MANAGEMENT'S, DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") was prepared on May 11, 2010 and is management's assessment of the Company's financial and operating results for the quarters ended March 31, 2010 and 2009. 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, 2009 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), or at the company's website (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. 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.

The following table outlines Vero's updated forward-looking information included in, and as of the date this MD&A; the key assumptions that they are based upon and the relevant risk factors that would be considered key in preventing Vero from achieving these projections:

Forward-looking information	***Key Assumptions***	***Relevant Risk Factors***
2010 funds flow from operations of $61-66 million (revision from $65-70 million mainly due to change in natural gas prices)	*Dependent on: Vero achieving average production of gas, liquids and oil of between 8,500 to9,000 boe/d (increase from 8,300-8,500); forward curve estimates for commodity prices and an estimated US/Canadian exchange rate of $0.95-$0.98 (increase from $0.90-$0.95).*	*Natural gas supply levels; North American economic activity; liquid natural gas imports; Vero well performance, downtime and drilling success.*
2010 capital spending program of $80-90 million, net of drilling incentives	*Focus will be mainly on drilling 30-40 gross wells and related tie-in costs. Acquisitions and/or dispositions, if any, are not factored into this program. No changes.*	*Achieving the projected, revised funds flow from operations; at a minimum maintaining the existing banking credit facility.*
Operating, Transportation and G&A expenses	*Fixed costs will be spread over anticipated increasing volumes; assumes no significant increase in operations beyond current drilling program e.g. acquisition*	*Projected production volumes not achieved; third party processing fee increases; inability to route gas through Vero operated facilities; operating cost increases due to inflation and/or improvement in industry conditions*
Interest costs	*Bank prime rates remain in the 3.5-4% range; no increase in renewal fees from the 35-50 basis point range. No changes.*	*Capital availability of the banks; Bank of Canada rate increases beyond small increments*

Income taxes	*Commodity prices do not increase significantly from forward numbers; also the Company has generated sufficient exploration projects to satisfy its flow-through share commitment. No changes.*	*Should prices increase drastically, existing tax pools may not be enough to shield taxable income; if sufficient exploration projects are not generated, investors may not receive their anticipated tax benefits*

Dollar amounts

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

Non-GAAP Terms

This Management, Discussion and Analysis uses the terms "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 (also referred to as "funds flow") a key measure as it demonstrates the Company's ability to generate funds necessary to repay debt and to fund future growth through capital investment. Funds flow from operations should not be considered as an alternative to, or more meaningful than, funds 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 funds 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 and net earnings netbacks. Operating netback is calculated as the average sales price of its commodities (including hedging gains and losses) less royalties, transportation costs and operating expenses. Funds flow netback starts with the operating netback and further deducts general and administrative costs, interest expense and then adds interest income. To calculate the net earnings netback, Vero takes the 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 general financial strength. There is no GAAP measure that is reasonably comparable to net debt and working capital.

A reconciliation of funds flow from operations is presented in the following table:

	Three months ended March 31,	
	2010	*2009*
Funds provided by operating activities	***12,913***	*(5,849)*
Add:		
Change in non-funds working capital	***2,442***	*14,050*
Asset retirement costs incurred	***243***	*-*
Funds flow from operations	***15,598***	*8,201*

Barrel of Oil Equivalents

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

FINANCIAL HIGHLIGHTS FROM THE FIRST QUARTER OF 2010

Vero executed a prudent, yet productive first quarter spending program in 2010. Vero spent \$40,037 during the quarter including: \$25,353 drilling and completing 10 (8.6 net) wells with a 100% success rate; \$6,776 in equipping and tieing-in new wells; \$6,524 in purchasing producing assets; \$494 in seismic data and other geological costs; and \$891 in acquiring new Crown land acreage in Vero's core areas. The Company achieved an average production rate of 8,404 boe/d in the quarter. Funds flow for the Company was \$15,598 or \$0.36 per basic share for the quarter. Below is the detailed discussion of the results from the first quarter.

DETAILED FINANCIAL REVIEW

PRODUCTION REVENUE AND VOLUMES

Vero increased aggregate production volumes by 14% in the first quarter of 2010 to 756,361 boe as compared to 661,643 boe in the first quarter of 2009. Production growth in the first quarter was largely attributable to the continued successful drilling program in Vero's core area of Edson. Gas production contributed 80% of total volumes while liquids came in at 14% and oil at 6%. This was the same product mix for the first quarter of 2009. By the end of 2010, it is anticipated that the weighting to natural gas and associated liquids will shift to approximately 75% and light oil to 25% of total production. This increase in oil production is consistent with management's emphasis on its oil prospect inventory and the ability to focus on drilling the commodity play with the highest returns. Vero has a solid Cardium light oil land position of 167 gross (103 net) sections and will continue to exploit these lands while drilling some of our high return natural gas prospects.

