



SECOND QUARTER 2007 REPORT

For the Six months ended June 30, 2007

Q2

Second Quarter 2007 Highlights

- Increased average daily production 83% to 4,290 boe/d in the second quarter of 2007 from 2,350 boe/d in the second quarter of 2006. For the year-to-date, there was a 131% increase in daily volumes to 4,359 boe/d.
- Average July production based on field estimates is approximately 4,700 boe/d.
- Cash flow from operations increased 66% to \$9.7 million or \$0.32 per share (diluted).
- Production revenue increased to \$20.1 million, an increase of 90% over the second quarter of 2006.
- Achieved an operating netback of \$29.04 per boe and cash flow netback of \$24.82 per boe.
- Closed a \$19.2 million equity financing on April 5.
- Exited the quarter at just over \$43 million in net debt yielding a 1.1 times, annualized, debt to cash flow ratio.
- Added a new 100% owned compression facility in the Edson area.
- Upgraded the 100% owned Corbett compression facility.

VERO ENERGY INC.

SECOND QUARTER HIGHLIGHTS & FINANCIAL

<i>Financial (\$000's except per share amounts)</i>	Three Months ended June 30,			Six months ended June 30,		
	2007	2006	%	2007	2006	%
Production revenue	20,051	10,571	90	40,459	17,667	129
Cash flow from operations	9,693	5,854	66	20,197	9,988	102
Per basic share	0.33	0.23	43	0.74	0.43	72
Per diluted share	0.32	0.23	39	0.73	0.43	70
Net earnings	502	79	535	1,224	331	270
Per basic share	0.02	-	-	0.04	0.01	300
Per diluted share	0.02	-	-	0.04	0.01	300
Capital expenditures, net	5,621	12,322	(55)	32,519	42,232	(23)
Net debt	43,172	30,133	43	43,172	30,133	43
<i>Share Capital (000's)</i>						
Basic, weighted average	28,743	25,603	12	27,333	23,249	18
Basic, end of period	28,911	25,907	12	28,911	25,907	12
Fully diluted	31,347	28,083	12	31,347	28,083	12
<i>Daily Production</i>						
Natural gas volumes (mcf/d)	20,930	10,057	108	21,075	7,898	167
Light oil (boe/d)	292	381	(23)	316	345	(9)
Liquids (boe/d)	510	293	74	531	229	132
Corporate (boe/d)	4,290	2,350	83	4,359	1,891	131
<i>Average Prices</i>						
Natural gas (\$/mcf)	7.99	6.70	19	8.11	7.34	10
Light Oil (\$/bbl)	68.28	80.61	(15)	65.02	74.06	(12)
Liquids (\$/bbl)	65.24	61.80	6	60.38	61.50	(2)
Corporate (\$/boe)	51.36	49.44	4	51.28	51.62	(1)
<i>Netbacks (\$/boe)</i>						
Operating	29.04	30.00	(3)	29.42	31.93	(8)
Cash flow	24.82	27.38	(9)	25.60	29.18	(12)
<i>Wells drilled</i>						
Gross	1	8	(88)	18	16	13
Net	0.3	3.8	(92)	11.2	9.6	17

- (1) Cash flow from operations is calculated as cash provided by operating activities from the statement of cash flows, adding change in non-cash working capital and asset retirement expenditures. Cash flow from operations is used to analyze the Company's operating performance and leverage. Cash flow from operations does not have a standardized measure prescribed by Canadian Generally Accepted Accounting Principles and therefore may not be comparable with the calculations of similar measures for other companies.
- (2) All barrels of oil equivalent conversions use 6 mcf to 1 barrel of oil.
- (3) Operating netback equals total revenue less royalties, transportation and operating costs calculated on a per boe basis. Operating netback and cash flow from operations netback do not have a standardized measure prescribed by Canadian Generally Accepted Accounting Principles and therefore may not be comparable with the calculations of similar measures for other companies.

FINANCIAL REVIEW

Vero delivered another solid quarter and continued its consecutive quarter over quarter of growth which was highlighted by a 210% increase in production volumes, 188% increase in revenues and a 154% increase in cash flows from the comparable quarter of last year. Compared to the fourth quarter of 2006, daily volumes increased 34% to an average of 4,430 boe/d. Vero spent \$26.9 million during the quarter including drilling 17 (10.9 net) wells and achieved an 82% success rate. The Company spent aggressively on its capital program in the first quarter in anticipation of a slower second quarter and the potential for a turn around in natural gas prices. The colder than expected winter that occurred in February rewarded this decision and continued through the quarter end. Over 72% of these total expenditures were directed to drilling and completion costs, while 12% was devoted to facilities and tie-ins and 5% was for the shooting of proprietary 3D seismic data. In addition Vero spent \$2.5 million acquiring the remaining 50% interest in 60 boe/d along with 3,520 acres of undeveloped lands from our partner in the Corbett area.

Cash flow for the first quarter reached a Company record of \$10.5 million putting us well on our way to achieving our 2007 guidance of between \$1.47 and \$1.57 per fully diluted share. The significant increase in cash flow was led by the increased production levels, which offset the modest natural gas price decline experienced in the current quarter from the same quarter in 2006. The increased production levels were also instrumental in lowering our operating cost per boe from the \$6.70 realized in the fourth quarter of 2006 to \$6.30 in the current quarter. The end result for the quarter was solid net earnings of \$722 thousand or \$0.03 for the quarter.

In addition and specifically due to our successful drilling program in the fourth quarter of 2006 and sizeable increase in proved producing reserves, the Company had its bank operating facility increased from \$45 million to \$70 million in March. This facility enhancement along with the private placement (\$17.9 million net), which closed on April 5 have given the Company the option to increase its 2007 capital program. We anticipate that the program will be expanded through the acceleration of our own organic drilling program and/or pursuing any prudent acquisitions that would be a strategic fit for the Company.

VERO ENERGY INC.

OPERATIONS REVIEW

Edson, Alberta

Edson is Vero's largest producing property where 1 (0.3 net) wells were drilled and cased in the second quarter. Production in this area averaged 2,890 boe/d (86% natural gas) in the quarter. Production was slightly lower than anticipated due to unexpected downtime at a non-operated plant through which the majority of Vero's production is processed. In addition, a pipeline leak occurred in the major sales transmission line leaving the area. The production primarily targets the Rock Creek and Manville zones at 2,400-2,500 meters in depth and is characterized by gas with a very high liquid content, which can generate volumes of up to 30 bbls/mmcf. We are planning to drill approximately 22 (13.2 net) wells in 2007 which equates to at over 50% of our capital program for the year.

Currently there are 5 (4.4 net) horizontal producing wells and our plans are to drill 5 (3.4 net) additional horizontal wells in 2007. During the quarter Vero installed a 100% owned compressor to alleviate the increase in pipeline pressures. Another compressor is currently planned to be installed late in the second half of this year.

