63)</b>	(1.08)	51
Interest income	<b>0.03</b>	-	-	<b>0.03</b>	-	-
Funds flow netback	<b>6.65</b>	28.91	<b>(77)</b>	<b>9.43</b>	37.04	(75)
Unrealized gain (loss) on hedges	<b>5.38</b>	16.25	<b>(67)</b>	<b>(1.09)</b>	0.98	211
Stock based compensation	<b>(1.09)</b>	(1.42)	<b>(23)</b>	<b>(2.21)</b>	(0.80)	176
D,D&A	<b>(19.69)</b>	(17.50)	<b>13</b>	<b>(19.41)</b>	(17.30)	12
Future income taxes	<b>2.70</b>	(8.07)	<b>(133)</b>	<b>3.26</b>	(6.05)	(154)
Net (loss) earnings netback	<b>(6.05)</b>	18.17	<b>(133)</b>	<b>(10.02)</b>	13.87	(172)

## Operating Netback by Commodity Type

<i>Natural gas (\$/mcf)</i>	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Production revenue	<b>3.23</b>	7.27	(56)	<b>4.14</b>	8.76	(53)
Royalties	<b>(0.18)</b>	(2.08)	(91)	<b>(0.54)</b>	(2.26)	(76)
Operating expenses	<b>(1.07)</b>	(0.96)	12	<b>(1.14)</b>	(0.85)	34
Transportation costs	<b>(0.18)</b>	(0.20)	(10)	<b>(0.18)</b>	(0.18)	-
Operating netback	<b>1.80</b>	4.03	(55)	<b>2.28</b>	5.47	(58)

<i>Crude oil (\$/bbl)</i>	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Production revenue	<b>64.35</b>	112.72	(43)	<b>55.00</b>	107.75	(49)
Royalties (excluding ARTC)	<b>(2.90)</b>	(20.86)	(86)	<b>(3.19)</b>	(15.59)	(80)
Operating expenses	<b>(12.57)</b>	(8.95)	40	<b>(10.55)</b>	(8.60)	23
Transportation costs	<b>(1.42)</b>	(2.76)	(49)	<b>(1.98)</b>	(2.85)	(31)
Operating netback	<b>47.46</b>	80.15	(41)	<b>39.28</b>	80.71	(51)

<i>Natural gas liquids (\$/bbl)</i>	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Production revenue	<b>50.76</b>	100.07	(49)	<b>44.53</b>	99.67	(55)
Royalties (excluding ARTC)	<b>(10.71)</b>	(32.54)	(67)	<b>(13.62)</b>	(34.66)	(61)
Operating expenses	<b>(26.05)</b>	(12.68)	105	<b>(20.96)</b>	(10.03)	109
Transportation costs	<b>(2.14)</b>	(1.53)	40	<b>(2.14)</b>	(1.25)	71
Operating netback	<b>11.86</b>	53.32	(78)	<b>7.81</b>	53.73	(86)

## FUNDS FLOW FROM OPERATIONS AND NET EARNINGS

Funds flow from operations in the third quarter of 2009 was \$4,044, representing a decrease of 76% from \$16,584 realized in the third quarter of 2008. The decline was largely attributable to the 56% decline in corporate average commodity prices. The cumulative effect was a reduction in both funds flow from operations of 76% quarter over quarter and 71% for the nine month periods ended September 30, 2009. Likewise, net earnings for the quarter decreased by 135% and 183% for the year to date. Net earnings decreased from \$10,421 in the third quarter of 2008 to a loss of \$3,682 in the third quarter of 2009. Higher interest costs associated with increased bank debt and an increase in the DD&A rate were only partially offset by the income tax recovery in the period. A significant component of net earnings was the mark-to-market gain of \$3,271 in the quarter as compared to a gain of \$9,321 in 2008.