Aggregate Sales Volumes

	Q1 2010	Q1 2009	% Change
Natural gas (mcf)	**3,641,124**	3,194,975	14
Light/medium oil (bbl)	**42,917**	38,384	12
Natural gas liquids (bbl)	**106,590**	90,763	17
Barrels of oil equivalent (boe)	**756,361**	661,643	14

Daily Sales Volumes

Daily sales volumes increased 14% to 8,404 boe/d in the first quarter of 2010 from 7,352 boe/d in the first quarter of 2009. In addition, it is a 24% increase in the average production from the fourth quarter of 2009 of 6,775. The biggest gains were realized from a combination of our natural gas and oil drilling programs in late 2009 and early 2010. Daily production of natural gas liquids increased by the greatest amount at 17%. This was mainly the result of increased production of liquids-rich natural gas. Oil production increased by 12% in the first quarter of 2010 compared to 2009 as a result of the drilling successes achieved on Vero's light oil Cardium acreage. Subsequent to the end of the first quarter, a number of gas wells were choked back which were causing production restrictions at third party facilities and to also mitigate selling into a weakened gas price environment. Drilling activity will be slowed somewhat in the second quarter due to breakup season and allowing our funds flow to catch up to our aggressive first quarter spending. Second quarter plans are to drill 3 (2.0 net) wells with one being a farm-in commitment gas well and two targeting light oil. We are currently anticipating to resume significant drilling operations later in the third and fourth quarter with the drilling of 18-20 gross (12-13 net) Cardium oil wells and 6 gross (5 net) gas wells. Vero continues to monitor gas prices and remains ready to adjust capital spending to the projects with the highest rate of return.

	Q1 2010	Q1 2009	% Change
Natural gas (mcf/d)	**40,457**	35,500	14
Light/medium oil (bbl/d)	**477**	426	12
Natural gas liquids (bbl/d)	**1,184**	1,008	17
Barrels of oil equivalent (boe/d)	**8,404**	7,352	14

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

Area	**Q1 2010**	Q1 2009	% Change
Edson	**6,560**	5,005	31
Whitecourt	**1,280**	971	32
Corbett	**249**	609	(59)
West Central Alberta	**137**	383	(64)
Other	**178**	384	(54)
Total	**8,404**	7,352	14

Increases in production in the Edson and Whitecourt areas are mainly driven by continued successful drilling activity. Corbett production is on normal declines with no new drilling activity planned. The West Central area of Alberta has also declined in production due mainly to the sale of the Wilson Creek/Westerose properties in the fourth quarter of 2009. The equivalent daily production sold amounted to approximately 280 boe/d. In addition, Vero sold approximately 70 boe/d of production from the Other Category.

Benchmark Indices

	Q1 2010	Q1 2009	%
Natural gas			
NYMEX (US $/mmbtu)	**5.30**	4.84	10
AECO- Daily (CDN $/mcf)	**5.36**	4.95	8
Crude Oil			
WTI (US $/bbl)	**78.76**	43.08	83
Edmonton light (CDN $/bbl)	**80.30**	49.65	62
Foreign Exchange			
Canadian to US dollar	**0.96**	0.80	20
US to Canadian dollar	**1.04**	1.25	(17)

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 8% higher in 2010 as compared to 2009 levels. The stagnant U.S. demand in 2009 and the continued new supply sources from shale gas drilling in the U.S. have caused a current over-supply situation. Many E&P companies are continuing drilling programs in light of commodity price weakness just to retain acreage in shale gas plays. Even though it was a relatively cold winter in North America, total US working natural gas storage currently is just slightly below 2 Tcf and Alberta storage levels remain high as well. These factors have the market concerned about surplus storage which has eroded the price of natural gas in recent weeks. WTI oil prices have recently broken out of the $80/bbl range on positive economic data, however, the futures curve is inclining modestly with long dated prices now moving into the $90/bbl range. With the increase in WTI prices there was a significant appreciation in the Canadian dollar since movements in these two commodities are highly correlated. The Canadian dollar is currently very close to parity with that of the US currency.

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

Realized Commodity Prices	**Q1 2010**	Q1 2009	% Change
Natural gas ($/mcf)	**5.28**	5.18	2
Light/medium oil ($/bbl)	**74.96**	45.36	65
Natural gas liquids ($/bbl)	**66.08**	42.23	56
Barrels of oil equivalent ($/boe)	**38.98**	33.45	17

The volatility in commodity prices in the first quarter of 2010 subsided as Vero realized an average increase of 17% as compared to the first quarter of 2009. Realized natural gas prices increased modestly by 2% in the first quarter of 2010 as compared to 2009. Vero's realized oil price increased by 65% in 2010 compared to 2009 and natural gas liquids prices showed a 56% improvement in 2010. In the near term, there does not appear to be any meaningful signs of a reduction in gas storage numbers and as a result, natural gas prices may remain range bound over the next few quarters.

Vero is still optimistic about the intermediate and long term status of natural gas prices. The reduced capital investment in natural gas drilling over the last two years, the rapid declines in production and the expensive nature of shale gas drilling suggest gas prices should rise into the future. However, industry must still deal with the current oversupply situation and this may persist throughout the summer months. The other prevailing wildcard is weather as we move towards the summer and air conditioners are turned on, demand for natural gas typically increases. This is highly dependent on the number of cooling degree days in key consuming regions.

Production revenue

Vero realized a 33% increase in aggregate revenues in the first quarter of 2010 compared to 2009. The 17% increase in realized commodity prices couple with the 14% increase in production levels resulted in this positive move upwards. Since natural gas was 80% of total production and gas prices increased 2%, the result was that gas contributed 65% of total revenues. Liquids production was 14% of total volumes but contributed 24% of revenues while oil production was 6% of volumes and contributed 11% of revenues.