Vero's acreage in the area consists of 29,920 gross (12,561 net) developed acres and 21,440 (11,455 net) undeveloped acres. It is anticipated that in due course, a majority of the acreage will have at least two wells per section. Therefore, the undeveloped acreage does not tell the whole story of the potential of this area. The Company moved 5,440 gross (3,824 net) undeveloped acres into developed categories in the past year by drilling successful wells. In addition, the Company has been successful in increasing its future inventory with farm-in agreements for well commitments to earn approximately 11,360 gross (5,680 net) undeveloped acres.

Wilson Creek

Wilson Creek is Vero's second largest producing area and is mainly an exploitation property. Production was an average of 484 boe/d (56 % natural gas) in the second quarter. The oil is light and sweet (42 degrees API). This area has the highest netbacks in the Company's portfolio at approximately \$35/boe. Production from certain wells was down for over a month due to an unanticipated turnaround of a midstream gas processing facility. Those wells were back to their full productive capability in the first week of July.

The future potential in this area is with the implementation of a water-flood in the Belly River oil pool. Submissions and applications to the regulatory bodies for the use of source water for the project have been made. If approved, a submission for the water flood will follow. Equipment has been purchased to start the flood which Vero believes will be implemented in late 2007 to early 2008. Vero believes this project has the potential to substantially increase the current production and recoverable reserves from this pool. Currently, no incremental production from this project is factored into the Company's forecasted production for 2007. Furthermore, no incremental reserves have been booked on any of the potential upside from the flood even though simulations and reservoir analysis have shown a probability of increased recovery factors.

OPERATIONS REVIEW

Whitecourt

Production in the Whitecourt area for the second quarter of 2007 was an average of 450 boe/d (92% natural gas). Both oil and gas wells that required trucking of fluids were shut-in at various times in the quarter due to spring break-up.

In the second half of this year we will reduce the number of originally planned locations to approximately 4 (2.4 net) as we focus on our other major core area. The area has a number of target zones ranging in depths from 500 to 1,700 meters. An application has been submitted to the regulators for reduced spacing on some of the tighter sands in the area which would allow the Company to produce from two wells per section.

Vero has been able to expand its land base in Whitecourt over the past year and currently has approximately 37,600 gross undeveloped acres with an average working interest of 82%.

Corbett

Production averaged 330 boe/d (65% natural gas) in the second quarter. Production was down slightly in the quarter due to an expected turnaround of the third party sales gas transmission system in the area; an unexpected shut down in the sales gas line due to a break; and wells temporarily shut-in due to an inability to haul sales products during break-up. In the second quarter the company upgraded compression at our 100% owned facility. Construction started on a water disposal facility as we received approval from the regulatory body for our water disposal well. When the facility becomes fully operational operating costs in the area will be reduced.

The company is planning an active program here in the second half of the year where three, 100% working interest wells are planned and two wells will be contingent on those results. The 100% owned facility in Corbett is the only one of its kind in the area and Vero is already generating third party revenue from it. These other operators are predominately drilling for coal bed methane ("CBM") and while this is not Vero's primary focus in this area, the results of these projects will be monitored as the Company does own the CBM rights on the majority of the Company's lands in the area.

Vero currently controls 26,398 gross acres in this area.

OPERATIONS REVIEW

Alberta - Other

Total current production in Vero's non-core areas averaged 136 boe/d (67% natural gas) in the second quarter. Vero plans to drill approximately 5 (3.6 net) wells during the rest of 2007. One well with a depth of approximately 3,600 meters has recently been spudded. Vero's lands in Central Alberta have low-risk; shallow gas targets with potential for up to thirteen follow up locations once the reduced spacing applications are approved.

Vero also has higher risk, higher reward exploration plays of various depths in its portfolio. There is geophysical and geological work currently being done on the Company's high impact Devonian Leduc prospect. This work includes the purchase of 25.6 km² of three-dimensional seismic data, which is currently being evaluated. The prospect is structurally complex, due to the proximity of the Rocky Mountains. With the significant cost of a 4,700 meter well, Vero will require additional geological work to be done prior to drilling. A recent discovery in the area is currently producing 88 mmcf/d; has recovered 50 bcf in less than two years, and is estimated to contain approximately 250 bcf.

Vero has 32,154 gross acres in its non-core areas in Alberta.

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OUTLOOK AND PRESIDENT'S MESSAGE

After a longer and more severe spring break-up than expected, Vero is pleased to report it is back on track and July production (based on field estimates) averaged over 4,700 boe/d (81% natural gas).

The Company plans an aggressive second half of the year as demonstrated by the drilling and casing of 5 (3.2 net) wells in the third quarter. Currently we have two operated drilling rigs working, one in Edson, and one in Corbett There is one non-operated rig drilling in Whitecourt. We are planning on keeping the Edson rig busy for the remainder of the year. In Corbett, we have received down-spacing approval and coupled with continuation of lands, we have started a three well program with two contingent wells. The Company has been busy completing the recently drilled wells and tying-in the previously completed wells. In mid-June Vero sent out notification to build a 20 mmcf/d gas facility in Edson, with a potential start up date in the fourth quarter. This project is in the final application and evaluation phases.

Vero has approximately 25 (16.2 net) wells to drill over the remainder of the year and is expected to spend its board approved \$60 million exploration and development capital budget. This includes the Company increasing the number of planned, gross, horizontal wells in Edson from three to four wells to six to eight wells. Accelerating our horizontal well projects is based on the attractive returns realized from the five currently producing horizontal wells in the area. One horizontal well that was drilled in the first quarter is currently producing and a second well is currently in the final drilling stages. We continue to high-grade our projects to ensure that we get the best return on capital and maintain one of the strongest balance sheets within our peer group.

Doug Bartole, President and CEO of Vero, stated that “In these challenging times, sticking to the game plan of per share growth is of paramount importance. We heavily weighted our capital program to the first quarter wherein we spent in excess of \$24 million, followed by a slower second quarter where our cash flow exceeded our spending. We were therefore able to exit the second quarter at just over \$43 million in net debt.” He also adds “We continue to be in the top quartile in controllable costs and with the completion of the equity financing in April and the strong cash flow from the second quarter, we are well positioned both financially and operationally to continue with the game plan of reaching our year-end exit rate of 5,000 – 5,200 boe/d.”

We appreciate the continued support of our shareholders, Board of Directors, and employees and look forward to your continued support and reporting our results in the future.

For more information and for the latest presentation please visit our website at www.veroenergy.ca.

Douglas J. Bartole
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") was prepared on August 7, 2007 and is management's assessment of the Company's financial and operating results for the six months ended June 30, 2007. This MD&A should be read in conjunction with the audited, consolidated, financial statements and MD&A of the Company for the year ended December 31, 2006 with the notes related thereto and the unaudited financial statements with the notes related thereto for the six months ended June 30, 2007.

Additional information on the financial statements, this MD&A and other factors that could affect the company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), 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, except as may be required by applicable securities laws.