Funds flow from operations was calculated as follows:

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Net (loss) earnings	(3,682)	10,421	(135)	(19,125)	22,944	(183)
<u>Adjustments for:</u>						
Unrealized (gain) loss on risk management activities	(3,271)	(9,321)	(65)	2,073	(1,612)	229
Stock based compensation	664	816	(19)	4,222	1,316	221
Depletion, depreciation and accretion	11,973	10,039	19	37,073	28,591	30
Future income taxes	(1,640)	4,629	(135)	(6,230)	9,993	(162)
Funds flow from operations	4,044	16,584	(76)	18,013	61,232	(71)

On a per share basis, Vero realized a loss of \$0.08 for both basic and diluted earnings per share in the three months ended September 30, 2009 as compared to earnings per share of \$0.32 basic and \$0.31 per diluted share. Funds flow from operations per share in the third quarter of 2009 was \$0.09 (basic and diluted) representing an 82% decline from \$0.50 (basic and diluted) realized in the third quarter of 2008. For the year-to-date in 2009 the loss per share was \$0.49 (basic and diluted) as compared to earnings per share of \$0.72 (basic and diluted) in 2008.

<i>Per share data (\$)</i>	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Net (loss) earnings per share						
Basic	<b>(0.08)</b>	0.32	(125)	<b>(0.49)</b>	0.72	(168)
Diluted	<b>(0.08)</b>	0.31	(126)	<b>(0.49)</b>	0.72	(168)
Funds flow from operations per share						
Basic	<b>0.09</b>	0.50	(82)	<b>0.46</b>	1.93	(76)
Diluted	<b>0.09</b>	0.50	(82)	<b>0.46</b>	1.92	(76)

## CAPITAL EXPENDITURES

Vero spent \$4,973 in capital expenditures during the third quarter of 2009. This represents an 82% reduction from \$27,922 spent in 2008. This brings net capital expenditures for the year-to-date in 2009 to \$34,869 as compared to \$84,533 in 2008, representing an 59% reduction year over year. Vero felt that it was prudent, in this uncertain pricing environment to curtail its spending and not bring on any new production into mid-\$3/mcf gas prices. However, Vero did commence its drilling operations again in August of 2009 with one well that was drilled and completed. A second horizontal well was still drilling at the end of the third quarter. Both of these wells are eligible for the Alberta Government Drilling Incentive Credits. As at September 30, 2009 the Company had earned \$1,334 in credits from drilling these wells that is eligible to offset future Crown royalties. These credits have reduced Vero's drilling costs presented below. A breakdown of the costs incurred during each of the comparable quarters and year to date is as follows:

	Three months ended			Nine months ended		
	September 30,			September 30,		
<i>Capital expenditures</i>	2009	2008	%	2009	2008	%
Exploration and development						
Land acquisitions and lease rentals	170	1,007	(83)	1,458	2,390	(39)
Geological and geophysical	476	1,428	(67)	2,365	2,225	6
Drilling and completions	3,548	16,698	(79)	23,711	40,895	(42)
Well equipment and facilities	779	8,760	(91)	7,473	16,058	(53)
Exploration and development expenditures	4,973	27,893	(82)	35,007	61,568	(43)
Other expenditures	-	29	-	7	47	(87)
Total capital expenditures	4,973	27,922	(82)	35,014	61,615	(43)
Corporate acquisition (cash outlay)	-	-	-	-	2,606	-
Property acquisition (disposal)	-	20,312	-	(145)	20,312	(101)
Net capital expenditures before ARO	4,973	48,234	(90)	34,869	84,533	(59)
Capitalized asset retirement obligations	3	1,664	(100)	30	1,692	(98)
Total capital additions	4,976	49,898	(90)	34,899	86,225	(60)

	Three months ended September 30,				Nine months ended September 30,			
	2009		2008		2009		2008	
<i>Wells drilled</i>	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploration	-	-	2	2.0	1	1.0	4	3.2
Development	1	1.0	5	2.8	7	6.4	17	11.6
Dry holes	-	-	1	0.5	-	-	1	0.5
Total wells	1	1.0	8	5.3	8	7.4	22	15.2
Success rate	100%	100%	88	91	100%	100%	95	97

Vero currently expects to drill 7 additional wells prior to the end of 2009.