Production Revenue	**Q1 2010**	Q1 2009	% Change
Natural gas	**19,222**	16,561	16
Light/medium oil	**3,217**	1,741	85
Natural gas liquids	**7,044**	3,833	84
Production revenue	**29,483**	22,135	33

ROYALTIES

Royalties were $3,676 for the first quarter of 2010 as compared to $5,257 for 2009. One of the major factors that caused the decrease of 30% for the quarter was the implementation of the New Royalty Framework which came into effect on January 1, 2009. Under this new regime, natural gas liquids have a higher effective royalty rate than in prior periods, however, the largest portion of our crown royalties relate to gas production. Gas royalties are now very sensitive to gas prices and due to the significant decrease in gas prices, the corresponding Crown royalty related thereto has decreased accordingly to rates lower than those in prior years. In addition to price sensitivity on existing production, the Government of Alberta instituted a new incentive program in response to the downturn in drilling activity. This program created a 5% flat royalty on the first 50,000 boe from wells brought on production after March 31, 2009. This 5% Crown royalty on new production from the second half of 2009 and first quarter of 2010 has greatly assisted in lowering our overall royalty rate. On a per boe basis the royalty rate decreased to $4.86 in 2010 as compared to $7.95 from last year. As a percentage of revenue, the rate for 2010 was lower as royalty expense averaged 12.5% of production revenue in the first quarter of 2010 as compared to 23.7% in 2009. The Company anticipates the aggregate royalty rate to average between 13-15% for rest of 2010 based on internal forecasted Vero realized natural gas prices of between $4.50-$5.00 per mcf for the remainder of the year. However, this could change significantly as the rates will be dependent on a combination of realized commodity prices, wells depths and how quickly new wells reach their cumulative maximum production for the 5% Crown royalty incentive.

	$			$/boe		
	Q1 2010	Q1 2009	%	**Q1 2010**	Q1 2009	%
Crown – gross	**2,782**	**4,678**	(41)	**3.68**	7.07	(48)
Freehold/gross over-riding	**894**	**579**	54	**1.18**	0.88	34
Total royalties	**3,676**	**5,257**	(30)	**4.86**	7.95	(39)
Royalties - % of revenue	**12.5%**	**23.7%**	(47)			

RISK MANAGEMENT ACTIVITIES

During the first quarter of 2010, the Company had the following risk management contracts in place:

Type	Amount	Term	Price ($/bbl)- ($/MMBtu)	Type
Costless collar	500 bbl/day	Apr. 1 – Dec. 31, 2010	$75.00 -$100.00	Financial
Costless collar	1,000 bbl/day	Jan. 1 – Mar. 31, 2010	$60.00 - $80.30	Financial
Basis spread	7,500 MMBtu/day	Apr. 1-Oct. 31, 2010	$0.35/MMBtu	Financial

These hedges are considered to be financial derivatives wherein the fair value of the contract will be recognized on the balance sheet with changes in fair value recorded in income. There was a realized loss on hedges in the first quarter of 2010 in the amount of $124 and an associated unrealized gain of $905.

OPERATING

Operating costs were $6,426 or $8.50 per boe in the first quarter of 2010 as compared to $5,821 and $8.80 per boe in the first quarter of 2009. Aggregate operating costs, before processing recoveries, increased by 19% while production volumes increased by 14%. The absolute dollar increase was attributable to additional production volumes achieved through our successful first quarter drilling program. Although the total amount of operating costs increased, Vero managed to achieve operational efficiencies as a result of these production additions, which allowed operating costs per boe to decline. The Company continually reviews field activities to derive efficiencies and scalability in its operations, resulting in top tier operating costs. In late 2009 and the first quarter of 2010, the Company increased the volumes processed through its Edson gas plant by 80% due to the successful drilling program. As production increases throughout 2010, Vero expects the per boe rate to remain in the mid $8 range for the remainder of 2010.

Operating	**Q1 2010**	Q1 2009	% Change
Expense per financial statements	**6,426**	5,821	10
Add: processing income	**668**	154	334
Gross expense	**7,094**	5,975	19
Operating expense ($ per boe)	**8.50**	8.80	(3)
Net expense (as a % revenue)	**21.8%**	26.3%	(17)

TRANSPORTATION

Transportation expenses were $989 for the first quarter of 2010 and amounted to 3.4% of production revenue for the period as compared to $864 and 3.9% for the first quarter of 2009. For the first quarter of 2010 the cost per boe averaged $1.31, which is the same rate as the first quarter of 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 relatively consistent with that of the first quarter as the majority of these costs are variable in nature.

Transportation	**Q1 2010**	Q1 2009	% Change
Expense	**989**	864	15
Expense ($ per boe)	**1.31**	1.31	-
Expense (% revenue)	**3.4%**	3.9%	(13)

GENERAL AND ADMINISTRATIVE (G&A)

Aggregate G&A expense, before recoveries, increased 20% to $2,303 in 2010 from $1,925 in 2009. Net G&A increased 23% to $1,476 for the same period. The main cause of the increase in G&A was the hiring of additional staff to accommodate the increased activity in the fourth quarter 2009 and first quarter 2010 and to accommodate the ongoing IFRS conversion. On a per boe basis, Vero realized net G&A of $1.95 as compared to $1.81 in 2009. Overhead recoveries increased by 11% in 2010 to $555 from $498 in 2009. Overhead recoveries are a function of field operating activity as well as the number of wells drilled during the year for which the Company is the operator. The Company capitalizes a portion of its G&A for the salaries of its technical staff, which are directly related to exploration and development activities. G&A capitalized for the first quarter of 2010 was $272, representing an 18% increase from the first quarter in 2009.