READER ADVISORIES

Forward Looking Statements

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

- Fluctuations in natural gas, natural gas liquids and oil production levels;
- Volatility in market prices for natural gas, natural gas liquids and oil;
- Changes in foreign currency exchange and interest rates;
- Uncertainties associated with estimating reserves;
- Competition for capital, asset acquisitions, undeveloped lands and skilled personnel;
- Unexpected events that are inherent in the oil and gas industry such as: geological and drilling problems, production, pipeline and mechanical failures;
- Changes in the general economic conditions in Western Canada, Canada, North America and Worldwide.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Actions taken and policies created by governmental or regulatory authorities including changes to tax laws, incentive programs, royalty calculations and environmental regulations;

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

Non-GAAP Terms

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

Barrel of Oil Equivalents

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

Dollar amounts

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS FROM THE SECOND QUARTER OF 2007

The second quarter of 2007 was one of reduced levels of activity. Vero's plans were to spend aggressively in the first quarter and then cut back in the second quarter so as to allow the corporate cash flow to reduce the debt load expected from the heavy first quarter spending. Therefore, we spent \$5,604 during the second quarter, which was mainly directed towards facilities and equipping costs. In addition, we acquired new undeveloped lands and incurred seismic costs to assist in the resumption of our capital plan at the beginning of the third quarter. To assist with the capital plan and debt reduction, Vero closed a private placement in April which saw the Company realize \$17,936 in net proceeds. As a result the Company exited the second quarter with net debt of \$43,172. Vero realized \$9,693 in cash flow, which was slightly ahead of our forecasted amount of \$9.5 million. Operating cost efficiencies and lower debt servicing costs lead the way in achieving this level. Below is the detailed discussion of the results from the second quarter with comparative results from 2006.

DETAILED FINANCIAL REVIEW

PRODUCTION REVENUE AND VOLUMES

Vero increased aggregate production volumes by 83% in the second quarter of 2007 to 390,378 boe as compared to 213,821 boe in the second quarter of 2006. Production growth was largely attributable to the continued successful drilling program in Vero's core area of Edson, the upgrade to the non-operated Edson liquids handling facility which became fully operational in late December of 2006, as well as tieing-in previously drilled wells in both the Edson, and Whitecourt areas. In the second quarter of 2007 gas production contributed 81% of total production while liquids came in at 12% and oil was 7%. This compares to a 72% contribution from natural gas in the comparable period of 2006, while oil was 16% and liquids were 12%. The year-to-date mix for 2007 is identical to that of the second quarter. For the balance of 2007 it is anticipated that the weighting to natural gas will remain at approximately the 80% level.

Aggregate Sales Volumes

	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Natural gas (mcf)	1,904,633	915,181	108	3,814,504	1,429,545	167
Light/medium oil (bbl)	26,532	34,647	(23)	57,122	62,483	(9)
Natural gas liquids (bbl)	46,406	26,644	74	96,168	41,501	132
Barrels of oil equivalent (boe/d)	390,378	213,821	83	789,040	342,241	131

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Daily Sales Volumes

Daily sales volumes increased to 4,290 boe/d in the second quarter of 2007 from 2,350 boe/d in the same quarter as 2006. For the year-to-date we averaged 4,359 boe/d, representing a 131% increase from the 2006 level of 1,891. Vero's natural gas drilling program, and the associated liquids, mainly in the Edson area have created the significant growth in volumes produced. Crude oil production was 23% lower than the comparative quarter in 2006. Natural declines and the lower number of oil drilling targets accounted for the drop. Natural gas liquid production increased 74% quarter to quarter and 132% for year-to-date numbers. The increases from 2006 were the result of the enhancement at the liquids handling facility of one of Vero's partners in the Edson area, plus the addition of new wells in the Edson area, which are rich in liquids. Vero is maintaining its year-end exit rate guidance of 5,000 – 5,200 boe/d.

	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Natural gas (mcf/d)	20,930	10,057	108	21,075	7,898	167
Light/medium oil (bbl/d)	292	381	(23)	316	345	(9)
Natural gas liquids (bbl/d)	510	293	74	531	229	132
Barrels of oil equivalent (boe/d)	4,290	2,350	83	4,359	1,891	131

Production revenue

Revenues increased 129% for the six months of 2007 over 2006 levels. The predominant factor in this increase was the 131% increase in production volumes since aggregate realized prices declined by 1%. Revenue for the second quarter of 2007 increased by 90% from 2006 and this was lead by the 83% increase in production volumes. In addition, natural gas prices were 18% higher in the second quarter of 2007 compared to 2006 and 10% higher for the year-to-date. Natural gas revenues accounted for 76% of corporate revenues followed by liquids at 15% and oil revenues at 9% for the quarter. This was a significant shift in revenue profile from the same quarter of 2006 wherein gas contributed 58% of revenue, oil was 26% and liquids came in it at 16%. Natural gas drilling in the latter part of 2006 and early 2007 contributed to the significant shift. In addition, the Company's natural gas hedging program contributed \$155 in revenue during the second quarter of 2007.

	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Natural gas	15,057	6,131	146	30,783	10,487	194
Light/medium oil	1,812	2,793	(35)	3,714	4,627	(20)
Natural gas liquids	3,027	1,647	84	5,807	2,553	127
Realized gain on financial contracts	155	-	-	155	-	-
Production revenue	20,051	10,571	90	40,459	17,667	129

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Benchmark Indices

	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Natural gas						
NYMEX (US \$/mmbtu)	7.52	6.85	10	7.24	7.96	(9)
AECO- Daily (CDN \$/mcf)	7.07	6.04	17	7.24	6.77	7
Crude Oil						
WTI (US \$/bbl)	65.04	70.70	(8)	61.60	67.09	(8)
Edmonton light (CDN \$/bbl)	71.93	78.55	(8)	69.51	73.76	(6)
Foreign Exchange						
Canadian to US dollar	1.10	1.12	(2)	1.13	1.14	(1)
US to Canadian dollar	0.91	0.89	2	0.88	0.88	-

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; relative storage levels in North America and alternative fuel sources. AECO benchmark pricing was 17% higher on the quarter and 7% higher for the year-to-date as compared to 2006 levels.