## LAND HOLDINGS

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

Area	Gross Acres	Net Acres	Average WI %
Corbett	20,160	17,818	88
Edson	67,840	54,973	81
Whitecourt	51,840	41,577	80
Other Alberta	41,984	23,971	57
Saskatchewan and B.C.	10,926	10,869	99
Total	192,750	149,208	77

## LIQUIDITY AND CAPITAL RESOURCES

	as at September 30,		
	2009	2008	%
<i>Debt and working capital</i>			
Bank debt	102,971	57,712	78
Working capital deficiency (excluding unrealized hedging losses)	3,965	10,013	(60)
Net debt	106,936	67,725	58

The Company funded its \$4,973 in capital expenditures in the third quarter of 2009 mainly from funds flow. The remaining amount was funded primarily through the change in non-cash working capital. The following table provides a breakdown of how the capital program was funded for each of the respective periods:

<i>Capital Program Funding</i>	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	%	2009	2008	%
Cash, beginning of period	-	-	-	-	-	-
Funds flow from operations	<b>4,044</b>	16,584	(76)	<b>18,013</b>	61,232	(71)
Increase (decrease) in bank debt	<b>(998)</b>	21,368	(5)	<b>27,552</b>	7,904	249
Share issuance, net of costs	<b>(7)</b>	-	-	<b>13,916</b>	-	-
Exercise of stock options	-	3,434	-	-	4,378	-
Repurchase of shares	-	(1,081)	-	<b>(86)</b>	(1,081)	(92)
Loans to officers/director	<b>105</b>	-	-	<b>(2,401)</b>	-	-
Change in non-cash working capital	<b>1,829</b>	7,929	(77)	<b>(22,125)</b>	(4,658)	(375)
Net capital expenditures	<b>4,973</b>	48,234	(90)	<b>34,869</b>	84,533	(59)

Vero continually revisits its capital program as these volatile times dictate good management of the net debt position. The Board approved capital budget for 2009 is currently authorized at a maximum of \$50 million. However, this threshold will be under continual review during the year as Vero finds it prudent to maintain as much financial flexibility as possible given the current commodity price environment. Vero has spent 70% of its authorized upper limit of \$50 million to date. The balance of the capital program for 2009 will be financed through expected funds flow from operations for the remainder of the year, and the undrawn credit facility with our banks. These resources give Vero the flexibility to execute on its planned capital program, which in turn provides good production growth and a healthy exit rate for 2009. In addition, the new funding with the equity issuance and proceeds from the asset sale will allow Vero to strengthen its balance sheet by the end of the year. The key driver for Vero is to remain flexible and prepare for the expected upward movement in commodity prices. Vero currently has over 245 identified, drilling locations that can be accessed to take advantage of the recovery.

The bank facility at September 30, 2009 was a \$115 million extendible revolving credit facility. This facility is available until March 31, 2010. Upon request by the Company the facility may be extended for an additional 364 days beyond this date subject to acceptance by the syndicate of lenders. Available borrowings on the bank credit facility are limited by the borrowing base, which is established by the bank. The amount of available credit is based mainly upon the value of petroleum and natural gas assets. The most recent formal evaluation by our external engineers determined these reserve values as at December 31, 2008. The bank facility is subject to a semi-annual borrowing base review. The semi-annual review is complete and there has been no changes made to our existing borrowing base. Corporate working-capital liquidity is maintained by drawing from the unutilized facility as needed and then repaying it periodically through production revenues.

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. On May 21, 2009 the Company closed a prospectus offering for the issuance of 4,000 Common Shares at a price of \$3.75 per share. The net proceeds of issuance of \$13,916 were comprised of gross proceeds of \$15,000 less expenses of the issue of \$1,084. The net proceeds of this issuance were initially used to reduce its bank debt outstanding. The strengthened balance sheet allowed the Company to withstand the falling gas prices throughout the summer and allowed it the opportunity to start drilling again in August. On

November 3, 2009 the Company closed a private placement offering for the issuance of 2,232 flow-through common shares at a price of \$5.65 per share. The net proceeds of issuance of \$11,725 were comprised of gross proceeds of \$12,609 less estimated expenses of the issue of \$884.

Vero's stock has been very liquid with significant increases in volumes traded in 2009. Below is a summary of the trading history of the Company's shares for 2009 and 2008.