G&A	**Q1 2010**	Q1 2009	% Change
Gross expense	**2,303**	1,925	20
Less:			
Overhead recoveries	**(555)**	(498)	11
Capitalized G&A	**(272)**	(230)	18
Net expense	**1,476**	1,197	23
Average cost ($ per boe)			
Gross expense	**3.04**	2.91	(4)
Net expense	**1.95**	1.81	8

INTEREST AND BANK CHARGES

Interest expense for the first quarter of 2010 increased 52% to $1,244 from $816 in the first quarter of 2009. Average interest-bearing debt increased by 4% in 2010 compared to 2009 and the average interest rate also increased modestly by 0.50%. Higher debt levels are attributable to the extensive capital expenditure program executed throughout the last quarter of 2009 and first quarter of 2010. The per boe interest expense rate was $1.64 for the first quarter of 2010 as compared to $1.23 for the first quarter of 2009, representing a 33% increase quarter to quarter.

Interest and bank charges	**Q1 2010**	Q1 2009	% Change
Interest per financial statements	**1,244**	816	52
Deduct: Commitment & other fees	**(221)**	(1)	219
Debt bearing interest	**1,023**	815	26
Average debt outstanding	**91,191**	88,068	4
Average interest rate	**4.3%**	3.8%	13
Average interest cost ($ per boe)	**1.64**	1.23	33

STOCK BASED COMPENSATION

Stock based compensation expense was $980 for the first quarter of 2010 as compared to $1,339 for the first quarter of 2009. The 27% decrease in expense is mainly attributable to the cancelling of options in the second quarter of 2009 that had an associated higher fair value versus the new options that were issued during this time frame. The per boe rate decreased by 36% as a result of significantly increased production as compared to the same period in 2009. The fair value of all stock options is amortized over the options' vesting period, which is three years for all options granted.

Stock Based Compensation	**Q1 2010**	Q1 2009	% Change
Expense	**980**	1,339	(27)
Expense ($ per boe)	**1.30**	2.02	(36)

DEPLETION, DEPRECIATION AND ACCRETION ("DD&A")

Aggregate DD&A increased from $12,609 in the first quarter of 2009 to $13,434 in the first quarter of 2010. The 7% increase in the total amount of DD&A was a result of a 14% increase in production levels versus the first quarter 2009. However, with the efficient spending of capital costs and the resulting proved reserve additions, Vero was able to drive the per boe rate down by 7% to $17.76 per boe. Costs of finding and developing proved reserves decreased over the course of 2009 and into the first quarter of 2010. For the balance of 2010 we anticipate the DD&A rate to be similar to the first quarter.

	$			$/boe		
DD&A	**Q1 2010**	Q1 2009	%	**Q1 2010**	Q1 2009	%
Depletion and depreciation	**13,327**	12,503	7	**17.62**	18.90	(7)
Accretion on ARO	**107**	106	1	**.14**	0.16	(13)
Total DD&A	**13,434**	12,609	7	**17.76**	19.06	(7)

INCOME TAXES

The income tax provision for the first quarter of 2010 was a recovery of $223 and was comprised entirely of future income taxes. The provision represents a 79% decrease from the recovery from the comparable period in 2009. The recovery was primarily the result of changes in the timing of expected reversals of temporary differences. The significant cause of this was the rapid decline in natural gas prices in the second quarter of 2009 and continuing into 2010. Pursuant to the flow-through share private placement financing, which closed in November, 2009, Vero was committed to incur $12,609 in eligible costs by December 31, 2010. As at March 31, 2010 the Company has $170 remaining on this commitment.

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

	$			$/boe		
Income Taxes	**Q1 2010**	Q1 2009	%	**Q1 2010**	Q1 2009	%
Future income tax expense	**(223)**	(1,052)	(79)	**(0.30)**	(1.59)	(81)
Effective tax rate	**(10.7)%**	(18.3)%	(42)			

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

Tax Pools	**Rate %**	**Q1 2010**	Q1 2009
Canadian exploration expenses	100	**14,948**	13,508
Canadian development expenses	30	**100,161**	89,203
Canadian oil and gas property expenses	10	**54,067**	57,635
Undepreciated capital costs	10 - 30	**60,146**	63,523
Financing costs	20%	**3,463**	2,692
Attributed Canadian Royalty Income	100 (Alberta)	**38**	38
Non-capital losses	100	**2,227**	3,877
Total		**235,050**	230,476

NETBACKS

Operating netbacks of $24.31 per boe for the first quarter of 2010 were higher by 58% as compared to $15.39 realized in the first quarter of 2009. The 17% increase in commodity prices and a 39% reduction in royalty expense per boe in the first quarter of 2010 were the largest contributors to the increase in operating netbacks. Operating costs per boe were 3% lower versus the same period in 2009 as a result of the 14% increase in production volumes. The general and administrative expense and interest costs below the operating netback were slightly higher than the results from 2009 at 8% and 33% respectively. However, the end result was a realized funds flow netback of $20.63 that was 67% higher than 2009. Stock based compensation expense decreased slightly as compared with the same period in 2009. DD&A charges were lower by 7% as the costs of finding and developing reserves decreased the per boe rate to $17.76. In line with the net income achieved in the first quarter of 2010, Vero realized an income tax recovery of $.30 per boe. The net income for the first quarter of 2010 was $3.07 per boe as compared to a loss of $7.11 in 2009. It is anticipated that the corporate netback in the second and third quarters of 2010 will be similar to that experienced in the first quarter.