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

	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Natural gas (\$/mcf)	7.91	6.70	18	8.07	7.34	10
Gain on financial contracts (\$/mcf)	0.08	-	-	0.04	-	-
Realized gas price (\$/mcf)	7.99	6.70	19	8.11	7.34	10
Light/medium oil (\$/bbl)	68.28	80.61	(15)	65.02	74.06	(12)
Natural gas liquids (\$/bbl)	65.24	61.80	6	60.38	61.50	(2)
Barrels of oil equivalent (\$/boe)	51.36	49.44	4	51.28	51.62	(1)

Excluding the effects of its hedging program, Vero realized on average an 11% premium to the AECO benchmark for its natural gas. The liquids rich, higher heat content gas, is the main reason for the premium. Vero realized 18% better prices in the second quarter than it did in the same quarter of 2006. On the year-to-date, we realized 10% better gas prices than we did in 2006. While the first six months of the year showed better pricing, July has shown rapid declines in gas prices for a variety of reasons including: higher storage levels, increased LNG imports and the lack of significant hurricane activity in the Gulf of Mexico to date. Oil prices decreased by 15% in the current quarter and 12% for the year-to-date. This was mainly due to the declining value of the US dollar. Natural gas liquids prices increased by 6% in the second quarter of 2007 compared to 2006 and are 2% lower for the year-to-date. Vero is anticipating additional weakness in natural

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MANAGEMENT'S DISCUSSION AND ANALYSIS

gas prices throughout the balance of the summer, but with reduced domestic drilling, reductions to LNG imports and continued hot weather, we are anticipating stronger prices towards the end of the summer and into the start of the heating season.

ROYALTIES

Vero pays royalties mainly to the Crown, but also has gross-over-riding, and to a lesser extent freehold royalty burdens that are payable to individuals and corporations. Crown royalty rates can fluctuate due to commodity price changes or production volume changes on a well by well basis as the Crown has varying royalty rates depending on the productivity of the well. Gross over-riding and freehold royalty rates are fairly consistent and fluctuate only with commodity prices. Royalties were \$5,816 for the second quarter of 2007 as compared to \$2,712 for the second quarter of 2006. The increase is directly tied to the significant increase in production revenues in 2007. On a per boe basis the rate increased to \$14.90 from \$12.68 per boe due to a combination of higher Crown royalty rates on the initial production from newly drilled wells as well as gross-over-riding royalties on a portion of the production added in the second quarter. An annual adjustment to the crown custom processing allowance also accounted for some of the increase in the quarter. In addition, the cancelling of the Alberta Royalty Tax Credit program effective January 1, 2007 increased royalty rate from 2006. As a percentage of revenue, royalty expense averaged 29.2% of production revenue in the second quarter of 2007, and 28.4% for the year-to-date. Vero anticipates for the balance of the year that this rate will decline slightly to approximately 27-28% as the new wells being drilled are not encumbered by gross over-riding royalties similar to the current production.

	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Crown – gross	5,156	2,659	94	10,186	3,978	156
Freehold/gross over-riding	660	310	113	1,276	713	79
Total royalties	5,816	2,969	96	11,462	4,691	144
ARTC	-	(257)	-	-	(346)	-
Royalty expense, net of ARTC	5,816	2,712	114	11,462	4,345	164
Royalties (\$/boe)	14.90	12.68	17	14.53	12.69	14
Royalties - % of production revenue	29.0	25.7	13	28.3	24.6	15

RISK MANAGEMENT ACTIVITIES

During the period ended June 30, 2007 the Company entered into the following commodity contract:

Type	Amount	Term	Price (\$/gj)	Type
Collar	5,000 gj/day	April 1 – October 31, 2007	\$7.00 - \$8.80	Financial

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This hedge was considered to be a financial derivative wherein the fair value of the contract was recognized on the balance sheet with changes in fair value recorded in income. As at June 30, 2007 the fair value of the Company's hedge was \$733. A corresponding amount was recognized in income. Realized gains or losses are recorded in income in the period in which they occur. For the three months ended June 30, 2007, the realized gain from the Company's hedging contracts was \$155.

	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Unrealized gain on risk management	733	-	-	733	-	-
Revenue (\$ per boe)	1.88	-	-	0.93	-	-
Revenue (% of total revenue)	3.5	-	-	1.8	-	-

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

Aggregate DD&A increased from \$6,106 in the second quarter of 2006 to \$8,766 in the second quarter of 2007. The 44% increase was primarily due to the increased depletion base from Vero's 2006 and 2007 capital programs. In addition, the 83% increase in production volumes in the second quarter caused more DD&A to be recognized as depletion uses the unit-of-production method in its computation. However, Vero's successful drilling program throughout 2006 and the first half of 2007 caused the DD&A rate per boe to drop 21% to \$22.46 per boe from second-quarter 2006 level of \$28.56. Accretion expense for the three months ended June 30, 2007 increased 51% from 2006 due to new wells being drilled over the year. For the balance of 2007 we anticipate the DD&A rate to be similar to the rate realized in the first half of 2007 as new reserve additions are balanced with increased costs of finding and developing the reserves.

	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Depletion and depreciation	8,726	6,080	44	17,595	9,455	86
Accretion on asset retirement obligations	40	26	51	78	41	91
Total DD&A	8,766	6,106	44	17,673	9,496	86
DD&A (\$/boe)	22.46	28.56	(21)	22.40	27.75	(19)

OPERATING

Operating costs were \$2,292 in aggregate or \$5.87 per boe in the second quarter of 2007 as compared to \$1,293 and \$6.05 per boe respectively in the second quarter of 2006. While aggregate operating costs increased 77% quarter-to-quarter, Vero was able to reduce the per boe rate by 3% and the expense as a percentage of revenue by 6%. These reductions were the result of

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increased production volumes, as well as the concentration of our operations in West Central Alberta. For the balance of 2007 it is anticipated that the per boe expense will remain consistent with second quarter level.

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

	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Expense per financial statements	2,292	1,293	77	4,804	2,107	128
Add: processing income	9	1	712	13	1	1,075
Gross expense	2,301	1,294	78	4,817	2,108	128
Net expense (\$ per boe)	5.87	6.05	(3)	6.09	6.16	(1)
Net expense (% of revenue)	11.5	12.2	(6)	11.9	11.9	-

TRANSPORTATION

Transportation expenses were \$603 for the current quarter and amounted to 3.0% of production revenue for the period as compared to \$153 and 1.4% for the comparable quarter in 2006. For the year-to-date in 2007 the cost per boe averaged \$1.24, which is 48% higher than the rate for the year-to-date in 2006 of \$0.84. The increase in transportation costs in the second quarter of 2007 of 118% on a per boe basis was mainly attributable to the increased utilization of trucking due to volume restrictions during the spring break-up period, as well as the utilization of partner pipeline infrastructure as opposed to Vero building and operating its own infrastructure for new production. Transportation costs are comprised of gas transportation, pipeline tariffs for oil and liquids transportation as well as trucking charges. The charges are dependent on a variety of factors such as: the type of production facilities; the method of transportation; the distances covered; the rates charged by the carriers; quantities shipped; cost of the carrier's fuel; the type of service offered (interruptible versus firm service) as well as ownership of the transportation facilities. The cost per boe for the balance of 2007 is expected to be relatively consistent with that of the year-to-date rates as the majority of these costs are variable in nature.