	2009			2008			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
High	<b>4.43</b>	4.29	5.94	7.84	10.90	11.34	8.25
Low	<b>2.74</b>	3.18	2.70	4.48	6.55	7.50	5.61
Close	<b>4.06</b>	3.24	3.28	5.44	7.40	9.48	7.65
Volume (000's)	<b>19,792</b>	16,617	10,562	8,313	7,048	15,024	10,624

### COMPARISON OF INTERIM FINANCIAL CONDITION TO DECEMBER 31, 2008

The \$103,911 of net debt brought forward from December 31, 2008 plus the financial activity of the first three quarters of 2009 culminated in net debt at September 30, 2009 of \$106,936 or 3% higher than at the end of 2008. Using annualized funds flow from operations for the third quarter of 2009 the net debt to funds flow ratio was 6.6 times. Based on Vero's current forecast for 2009, we anticipate the net debt to funds flow ratio to be approximately 2.2-2.5 times by the end of the year. This ratio takes into account the equity financing which closed on November 3, 2009 as well as the sales of two producing properties. One of the sales for \$1.7 million closed in October and the other for \$13.5 million is expected to close in November.

### 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

The total principal amount receivable from related parties at September 30, 2009 was \$2,751. The loans bear interest at the company's rate of borrowing from its chartered bank plus 25 basis points. Included in the accounts receivable balances is \$3 of interest receivable from these related parties. The business purpose of the loans was to satisfy margin calls in respect of the four individuals who had purchased shares of Vero in 2008. This enabled the individuals to maintain their holdings in Vero during a depressed equity market and thereby support insider ownership of Vero stock. Subsequent to September 30, 2009 the loans were reduced by \$408 to an amount outstanding of \$2,343.

### CONTRACTUAL OBLIGATIONS

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

	<b>Payments Due by Period</b>			
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>
Transportation obligations	<b>1,205</b>	415	732	58
Head Office Lease	<b>2,000</b>	1,090	910	-
Farm-in obligations	<b>8,223</b>	8,223	-	-
<b>Total contractual obligations</b>	<b>11,428</b>	9,728	1,642	58

The transportation obligations are comprised of firm service natural gas commitments with a gas transmission company. In the event of a shortfall in gas deliveries to the pipeline, the Company must pay the carrier the difference between volumes delivered and the contracted volumes in cash at the contracted rate. The head office lease obligations are comprised of the lease (including parking and a reasonable estimate of occupancy costs) of the Company's head office space, certain of the furnishings contained therein as well as leased space assumed on two of the corporate acquisitions in 2008. In addition and as at September 30, 2009 Vero was committed to drill and/or recomplete 6 (4.3 net) wells in Alberta. The projects have commencement dates later in 2009 and into 2010. These commitments are pursuant to farm-in agreements with industry partners. The Company expects to satisfy the net portion of these drilling commitments at an estimated cost of \$8,223.

## **SHARE CAPITAL**

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

	November 4, 2009	Period ended September 30, 2009		December 31, 2008
		3 months	Nine months	
000's				
Common shares outstanding	43,184	<b>40,952</b>	<b>40,952</b>	36,969
Stock options outstanding	3,159	<b>3,159</b>	<b>3,159</b>	3,085
Fully diluted shares	46,343	<b>44,111</b>	<b>44,111</b>	40,054
Weighted average common shares				
Basic	N/A	<b>40,952</b>	<b>38,887</b>	32,623
Diluted	N/A	<b>40,952</b>	<b>38,887</b>	32,762

The increase in the common shares outstanding from September 30, 2009 to November 4, 2009 was attributable to the closing of the flow-through share private placement on November 3, 2009 wherein 2,214 shares were issued.

## SELECTED QUARTERLY INFORMATION

Below is summarized quarterly information for the previous eight quarters.