Netbacks ($ per boe)	**Q1 2010**	Q1 2009	% Change
Realized price	**38.98**	**33.45**	17
Royalties	**(4.86)**	**(7.95)**	(39)
Operating expenses	**(8.50)**	**(8.80)**	(3)
Transportation expenses	**(1.31)**	**(1.31)**	-
Operating netback	**24.31**	**15.39**	58
G&A	**(1.95)**	**(1.81)**	8
Interest expense	**(1.64)**	**(1.23)**	33
Interest income	**0.07**	**0.03**	133
Realized hedging gain (loss)	**(0.16)**	**-**	-
Funds flow netback	**20.63**	**12.38**	67
Unrealized gain (loss) on hedges	**1.20**	**-**	-
Stock based compensation	**(1.30)**	**(2.02)**	(36)
D,D&A	**(17.76)**	**(19.06)**	(7)
Future income taxes	**.30**	**1.59**	(81)
Net earnings (loss) netback	**3.07**	**(7.11)**	143

Natural gas ($/mcf)	**Q1 2010**	Q1 2009	% Change
Production revenue	5.28	5.18	2
Royalties	(0.36)	(1.15)	(69)
Operating expenses	(1.20)	(1.21)	(1)
Transportation costs	(0.19)	(0.17)	12
Operating netback	3.53	2.65	33

Crude oil ($/bbl)	**Q1 2010**	Q1 2009	% Change
Production revenue	74.96	45.36	65
Royalties	(5.25)	(4.18)	26
Operating expenses	(9.90)	(10.11)	(2)
Transportation costs	(2.01)	(2.38)	(16)
Operating netback	57.80	28.69	101

Natural gas liquids ($/bbl)	**Q1 2010**	Q1 2009	% Change
Production revenue	66.08	42.23	56
Royalties	(20.03)	(15.80)	27
Operating expenses	(15.44)	(17.43)	(11)
Transportation costs	(2.11)	(2.51)	(16)
Operating netback	28.50	6.49	339

FUNDS FLOW AND NET EARNINGS

Funds flow from operations in the first quarter of 2010 was $15,598, an increase of 90% from $8,201 realized in the first quarter of 2009. The increase was largely attributable to the 17% increase in corporate average commodity prices and the 14% increase in overall production levels. In addition, operating costs were 3% lower than in 2009. The cumulative effect was an increase in both funds flow and net earnings. Net earnings increased from a net loss of $4,695 in the first quarter of 2009 to net income of $2,312 in the first quarter of 2010. Higher interest costs from elevated debt levels were offset by decreases in the rates applicable to DD&A, royalties, and operating costs in the period. Funds flow from operations is calculated as follows:

	Q1 2010	Q1 2009	% Change
Net earnings (loss)	**2,312**	(4,695)	149
Adjustments for:			
Unrealized gain on risk management activities	**(905)**	-	-
Depletion, depreciation and accretion	**13,434**	12,609	7
Future income tax	**(223)**	(1,052)	(79)
Stock based compensation expense	**980**	1,339	(27)
Funds flow from operations	**15,598**	8,201	90

On a per share basis, Vero realized net income of $0.05 for both basic and diluted earnings per share. This was a 138% increase from the loss of $0.13 (basic and diluted) of earnings per share realized in the first quarter of 2009. Funds flow per share in the first quarter of 2010 was $0.36 (basic and diluted) representing a 64% increase from $0.22 (basic and diluted) realized in the first quarter of 2009.

Per share data	**Q1 2010**	Q1 2009	% Change
Net earnings (loss)	**2,312**	(4,695)	149
Basic ($/share)	**0.05**	(0.13)	138
Diluted ($/share)	**0.05**	(0.13)	138
Funds flow	**15,598**	8,201	90
Basic ($/share)	**0.36**	0.22	64
Diluted ($/share)	**0.36**	0.22	64

CAPITAL EXPENDITURES

Vero spent $40,037 in capital expenditures during the first quarter of 2010 representing an increase of 42% from the first quarter of 2009. Included in the 2010 program was the drilling of 10 (8.6 net) wells as compared to 7 (6.4 net) wells in the first quarter of 2009. 76% of the Company’s exploration and development capital was devoted to drilling new wells, all of which were horizontal wells. $5,624 was spent in the quarter acquiring approximately 165 boe/d of production with a five small acquisitions. Aside from the production, Vero topped up its interest in existing land holdings and/or acquired additional lands on our existing Cardium trend. A breakdown of the costs incurred during each quarter is as follows:

Capital expenditures	**Q1 2010**	Q1 2009	% Change
Exploration and development			
Land acquisitions and lease rentals	**891**	832	7
Geological and geophysical	**494**	1,033	(52)
Drilling and completions (net of drilling credits)	**25,353**	20,163	26
Well equipment and facilities	**6,776**	6,289	8
Exploration and development expenditures	**33,513**	28,317	18
Other expenditures	**-**	5	-
Total capital expenditures	**33,513**	28,322	18
Property acquisition in exchange for issuance of shares	**900**	-	-
Producing property acquisitions	**5,624**	-	-
Property dispositions	**-**	(145)	-
Net capital expenditures before ARO	**40,037**	28,177	42
Capitalized asset retirement obligations	**53**	27	96
Total capital additions	**40,090**	28,204	42

	Q1 2010		Q1 2009	
Wells drilled	**Gross**	**Net**	Gross	Net
Exploration	**4**	**3.5**	1	1.0
Development	**6**	**5.1**	6	5.4
Dry holes	**-**	**-**	-	-
Total wells	**10**	**8.6**	7	6.4
Success rate	**100%**	**100%**	100%	100%

The flexible capital budget for 2010 of between $80-90 million (after drilling incentive credits) is approximately 50% higher than the total capital spent in 2009. Moving into the second quarter the capital program will be slowed somewhat and funds flow will exceed capital expenditures as spring break-up arrives, thereby allowing net debt to be reduced from first quarter levels. Vero will closely monitor commodity prices and redirect capital spending as necessary. Subsequent to the quarter end, Vero closed on the sale of some minor properties for gross proceeds of $3,500 (before adjustments).