	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Expense per financial statements	603	153	295	978	286	242
Expense (\$ per boe)	1.55	0.71	118	1.24	0.84	48
Expense (% of revenue)	3.0	1.4	114	2.4	1.6	50

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GENERAL AND ADMINISTRATIVE (G&A)

Gross G&A expense increased 80% to \$1,497 in the second quarter of 2007 from \$830 in the same quarter of 2006. Net G&A increased 96% to \$1,108 from \$566 for the same periods. Numerous factors caused the significant increase in G&A such as: in 2007 we had a full complement of staff that numbered seventeen employees while we had approximately eight full-time equivalent employees for most of the first half of 2006. In addition, we moved to new office space in March of 2007 to accommodate additional staff levels. Furthermore, annual bonuses were paid in the second quarter of 2007, raising the aggregate G&A for the year with a one-time charge. On a per boe basis Vero realized net G&A of \$2.84 in the second quarter of 2007 as compared to \$2.65 during the similar period in 2006. This represents a 7% increase in G&A costs on a per boe basis. Overhead recoveries increased by 4% in 2007 as compared to 2006. The rate of increase was lower because of the reduced levels of activity in the second quarter of 2007. 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. Vero does not anticipate any significant staffing or other G&A changes into the third and fourth quarters of 2007. The Company capitalizes a portion of its G&A for the salaries of its technical staff, which are directly related to exploration and development activities. G&A capitalized for the second quarter of 2007 was \$210, representing a 128% increase from the same quarter in 2006. The year-to-date G&A rate of \$2.28 was 9% lower than the \$2.51 experienced in 2006. The G&A rate for the rest of 2007 is expected to be below \$2.00 per boe. As production volumes grow, and the levels of staff and other overhead remain stable, the G&A rate is expected to drop from second quarter levels.

	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Gross expense	1,497	830	80	2,558	1,335	92
Less:						
Overhead recoveries	(179)	(172)	4	(438)	(328)	34
Capitalized G&A	(210)	(92)	128	(317)	(149)	114
Net expense	1,108	566	96	1,803	859	110
Average cost (\$ per boe)						
Gross expense	3.84	3.88	(1)	3.24	3.90	(17)
Net expense	2.84	2.65	7	2.28	2.51	(9)

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INTEREST AND BANK CHARGES

Interest expense for the second quarter of 2007 increased 79% to \$539 from \$301 in the second quarter of 2006. This was mainly the result of the 72% increase in debt levels, which in turn were attributable to the extensive capital expenditure program throughout the latter part of 2006 and especially those costs incurred in the first quarter of 2007. In addition, effective interest rates were higher by 5% at 6.2% of debt-bearing interest as compared to 5.9% in the same quarter of 2006. The per boe interest expense rate was \$1.38 for the second quarter of 2007 and averaged \$1.54 for the year-to-date. This compares to \$1.41 for the second quarter of 2006, and \$1.35 for the six months of 2006. The per boe rate represents a 1% decline comparing quarter to quarter. With the private placement of equity in April of 2007, plus higher levels of production in the first half of the year as compared to 2006 levels, we were able to reduce the interest cost per boe while the average debt outstanding increased. It is anticipated that the interest cost per boe will increase in the third and fourth quarters to approximately \$1.50 to \$1.70 per boe as the capital expenditure program is ramped up again.

	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Interest per financial statements	539	301	79	1,215	463	14
Deduct: Commitment & other fees	(1)	(4)	(79)	(52)	(39)	(36)
Debt bearing interest	538	296	82	1,163	424	19
Average debt outstanding	34,903	20,265	72	38,307	21,169	81
Average interest rate	6.2%	5.9%	5	6.1%	5.8%	5
Average interest cost (\$ per boe)	1.38	1.41	(1)	1.54	1.35	14

STOCK BASED COMPENSATION

Stock based compensation expense in the second quarter of 2007 decreased by 26% to \$385 from the second quarter of 2006 which was \$520. For the six months of 2007 the expense was \$811 as compared to \$892 in 2006. The large stock option issuance in December of 2005 is more than half-way into its amortization and the nature of the vesting gave more weight to the expense in early periods than the current ones. The per boe rate for the current quarter dropped 59% to \$0.99 from 2006 level of \$2.43 as a result of significantly higher production levels in 2007. The fair value of all stock options is amortized over the options' vesting period, which is three years for all options granted.

63% as the increase in aggregate expense was more than offset by increases in production rates. Future income tax expense per boe will increase throughout the year as the one-time gains from the rate reductions were already recognized in 2006. It is anticipated that as production volumes increase and more emphasis is placed on drilling in the fourth quarter, the corporate netback will increase accordingly.

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	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Expense per financial statements	385	520	(26)	811	892	(9)
Expense (\$ per boe)	0.99	2.43	(59)	1.03	2.61	(61)

INCOME TAXES

The total income tax provision for the second quarter of 2007 was \$772 and this was comprised entirely of future income taxes. This provision represents a 167% increase from the tax recovery for the comparable period in 2006. For the year-to-date in 2007, the tax expense was \$1,222 or 219% higher than the recovery of \$1,023 in 2006. The large recoveries in 2006 were attributable to the passing of legislation to reduce corporate tax rates from 2006 to 2010. The gradual reduction of income tax rates as proposed previously by the Federal Government continues until it is fully implemented in 2010. However, all of the future benefits of these rate reductions have already been recognized in the second quarter of 2006. In addition, there was a new tax rate reduction as a result of the federal budget in March of 2007. On June 12, 2007, Bill C-52, An Act to implement a reduction to the general corporate income tax rate from 19% to 18.5% on January 1, 2011 received third reading in Parliament. Accordingly, the law is considered to be substantively enacted and the rate reduction is reflected in the second quarter 2007 financial statements.

Pursuant to the flow-through share private placement, which closed in April of 2007 the Company entered into a commitment to renounce \$10,875 of exploration expenses to subscribers by December 31 of 2007. The Company will have until December 31, 2008 to incur eligible costs under the agreements. The tax effects of the renunciation will be made when the documents are filed with the tax authorities. It is anticipated that this will occur on or before the end of March of 2008.