<i>(000's except as noted)</i>	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
Production (boe/d)	6,610	7,040	7,352	7,076
Average prices realized (\$/boe)	24.64	27.49	33.45	49.80
Production revenue	15,897	17,150	22,135	32,419
Net (loss) earnings	(3,682)	(10,748)	(4,695)	(1,075)
Basic - per share (\$/share)	(0.08)	(0.28)	(0.13)	(0.03)
Diluted - per share (\$/share)	(0.08)	(0.28)	(0.13)	(0.03)
Funds flow from operations	4,044	5,767	8,201	14,370
Basic - per share (\$/share)	0.09	0.15	0.22	0.40
Diluted - per share (\$/share)	0.09	0.15	0.22	0.40
Total assets	342,106	349,482	364,612	352,472
Net capital expenditures	4,973	1,717	28,177	44,152
Long term financial liabilities	-	-	-	-
Net debt	106,936	106,000	123,973	103,911
Dividends paid	-	-	-	-

<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	32,005	42,264	31,167	23,218
Net earnings	10,421	8,740	3,783	2,842
Basic - per share (\$/share)	0.32	0.26	0.13	0.09
Diluted - per share (\$/share)	0.31	0.26	0.13	0.09
Funds flow from operations	16,584	26,805	17,842	11,662
Basic - per share (\$/share)	0.50	0.82	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	19,888	20,412
Long term financial liabilities	-	-	-	-
Net debt (surplus)	67,725	38,428	50,527	61,774
Dividends paid	-	-	-	-

Significant factors and trends that have affected the Company's results during the above periods are as follows:

- Petroleum and natural gas sales are impacted by production levels and volatile commodity pricing. Production levels are impacted by decline rates and the Company's capital program. Commodity prices are affected by both domestic and international factors that are beyond the control of the Company. In addition, royalties are impacted by the underlying commodity prices.
- Commencing with the third quarter of 2008 and continuing into the third quarter of 2009, revenue has been negatively impacted by the decreases in both oil and natural gas prices.

Vero is predominantly a natural gas producer and commencing with the first quarter of 2009, the rapid decline in natural gas prices has exacerbated the decline in revenues.

- Production in the fourth quarter of 2008 increased significantly as a result of a corporate acquisition which added approximately 850 boe/d. However, as the severe decline in natural gas prices continued into the second and third quarter of 2009, the Company chose not to spend its capital drilling wells and produce new volumes into what Vero believes are unprofitable gas prices. With no new wells drilled, declines took their toll on corporate production.
- Production in the second quarter of 2008 increased significantly due to a corporate acquisition of approximately 500 boe/d. The assets acquired were exclusively natural gas and liquids production as well as undeveloped lands.
- Throughout the first two quarters of 2008 while commodity prices were rapidly increasing, so was the cost of doing business. Operating expenses, general and administrative costs and capital costs were all subject to significant inflationary pressures that the demand for scarcer services brought on. By the fourth quarter of 2008, the global economic crisis took full effect and while these inflationary pressures subsided, the demand for commodities was curtailed, thereby increasing supply and compounding what was to become a significant downturn in prices.
- During the second quarter of 2009, the Company's net loss was increased by a large mark-to-market unrealized loss on its oil hedge. Almost half of the loss for the quarter was attributable to this loss.
- In the third quarter of 2009 the Company was faced with decade low natural gas prices. It conserved capital and spent only on optimization projects at the beginning of the quarter. At the end of August the Company spudded a horizontal well and another in September. The drilling initiatives had two purposes. The first was to take advantage of the new Alberta Government Drilling Incentive Credits and then second was to start taking advantage of the early signs that gas prices were turning upward.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The risks in the oil and gas industry are varied and wide-ranging. The Company enters into derivative risk management contracts from time to time in order to reduce volatility in its financial results and to ensure a certain level of funds flow to fund planned capital expenditures. All of the Company's financial derivative trading activities are conducted in accordance with the Company's risk management policies, which are approved by the Board of Directors.

The primary risks and how the Company mitigates them are as follows:

### Commodity prices

Vero's strategy focuses on the use of puts, swaps, costless collars and fixed price contracts to limit exposure to downturns in commodity prices while allowing, to the maximum extent possible, participation in commodity price increases. Revenues and the resulting funds flows fluctuate with commodity prices, which are tied directly to the US/Canadian dollar exchange rate. Commodity prices are determined on a continental and/or global basis and circumstances that occur in various parts of the world are outside of the control of the Company. The Company protects itself from fluctuations in prices by maintaining an appropriate hedging strategy, diversifying its asset mix and strengthening its balance sheet in order to take advantage of low price environments by making strategic acquisitions. We enter into commodity price contracts to

actively manage the risks associated with price volatility and thereby protect our funds flows, which are used to fund our capital program. The following contracts were outstanding as at September 30, 2009.