LAND HOLDINGS

The undeveloped land holdings at March 31, 2010 are as follows:

Area	**Gross Acres**	**Net Acres**	**Average WI %**
Edson	72,960	61,238	84
Whitecourt	36,320	28,607	79
Other Alberta	28,680	17,608	61
Corbett	18,560	16,218	87
Saskatchewan and B.C.	10,926	10,869	99
Total	167,446	134,540	80

LIQUIDITY AND CAPITAL RESOURCES

	as at March 31,		
Debt and working capital	**2010**	2009	%
Bank debt	**93,483**	102,448	(9)
Working capital deficiency	**18,811**	21,525	(13)
Net debt	**112,294**	123,973	(9)

Capital Program Funding	**Q1 2010**	Q1 2009	%
Funds, beginning of period	**-**	-	-
Funds flow from operations	**15,598**	8,201	90
Asset retirement costs	**(243)**	-	243
Increase decrease in bank debt	**15,764**	27,029	(42)
Stock option exercises	**399**	-	399
Repurchase of shares	**-**	(86)	(100)
Loans to officers/director	**2,289**	(3,673)	(162)
Change in non-funds working capital	**5,330**	(3,294)	(262)
Net capital expenditures	**39,137**	28,177	39

The Company funded its $39,137 in net capital expenditures from a variety of resources. Vero's funds flow from the first quarter of $15,598 coupled with the increase in bank debt utilization funded the capital spending. The $88,911 of net debt brought forward from December 31, 2009 plus the financial activity of the first quarter culminated in net debt at March 31, 2010 of $112,294 or 26% higher than at the end of 2009. Using annualized funds flow for the first quarter of 2010, this resulted in a net debt to funds flow ratio of 1.8 times. Based on Vero's current forecast for 2010, we anticipate the net debt to funds flow ratio to be between 1.4 to 1.7 times by the end of the year.

Vero continually revisits its capital program as price volatility dictates good management of the net debt position. The Board of Directors had previously approved an $80,000-$90,000 (net of drilling incentive credits) capital budget for 2010. The continued weakness in the price of natural gas will necessitate the perpetual review of capital spending during the year as Vero's goal is to maintain as much financial flexibility as possible. The balance of the capital program for 2010 will be financed through expected funds flows for the remainder of the year and the undrawn line of credit with our banks. These resources give Vero the ability to execute its currently planned capital program, which provides for strong and profitable growth in production for the year and beyond. Vero currently has a future drilling inventory of over 290 identified locations.

The bank facility at March 31, 2010 is a $140 million extendible revolving credit facility. This facility is available until March 31, 2011. 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, 2009. The bank facility is subject to semi-annual borrowing base reviews. The most recent annual review by the bank was completed in April of 2010. This upgraded facility enhances our flexibility to expand the capital program if warranted. Corporate working-capital liquidity is maintained by drawing from the unutilized facility as needed and then repaying it periodically through production revenues. As new reserves are added and as the financing needs of the company are expanded, Vero will apply for interim reviews of the credit facility with a view to upgrading it.

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. On November 3, 2009 the Company closed a private placement for the issuance of 2,231 flow through common shares at a price of $5.65 per share. The net proceeds of issuance of $11,720 were comprised of gross proceeds of $12,609 less expenses of the issue of $889.

Below is a summary of the trading history of the Company’s shares for 2010 and 2009.

	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
High	**8.00**	5.00	4.43	4.29	5.94
Low	**4.63**	3.37	2.74	3.18	2.70
Close	**5.81**	4.43	4.06	3.24	3.28
Volume (000’s)	**40,459**	22,072	19,792	16,617	10,562

OFF BALANCE SHEET TRANSACTIONS

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

RELATED PARTY TRANSACTIONS

Three officers and one director of the corporation had $2,289 of loans outstanding with the Company at the end of 2009. These loans bore interest at the company’s rate of borrowing from its banking syndicate plus 25 basis points. For 2010, $18 of interest accrued on these loans. During the quarter, all of these loans plus the accrued interest were repaid to the Company. The business purpose of the loans was to satisfy margin calls in respect of the four individuals who had previously purchased shares of Vero. This enabled the individuals to maintain their holdings in Vero during a depressed equity market and thereby support insider ownership of Vero stock. The loans were secured with all of the Vero shares held by these individuals.

All amounts for principal and interest were repaid in the first quarter of 2010.

CONTRACTUAL OBLIGATIONS

In the normal course of operations, the Company has entered into contracts and incurred obligations that will impact future liquidity. Based on current funds flow forecast and resources, Vero expects to fulfil the obligations summarized below as they come due. As at March 31, 2010, Vero is obligated to make the following payments under the terms of long-term contracts it has entered into:

		Payments Due by Period		
	Total	**Less than 1 year**	**1-3 Years**	**4-5 Years**
Transportation obligations	**992**	406	586	-
Head Office Lease	**1,433**	1,042	391	-
Farm-in obligations	**6,200**	6,200	-	-
Flow-through share obligations	**170**	170	-	-
Total contractual obligations	**8,795**	7,818	977	-

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 funds 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 one of the corporate acquisitions in 2008. In addition and as at March 31, 2010 Vero was committed to drill 2 (2.0 net) wells in Alberta. All of these projects have commencement dates in 2010. These commitments are pursuant to farm-in agreements with industry partners. The Company expects to satisfy the net portion of this drilling commitment over the balance of 2010 at a cost of $6,200.