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

	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Current income tax expense	-	(308)	100	-	(292)	100
Future income tax expense	772	(851)	185	1,222	(731)	261
Total income taxes	772	(1,159)	167	1,222	(1,023)	219
Tax expense (\$/boe)	1.98	(5.42)	137	1.55	(2.99)	152

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

Tax Pools	Rate %	June 30, 2007	June 30, 2006
Canadian exploration expenses	100	15,220	6,050
Canadian development expenses	30	34,666	29,273
Canadian oil and gas property expenses	10	28,238	26,824
Undepreciated capital costs	10 - 30	28,875	14,529
Financing costs	20% S.L.	2,133	1,123
Attributed Canadian Royalty Income	100 (Alberta)	2,195	2,227
Total		111,327	80,026

NETBACKS

Below is a breakdown of the boe netbacks for the Company. Operating netbacks of \$29.04 per boe for the second quarter of 2007 were 3% lower than those realized for the second quarter of 2006. For the six months ended June 30, 2007 the net back was \$29.42, an 8% reduction to the \$31.93 realized in 2006. The largest single contributor to the decline was the 18% increase in royalty expense for the quarter and 14% for the year-to-date. Cash flow netbacks were lower by 9% for the second quarter of 2007 as the gains Vero realized in reducing interest expense per boe were more than offset by the royalty rate increase and the administrative bonuses paid in the second quarter. For the net earnings netback, the largest expense was DD&A at \$22.46 per boe for the second quarter and \$22.40 for the year-to-date. Vero was successful in reducing this expense from 2006 levels as we increased our proved reserve additions through a successful drilling program. Stock based compensation expense declined by 59% for the quarter to quarter results and 61% for the year-to-date as the amortization of the expense reached it peak and is now being amortized over larger production volumes. Future income tax expense per boe should remain stable throughout the rest of the year. It is anticipated that if the softness in natural gas prices continues throughout the third quarter, the netbacks may decline somewhat.

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Corporate Netbacks

(\$ per boe)	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Realized price	51.36	49.44	4	51.28	51.62	(1)
Royalties (net of ARTC)	(14.90)	(12.68)	18	(14.53)	(12.69)	14
Operating expenses	(5.87)	(6.05)	(3)	(6.09)	(6.16)	(1)
Transportation expenses	(1.55)	(0.71)	118	(1.24)	(0.84)	48
Operating netback	29.04	30.00	(3)	29.42	31.93	(8)
G&A	(2.84)	(2.65)	7	(2.28)	(2.51)	(9)
Interest expense	(1.38)	(1.41)	(2)	(1.54)	(1.35)	14
Interest and other income	-	-	-	-	0.26	-
Current income taxes	-	1.44	(100)	-	0.85	(100)
Cash flow netback	24.82	27.38	(9)	25.60	29.18	(12)
Unrealized gain on hedges	1.88	-	-	0.93	-	-
Stock based compensation	(0.99)	(2.43)	(59)	(1.03)	(2.61)	(61)
D,D&A	(22.46)	(28.56)	(21)	(22.40)	(27.75)	(19)
Future income taxes	(1.98)	3.98	150	(1.55)	2.14	172
Net earnings netback	1.27	0.37	243	1.55	0.96	61

Operating Netback by Commodity Type

Natural gas (\$/mcf)	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Production revenue	7.99	6.70	19	8.11	7.34	10
Royalties (excluding ARTC)	(2.27)	(1.84)	23	(2.29)	(1.86)	23
Operating expenses	(0.56)	(1.02)	(45)	(0.63)	(1.06)	(41)
Transportation costs	(0.28)	(0.10)	180	(0.22)	(0.12)	83
Operating netback	4.88	3.74	30	4.97	4.30	16

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Crude oil (\$/bbl)	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Production revenue	68.28	80.61	(15)	65.02	74.06	(12)
Royalties (excluding ARTC)	(16.03)	(16.33)	(2)	(12.86)	(15.86)	(19)
Operating expenses	(7.47)	(8.90)	(16)	(8.05)	(8.15)	(1)
Transportation costs	(1.00)	(0.79)	27	(0.85)	(1.11)	(23)
Operating netback	43.78	54.59	(20)	43.26	48.94	(12)

Natural gas liquids (\$/bbl)	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Production revenue	65.24	61.80	6	60.38	61.50	(2)
Royalties (excluding ARTC)	(23.00)	(17.35)	33	(20.88)	(16.87)	24
Operating expenses	(21.96)	(1.88)	1,068	(20.20)	(2.00)	910
Transportation costs	(0.90)	(1.19)	(24)	(0.82)	(1.21)	(32)
Operating netback	19.38	41.38	(53)	18.48	41.42	(55)

CASH FLOW AND NET EARNINGS

Cash flow from operations in the second quarter of 2007 was \$9,693, an increase of 66% from \$5,854 realized in the second quarter of 2006. The major contributors to this increase in the quarter were the combination of an 83% increase in production volumes and 4% increase in average commodity prices. In addition, Vero realized \$155 from its hedging activities during the second quarter of 2007, which assisted in enhancing its realized gas price. Consequently, Vero was able to realize significant growth in cash flow. Net earnings in the quarter were also higher by 535% from 2006 levels mainly as a result of the growth in production and prices, but also because we were able to reduce our DD&A charges by 21% due to successful drilling efforts. For the six months ended June 30, 2007 Vero had a 102% growth in cash flow and 270% increase in net earnings. Cash flow from operations is calculated as follows:

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	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Net earnings	502	79	535	1,224	331	270
Adjustments for:						
Unrealized gain on risk management	(733)	-	-	(733)	-	-
Depletion, depreciation and accretion	8,766	6,106	44	17,673	9,496	86
Future income tax	772	(851)	191	1,222	(731)	267
Stock based compensation expense	385	520	(26)	811	892	(9)
Cash flow from operations	9,693	5,854	66	20,197	9,988	102

On a per share basis, Vero realized \$0.02 for both basic and diluted earnings per share for the second quarter of 2007 as compared to nil earnings per share for the same period of 2006. For the year-to-date, we recognized a 300% increase from 2006 to \$0.04 per share, basic and diluted. Cash flow per share in the second quarter of 2007 was \$0.33 basic and \$0.32 diluted representing 43% and 39% increases respectively from the second quarter of 2006.

	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Net earnings	502	79	535	1,224	331	270
Basic	0.02	-	-	0.04	0.01	300
Diluted	0.02	-	-	0.04	0.01	300
Cash flow	9,693	5,854	66	20,197	9,988	102
Basic	0.33	0.23	43	0.74	0.43	72
Diluted	0.32	0.23	39	0.73	0.43	70

CAPITAL EXPENDITURES

Vero concentrated its drilling program in the first quarter of 2007 in anticipation of a lengthy break-up season. Consequently, capital spending was greatly reduced in the second quarter as the Company spent less than its cash flow and used the excess to reduce the net debt resulting from the first quarters' activity. Projects in the second quarter were mainly directed to facilities, optimizations, seismic data purchases, and land acquisitions, which will enable the Company to proceed quickly with new projects to be started when the capital program comes back into full swing in the third quarter. Vero spent \$5,621 on its capital program in the second quarter including: \$1,144 spent on a new compression facility in Edson, \$764 on Crown land acquisitions and \$151 on seismic data acquisitions. A summary of the costs incurred in each comparative quarter and for the year-to-date is as follows:

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	Three Months Ended, June 30,			Six Months Ended, June 30,		
	2007	2006	%	2007	2006	%
Exploration and development						
Land acquisitions and lease rentals	813	833	(2)	960	2,824	(66)
Geological and geophysical	406	348	17	1,958	419	367
Drilling and completions	464	9,123	(95)	19,907	16,401	21
Well equipment and facilities	3,921	2,269	73	7,192	3,876	86
Disposals	-	(300)	(100)	-	(300)	(100)
Total exploration and development	5,604	12,273	(55)	30,017	23,220	29
Other expenditures	17	49	(65)	24	125	(81)
Total capital expenditures	5,621	12,322	(55)	30,041	23,345	29
Corporate acquisition (cash outlay)	-	-	-	-	18,887	(100)
Property acquisition	-	-	-	2,478	-	-
Net capital expenditures before ARO	5,621	12,322	(55)	32,519	42,232	(23)
Capitalized asset retirement obligations	9	126	(93)	91	202	(55)
Total capital additions	5,630	12,448	(56)	32,610	42,434	(23)

	Three Months Ended, June 30,				Six Months Ended, June 30,			
	2007		2006		2007		2006	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Wells drilled								
Exploration	-	-	-	-	2	0.8	3	2.8
Development	1	0.3	8	3.8	13	7.5	13	6.8
Dry holes	-	-	-	-	3	3.0	-	-
Standing wells	-	-	-	-	-	-	-	-
Total wells	1	0.3	8	3.8	18	11.2	16	9.6
Success rate (%)	100	100	100	100	83	73	100	100

Vero spent approximately 50% of its recently board-approved capital budget of \$60 million in the first half of the year. Spending for the third and fourth quarters will be dependent on many factors such as: weather, commodity prices, rig and services availability and success rates on wells that may require follow-up locations. However, it is currently anticipated that we are on schedule to spend the full \$60 million authorized by the Board.

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LAND HOLDINGS

The undeveloped land holdings (all Alberta) at June 30, 2007 were as follows:

Area	Gross Acres	Net Acres	Average WI %
Corbett	17,920	16,096	90
Edson	21,440	11,455	53
Whitecourt	37,600	31,328	83
Other Alberta	16,640	11,704	70
Total	93,600	70,583	75

LIQUIDITY AND CAPITAL RESOURCES

Debt and working capital	June 30,			December 31,	
	2007	2006	%	2006	%
Bank debt	38,772	21,554	80	35,651	9
Working capital deficiency	4,400	8,579	(49)	13,889	(68)
Net debt	43,172	30,133	43	49,540	(13)

Capital Program Funding	Three months ended, June 30,			Six months ended, June 30,		
	2007	2006	%	2007	2006	%
Cash, beginning of period	-	-	-	-	12,523	(100)
Funds provided by operations	9,693	5,854	66	20,197	9,988	102
(Decrease) increase in bank debt	(9,477)	(3,745)	(153)	3,121	3,033	3
Share issuance, net of costs	17,957	12,102	48	17,957	12,061	49
Change in non-cash working capital	(12,552)	(1,889)	(564)	(8,756)	4,627	289
Net capital expenditures	5,621	12,322	(54)	32,519	42,232	(23)

The Company funded its \$32,519 in total capital expenditures for the six months ended June 30, 2007 from a variety of resources. Vero realized cash flow of \$20,197, increased its bank debt by \$3,121, and closed a private placement (plus a small stock option exercise) which netted the Company \$17,957. This was partially offset by a decrease in its non-cash working capital by \$8,756, which is mainly from the payment of the Company's outstanding payables. All of this activity resulted in net debt at June 30, 2007 of \$43,172. To fund its remaining capital program for 2007, Vero expects to generate an additional \$20 million of cash flow. This coupled with the Company's unutilized bank line of approximately \$31 million will be more than sufficient to fund Vero's remaining current capital program for 2007, which is currently anticipated to be approximately \$30 million.

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Available borrowings on the bank credit facility are limited by the borrowing base, which is established by the bank. The amount of available credit is based mainly upon the value of petroleum and natural gas assets. The most recent formal evaluation by our external engineers determined these reserve values as at December 31, 2006. The bank facility is subject to periodic borrowing base reviews. The most recent annual review by the bank was completed in March of 2007 and the next review, which is an interim review, is currently ongoing. Corporate working-capital liquidity is maintained by drawing from the unutilized facility as needed and then repaying it periodically through production revenues. As new reserves are added and the financing needs of the company are expanded, Vero will apply to the bank for interim an review. The credit facility is currently authorized at \$70 million.

Below is a summary of the trading history of the Company's shares for 2007 and 2006.

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

OFF BALANCE SHEET TRANSACTIONS

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

RELATED PARTY TRANSACTIONS

There were no related party transactions during the period.

CONTRACTUAL OBLIGATIONS

The Company is obligated, at June 30, 2007 to make the following payments under the terms of long-term contracts it has entered into:

	Total	Payments Due by Period		
		Less than 1 year	1-3 Years	4-5 Years
Transportation obligations	994	209	415	370
Head Office Lease	3,716	910	1,820	986
Farm-in obligations	8,210	8,210	-	-
Total contractual obligations	12,920	9,329	2,235	1,356

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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. Vero entered into a four-year lease for its new head office space effective December 21, 2006. Vero moved into these new premises on March 1, 2007. As at June 30, 2007 Vero had committed to drill a total of five wells in Alberta with varying commencement dates in 2007 pursuant to farm-in agreements with industry partners.

SHARE CAPITAL

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

(000's)	July 27, 2007	June 30, 2007	December 31, 2006
Common shares outstanding	28,911	28,911	25,907
Stock options outstanding	2,436	2,436	2,321
Fully diluted shares	31,347	31,347	28,228
Weighted average common shares			
Basic	-	27,333	24,589
Diluted	-	27,545	24,589

SELECTED QUARTERLY INFORMATION

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

(000's except as noted)	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006
Production (boe/d)	4,290	4,430	3,301	2,713
Average prices realized (\$/boe)	51.36	51.19	48.89	45.82
Production revenue	20,051	20,407	14,846	11,436
Net earnings	502	722	688	16
Basic - per share (\$/share)	0.02	0.03	0.03	-
Diluted - per share (\$/share)	0.02	0.03	0.03	-
Cash flow	9,693	10,504	7,835	6,280
Basic - per share (\$/share)	0.33	0.41	0.31	0.24
Diluted - per share (\$/share)	0.32	0.41	0.31	0.24
Total assets	178,377	182,470	166,858	155,480
Net capital expenditures	5,621	26,898	17,966	15,556
Long term financial liabilities	-	-	-	-
Net debt	43,172	65,934	49,540	39,409
Dividends paid	-	-	-	-

VERO ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

RISK MANAGEMENT

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

Environmental Regulation and Risk

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

Review of Alberta Royalty and Tax Regime

On February 16, 2007, the Alberta Government announced that a review of the province's royalty and tax regime (including income tax and freehold mineral rights tax) pertaining to oil and gas resources, including oil sands, conventional oil and gas and coal bed methane, will be conducted by a panel of experts, with the assistance of individual Albertans and key stakeholders. The review panel is to produce a final report that will be presented to the Minister of Finance by August 31, 2007.