<b>Commodity</b>	<b>Notional Quantity</b>	<b>Term</b>	<b>Price (CDN \$/bbl)</b>	<b>Option Traded</b>	<b>Realized loss (1)</b>	<b>Fair Value</b>	<b>Change in Fair Value (1)</b>
Oil	1,500 bbl/day	May 1 – December 31, 2009	\$62.50 - \$68.25	Collar	(912)	(1,497)	2,907
Oil	1,000 bbl/day	January 1 – March 31, 2010	\$60.00 - \$80.30	Collar	-	(386)	554
<b>Total</b>					<b>(912)</b>	<b>(1,883)</b>	<b>3,461</b>

(1) The realized loss and change in fair value is for the three months ended September 30, 2009.

The fair value of these financial instruments was derived at each reporting date by taking the forward strip prices for the commodity over the term of the contract and applying the Canadian/US dollar exchange rate in existence on that date.

#### Foreign Exchange

Vero is also exposed to fluctuations in the exchange rate between the Canadian and US dollar. Most commodity prices are based on U.S. dollar benchmarks, which result in our realized prices being influenced by the Canadian/U.S. currency exchange rates. Vero does not currently have any foreign exchange risk management contracts outstanding.

#### Interest rate risk

Vero is exposed to interest rate fluctuations. Interest rate risk arises from changes in market interest rates that may affect the future funds flows from the Company's financial assets or liabilities. The Company's revolving demand loan facility is subject to floating rates and is therefore exposed to fluctuations in the market rates of interest. From time to time, the Company will enter into a variety of risk management contracts to mitigate its exposure to interest rate risk. The Company had the following interest rate swap in place at September 30, 2009.

<b>Contract</b>	<b>Notional Quantity</b>	<b>Term</b>	<b>Reference</b>	<b>Type</b>	<b>Realized gain (loss)</b>	<b>Fair Value</b>	<b>Change in Fair Value</b>
BA Rate	\$25,000/year	January 4, 2010– January 3, 2012	CAD-BA - CDOR	2.05%	-	(190)	(190)

(1) The change in fair value is for the three months ended September 30, 2009.

The fair value of this financial instrument was derived at the reporting date by using the forward strip prices for the interest rates over the term of the contract. The forward rates are established by an actively traded market for interest rate swaps and the markets expectations as to where the rates are expected to be.

### Credit risk

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

Poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner. Substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. In many cases, the Company has offsetting receivables and payables with its partners and makes use of these offsets to mitigate any payment risk. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence.

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

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

### Access to Capital Risk

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

### The maturing Western Canadian Sedimentary Basin

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

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

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

- Focussing its efforts on its core areas wherein its expertise and experiences can be properly leveraged;
- Generating as many internal projects as possible;
- Being the operator of most of the projects we participate in;
- Identifying drilling opportunities with multi-zone prospects; and
- Making prudent use of seismic data to identify prospects – either by purchasing trade data or by shooting it ourselves.

### Administrative risks

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

### Environmental Regulations

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

The Federal Government released on April 26, 2007, its Action Plan to Reduce Greenhouse Gases and Air Pollution (the "Action Plan"), also known as ecoACTION and which includes the

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

On March 8, 2008, the Alberta Government introduced Bill 3, the Climate Change and Emissions Management Amendment Act, which intends to reduce greenhouse gas emission intensity from large industries. Bill 3 states that facilities emitting more than 100,000 tonnes of greenhouse gases a year must reduce their emissions intensity by 12% starting July 1, 2008; if such reduction is not initially possible the companies owning the large emitting facilities will be required to pay \$15 per tonne for every tonne above the 12% target. These payments will be deposited into an Alberta-based technology fund that will be used to develop infrastructure to reduce emissions or to support research into innovative climate change solutions. As an alternate option, large emitters can invest in projects outside of their operations that reduce or offset emissions on their behalf, provided that these projects are based in Alberta. Prior to investing, the offset reductions, offered by a prospective operation, must be verified by a third party to ensure that the emission reductions are real.