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:

(000's)	**May 11, 2010**	**March 31, 2010**	December 31, 2009
Common shares outstanding	**43,491**	**43,391**	43,183
Stock options outstanding	**3,850**	**3,950**	4,203
Fully diluted shares	**47,341**	**47,341**	47,387
Weighted average common shares			
Basic		**43,236**	39,762
Diluted		**43,794**	39,762

SELECTED QUARTERLY INFORMATION

Below is summarized quarterly information for the previous eight quarters.

(000's except as noted)	**March 31, 2010**	December 31, 2009	September 30, 2009	June 30, 2009
Production (boe/d)	**8,404**	6,775	6,610	7,040
Average prices realized ($/boe)	**38.98**	36.10	24.64	27.49
Production revenue	**29,483**	22,500	15,897	17,612
Net earnings (loss)	**2,312**	(931)	(3,682)	(10,748)
Basic - per share ($/share)	**0.05**	(0.01)	(0.08)	(0.28)
Diluted - per share ($/share)	**0.05**	(0.01)	(0.08)	(0.28)
Funds flow from operations	**15,598**	9,538	4,044	5,767
Basic - per share ($/share)	**0.36**	0.23	0.09	0.15
Diluted - per share ($/share)	**0.36**	0.23	0.09	0.15
Total assets	**371,371**	343,954	342,106	349,482
Net capital expenditures	**39,137**	2,662	4,973	1,717
Long term financial liabilities	-	-	-	-
Net debt	**112,294**	88,911	106,936	106,000
Dividends paid	-	-	-	-

(000's except as noted)	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
Production (boe/d)	7,352	7,076	6,236	6,087
Average prices realized ($/boe)	33.45	49.80	55.78	76.30
Production revenue	22,135	30,859	33,495	43,440
Net earnings (loss)	(4,695)	(1,075)	10,421	8,740
Basic - per share ($/share)	(0.13)	(0.03)	.31	0.26
Diluted - per share ($/share)	(0.13)	(0.03)	.31	0.26
Funds flow from operations	8,201	14,370	16,584	26,805
Basic - per share ($/share)	0.22	0.40	0.50	0.82
Diluted - per share ($/share)	0.22	0.40	0.50	0.82
Total assets	364,612	352,472	291,733	254,078
Net capital expenditures	28,177	44,152	48,234	16,411
Long term financial liabilities	-	-	-	-
Net debt (surplus)	123,973	103,911	67,725	38,428
Dividends paid	-	-	-	-

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.

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

- Production in the second quarter of 2008 increased 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 this quarters 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.

- Commencing with the third quarter of 2008 and continuing into the fourth quarter of 2008, revenue was negatively impacted by the decreases in both oil and natural gas prices. Vero is predominantly a natural gas producer and the rapid decline in natural gas prices has exacerbated the decline in revenues.
- Production in the fourth quarter of 2008 increased as a result of a corporate acquisition which added approximately 850 boe/d. However, as the severe decline in natural gas prices continued into 2009, the Company chose not to spend its capital drilling wells and produce new volumes into what Vero believes were unprofitable gas prices. With no new wells drilled, declines took their toll on corporate production.
- 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.
- In the fourth quarter of 2009 the Company embarked on two initiatives to prepare itself financially for the 2009/2010 drilling season. First the Company completed a flow-through share private placement which brought in net proceeds of $11,720. On December 1, the Company disposed of $16,190 of non-core producing assets. Both of these initiatives significantly reduced the net debt outstanding in order that the Company would be able to complete its winter drilling season and also prepare itself for any sustained low commodity prices. Vero drilled 8 (6.4 net) wells in the fourth quarter and generated funds flow from operations of $9,538.
- In the first quarter of 2010, the Company returned to profitability as production increased from new drilling, royalties decreased as a result of lower natural gas prices and operating expenses were decreased from efficiencies gained from the additional production. In the end, Vero produced net earnings of $2,312. In addition to the above positive factors, DD&A decreased as new reserve additions brought this rate down by 7%.

RISK MANAGEMENT

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

Commodity price and exchange rate volatility

Revenues and the resulting funds flows fluctuate with commodity prices and the US/Canadian dollar exchange rate. Commodity prices are determined on a global basis and circumstances that occur in various parts of the world are outside of the control of the Company. The Company protects itself from fluctuations in prices by maintaining an appropriate hedging strategy, diversifying its asset mix and strengthening its balance sheet in order to take advantage of low price environments by making strategic acquisitions. We enter into commodity price contracts to actively manage the risks associated with price volatility and thereby protect our funds flows used to fund our capital program. We have used costless collars and swap contracts to manage these risks and to take advantage of market conditions. The following contracts were outstanding at March 31, 2010:

Type	Notional Quantity	Term	CDN $/bbl US $MMBtu	Type
Costless collar	1,000 bbl/day	Jan. 1 – March 31, 2010	$60.00 - $80.30	Financial
Basis Spread	7,500 MMBtu/day	Apr. 1, 2010-Oct. 31, 2010	$0.35/MMBtu	Financial
Costless collar	500 bbl/day	April 1 – December 31, 2010	$75.00 - 100.00	Financial

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

Credit risk

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

Poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner. Substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. In many cases, the Company has offsetting receivables and payables with its partners and makes use of these offsets to mitigate any payment risk. Wherever possible, the Company requires funds 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 25th 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.

Financing 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. There can be no assurance that debt or equity financing, or funds generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business financial condition, results of operations and prospects.

Interest rate risk

Vero is exposed to interest rate fluctuations. 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 March 31, 2010.