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

## **CRITICAL ACCOUNTING ESTIMATES**

Management is often required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. There were no changes to Vero's critical accounting estimates in the period from those used in the audited financial statements from 2008.

## **THE NEW ROYALTY FRAMEWORK AND NEW GOVERNMENT INCENTIVES**

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

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

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

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

- A drilling royalty credit for new, conventional, oil and natural gas wells drilled between April 1, 2009 and March 31, 2011. This two-year program will provide a \$200-per-metre-drilled royalty credit to companies on a sliding scale based on their production levels from the prior year. Based on last years production, Vero will qualify for the maximum credit under this plan.
- A new well incentive program, which offers a maximum five-per-cent royalty rate for the first year of production from new oil or gas wells up to 500 mmcf of natural gas or 50,000 bbl of oil. This program also commences on April 1, 2009 and runs for two years.
- To encourage the clean-up of inactive oil and gas wells, the province will invest \$30 million in a fund committed to abandoning and reclaiming old well sites.

For 2009, both the NRF, in combination with low natural gas prices plus the new initiative announced on March 3, 2009, has already has a positive impact on Vero’s Crown royalty rates. It is envisioned that these benefits will continue into 2010 given the current environment. In addition the new drilling incentive credit is providing Vero with an opportunity to maximize its rates of return on its horizontal wells. With the credits being earned on measured depths, Vero has already commenced the utilization of this benefit in the third quarter of 2009 with two new horizontal wells.

## **ACCOUNTING STANDARDS CHANGES**

### *Accounting Standard Changes*

In February 2009, the AcSB issued Handbook Section 3064, Goodwill and Intangible Assets and amended Section 1000, Financial Statement Concepts clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the

definition of an asset are no longer recognized with assets. The standard is effective for fiscal years beginning on or after October 1, 2009 and early adoption is permitted.

#### *Future Accounting Pronouncements*

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

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

The Corporation has completed its initial phase of the implementation which included conceptual application of the new rules; diagnostic analysis of Vero’s accounting data and a high-level assessment of key areas that may be impacted by the adoption of IFRS. During the quarter ended September 30, 2009 Vero implemented a new accounting system, which will provide for better data capture and better reporting. This will facilitate the conversion to IFRS. In the fourth quarter of 2009 Vero will analyze and assess the various accounting policy alternatives available under IFRS as well as the determination of changes required to existing information systems and business processes. It is also envisioned that Vero will also make its selections of its IFRS accounting policies available during the quarter. Vero continues to assess the impact of the conversion on internal controls over financial reporting and disclosure controls and procedures and will continue to invest in training and resources throughout the transition period. Changes in accounting policy are highly probable and may materially impact the financial statements. Due to anticipated changes in IFRS policies and applications, especially for the oil and gas industry, the final impact of the conversion on Vero’s financial statements cannot currently be measured.

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

- The CICA issued Handbook Section 1582 *Business Combinations*, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2011. The new standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the acquisition date. The adoption of the revised standard is expected to impact Vero’s financial statements only to the extent that business combinations are entered into after the effective date.
- "Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. It is

not anticipated that the adoption of this standard will have a material impact on Vero's Consolidated Financial Statements.

- "Non-controlling Interests", Section 1602. The standard establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. It is not anticipated that the adoption of this standard will have a material impact on Vero's Consolidated Financial Statements.

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

### Disclosure Controls and Procedures

Vero's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of Vero's disclosure controls and procedures at the financial year end of the Company and have concluded that the Company's disclosure controls and procedures are effective at September 30, 2009 for the foregoing purposes.

### Internal Controls

Vero's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting at September 30, 2009.

Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2009, the Company's internal controls and procedures are effective regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP and includes those policies and procedures that:

- Pertain to the maintenance of records with such reasonable detail that accurately and fairly reflects the transactions of the issuer;
- Provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the financial statements in accordance with Canadian GAAP, and that the receipts and expenditures of the issuer are being made in accordance with the authorization of the management and directors of the Company; and

- Provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual or interim financial statements.

The Company is required to disclose herein any change in the design of the Company's internal control over financial reporting that occurred during the quarter ended on September 30, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. No material changes in Vero's internal controls over financial reporting were identified during the three months ended September 30, 2009, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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