Contract	**Notional Quantity**	**Term**	**Reference**	**Type**	**Realized gain (loss)**	**Fair Value**	**Change in Fair Value (1)**
BA Rate	$25,000/year	January 4, 2010– January 3, 2012	CAD-BA - CDOR	2.05%	-	(141)	(141)

(1) The change in fair value is for the period ended March 31, 2010.

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 market expectations as to where the rates are expected to be. The risk associated with this type of contract is that interest rates will remain at a low level and thereby cause the Company to have a funds cost upon settlement. In addition, there is potential for a credit risk associated with the counterparty's inability to pay any positive settlements as they come due. Vero mitigates these risks by analyzing economic indicators as to future interest rate movements and by dealing with its chartered bank as the primary counterparty.

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 reduced along with commodity price declines. The Company mitigates risks by entering into strategic joint ventures to reduce exposure to high costs and diversify drilling risks. The Company employs experienced and motivated staff to evaluate and generate high quality drilling prospects. In addition the Company seeks to utilize appropriate technology and responsible operating practices in operating its wells. The Company utilizes appropriate safety programs and insurance coverage to guard against potential losses. Concentrating on core areas wherein Vero has high degrees of ownership and operatorship further mitigates increasing operating costs as economies of scale are gained. Vero attempts to minimize finding risk by:

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

Administrative risks

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

Environmental Regulations

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

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

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

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

CRITICAL ACCOUNTING ESTIMATES

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

UPDATE ON THE NEW ROYALTY FRAMEWORK

On March 11, 2010, the Alberta Government again enacted changes applicable to crown royalties. Highlights of the changes are:

- The 5% royalty incentive will become permanent with the same terms as the temporary policy; 5% on the first 12 months of production, 50,000 bbl of oil equivalent, or 500 mmcf equivalent of gas, whichever comes first;
- Maximum royalty rates for conventional oil will be reduced to 40% from 50%;
- Maximum royalty rates for natural gas will be reduced to 36% from 50%;
- The current $200-per-metre-drilled royalty credit will continue until March 31, 2011, however, it will not be continued thereafter;
- The Transitional Royalty Framework will continue until December 31, 2013 but effective January 1, 2011, no new wells will be allowed to be drilled under the “Transitional Framework”;
- Wells already under the “Transitional” system will have the option to remain or switch to the “New Royalty Framework” effective January 1, 2011;
- The Government also announced it is still reviewing the royalty “curves” and is expected to announce its conclusions in June of 2010.

For 2010, Vero's Crown royalty rates have been positively impacted by both the new incentive program and depressed natural gas prices. The new drilling incentive credit is allowing Vero the opportunity to maximize the rate of return on its horizontal gas wells, resulting in superior project economics. With the drilling credits being earned on measured depths, Vero has continued to utilize this benefit in the first quarter of 2010 with 10 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 Corporation has completed its initial phase of the implementation which included conceptual application of the new rules, diagnostic analysis of Vero's accounting data and a high-level assessment of key areas that may be impacted by the adoption of IFRS. The next phase will include the analysis of accounting policy alternatives available under IFRS as well as the determination of changes required to existing information systems and business processes. Vero continues to assess the impact of the conversion on internal controls over financial reporting and disclosure controls and procedures and will continue to invest in training and resources throughout the transition period. Changes in accounting policy are highly probable and may materially impact the financial statements. Due to anticipated changes in IFRS policies and applications, especially for the oil and gas industry, the final; impact of the conversion on Vero's financial statements cannot currently be measured.

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

<u>IFRS Changeover Plan - Update</u>

The CICA's Accounting Standards Board confirmed in February of 2008 that IFRS will replace Canadian GAAP in 2011 for Canadian publicly accountable enterprises. Vero will therefore be required to report its results in accordance with IFRS commencing in 2011. The Company has developed a changeover plan to compete the transition to IFRS by January 1, 2011 including the preparation of 2010 comparative information. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure. Vero has undertaken to assess the potential impacts of the transition to IFRS. The key elements of Vero's changeover plan are as follows:

1) Preliminary study and diagnostics. This phase included performing high level assessments which identified key areas that would be impacted by the adoption of IFRS. This analysis is complete and resulted in prioritization of areas to be evaluated in the next phase. During this phase, an assessment was made of Vero's existing information technology system which is used to collect and report financial data. It was established that Vero required a more sophisticated system and this was implemented in the summer of 2009.
2) Detailed Component Evaluation. In this phase a more detailed analysis of accounting and disclosure differences between Canadian GAAP and IFRS was evaluated. This analysis will facilitate the final decisions around accounting policies and the conversion strategy. In addition, changes to internal business processes were evaluated.
3) Implementation of processes. This phase includes the implementation of changes to business processes which are impacted by the transition to IFRS as well as formal approval of recommended accounting policy changes. Also included in this phase is training of staff, the Board of Directors and the Audit Committee. This phase will culminate with the collection of the financial information necessary to compile IFRS compliant financial statements and audit committee approval of financial statements commencing in 2011.

Vero has acquired sufficient personnel to assist in the transition to IFRS next year. Vero has now completed phase one and phase two and is well entrenched in phase three. Vero has analyzed its accounting policy alternatives and come up with its preliminary draft of accounting policies. These accounting policies are expected to be finalized by the middle of 2010.

DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Vero's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of Vero's disclosure controls and procedures at the financial year end of the Company and have concluded that the Company's disclosure controls and procedures are effective at March 31, 2010 for the foregoing purposes.

Internal Controls

Vero's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting at March 31, 2010.

Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2010, 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 March 31, 2010 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 March 31, 2010, 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.