VERO ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CRITICAL ACCOUNTING ESTIMATES

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

ACCOUNTING STANDARDS CHANGES

Financial Instruments

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

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

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

Accounting Changes

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

DISCLOSURE CONTROLS AND PROCEDURES

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

VERO ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Vero's Chief Executive Officer and the Chief financial Officer, has evaluated the design of the Company's internal controls over financial reporting. Based on that evaluation, the Company's

Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2007, the Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and includes those policies and procedures that:

- Pertain to the maintenance of records with such reasonable detail that accurately and fairly reflects the transactions of the issuer;
- Provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the financial statements in accordance with Canadian GAAP, and that the receipts and expenditures of the issuer are being made in accordance with the authorization of the management and directors of the Company; and
- Provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material affect on the annual or interim financial statements.

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

VERO ENERGY INC.

Balance Sheet

VERO ENERGY INC.

Balance Sheet

(in thousands of dollars)

	June 30, 2007 (unaudited)	December 31, 2006 (audited)
ASSETS		
CURRENT		
Accounts receivable	11,094	15,308
Prepaid expenses and deposits	1,074	1,089
Risk management asset (Note 13)	733	-
	12,901	16,397
Property and equipment (Note 4)	150,442	135,427
Goodwill (Note 3)	15,034	15,034
	178,377	166,858
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	17,301	30,286
Bank debt (Note 5)	38,772	35,651
	56,073	65,937
Asset retirement obligations (Note 6)	1,954	1,785
Future taxes	11,415	10,567
	69,442	78,289
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	103,048	84,710
Contributed surplus (Note 9)	2,963	2,159
Retained Earnings	2,924	1,700
	108,935	88,569
	178,377	166,858

Commitments (Note 11)
See accompanying notes.

APPROVED BY THE BOARD

“Signed” Paul R. Baay, Director

“Signed” Douglas J. Bartole, Director

VERO ENERGY INC.**STATEMENT OF OPERATIONS, COMPREHENSIVE INCOME
AND RETAINED EARNINGS****VERO ENERGY INC.****Statement of Operations, Comprehensive Income and Retained Earnings****For the three and six month periods ended June 30,***(in thousands of dollars, except per share data)(unaudited)*

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
REVENUE				
Production revenue	19,896	10,571	40,304	17,667
Realized gain on risk management activities	155	-	155	-
	20,051	10,571	40,459	17,667
Royalties	(5,816)	(2,712)	(11,462)	(4,345)
Unrealized gain on risk management activities	733	-	733	-
Interest and other	-	-	-	89
	14,968	7,859	29,730	13,411
EXPENSES				
Operating	2,292	1,293	4,804	2,107
Transportation	603	153	978	286
General and administrative	1,108	566	1,803	859
Stock based compensation (Note 8(e))	385	520	811	892
Interest and bank charges	539	301	1,215	463
Depletion, depreciation and accretion	8,767	6,106	17,673	9,496
	13,694	8,939	27,284	14,103
INCOME (LOSS) BEFORE INCOME TAXES	1,274	(1,080)	2,446	(692)
INCOME TAXES (RECOVERY) (Note 7)				
Current	-	(308)	-	(292)
Future	772	(851)	1,222	(731)
	772	(1,159)	1,222	(1,023)
NET EARNINGS AND COMPREHENSIVE INCOME	502	79	1,224	331
RETAINED EARNINGS, BEGINNING OF PERIOD	2,422	917	1,700	665
RETAINED EARNINGS, END OF PERIOD	2,924	996	2,964	996
NET EARNINGS PER SHARE (Note 10)				
Basic	0.02	-	0.04	0.01
Diluted	0.02	-	0.04	0.01

VERO ENERGY INC.

STATEMENT OF CASH FLOWS

VERO ENERGY INC.

Statement of Cash Flows

For the three and six month periods ended June 30,

(in thousands of dollars, except per share data)(unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
	2007	2006	2007	2006
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net earnings	502	79	1,224	331
Adjustments for:				
Unrealized gain on risk management activities	(733)	-	(733)	-
Depletion, depreciation and accretion	8,766	6,106	17,673	9,496
Future income taxes	772	(851)	1,222	(731)
Stock-based compensation	385	520	811	892
	9,693	5,854	20,197	9,988
Changes in non-cash working capital (Note 12(a))	(269)	(440)	(4,662)	(5,197)
	9,424	5,414	15,535	4,791
FINANCING				
Increase (decrease) in bank debt	(9,477)	(3,745)	3,121	3,033
Proceeds from issuance of common shares, net of share issue costs	17,936	12,102	17,936	12,061
Stock option exercises	21	-	21	-
	8,480	8,357	21,078	15,094
INVESTING				
Corporate acquisition (Note 3)	-	-	-	(18,887)
Additions to petroleum and natural gas properties	(5,604)	(12,573)	(30,017)	(23,520)
Purchase of petroleum and natural gas properties	-	-	(2,478)	-
Disposal of petroleum and natural gas properties	-	300	-	300
Additions to administrative assets	(17)	(49)	(24)	(125)
Changes in non-cash working capital (Note 12(a))	(12,283)	(1,449)	(4,094)	9,824
	(17,904)	(13,771)	(36,613)	(32,408)
NET DECREASE IN CASH AND CASH EQUIVALENTS	-	-	-	(12,523)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-	-	-	12,523
CASH AND CASH EQUIVALENTS, END OF PERIOD	-	-	-	-
Supplementary cash flow information (Note 12(b))				

NOTES TO THE FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2007 and 2006

(thousands, except per share data) (unaudited)

1. INCORPORATION AND NATURE OF BUSINESS

Vero Energy Inc. (“Vero or “the Company”) was incorporated on September 23, 2005 and commenced oil and gas operations on November 2, 2005 after the closing of a Plan of Arrangement between Vero, True Energy Inc. (“True”), and TKE Energy Trust (“TKE”). Under the Arrangement Vero acquired certain producing and non-producing oil and gas assets. Vero is engaged in the exploration, development and production of crude oil and natural gas in the province of Alberta.

On February 24, 2006 the Company acquired all of the issued and outstanding shares of Ledge Resources Limited (“Ledge”), a private Alberta oil and gas exploration and development company (Note 3). Subsequently, Ledge’s name was changed to Vero Resources Inc.

Effective January 1, 2007 Vero and Vero Resources Inc., a wholly-owned subsidiary of the Company were amalgamated under the Alberta Business Corporations Act and will continue under the name Vero Energy Inc.

2. FINANCIAL PRESENTATION AND POLICIES

The financial statements of Vero have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the fiscal period ended December 31, 2006, except as described below. The disclosures included below are incremental to those included with the annual financial statements. Certain information and disclosures normally required in the notes to the annual financial statements have been condensed or omitted in the preparation of these financial statements and notes. Therefore, the interim statements should be read in conjunction with the financial statements and the notes thereto in the Company’s annual report for the period ended December 31, 2006. Preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

VERO ENERGY INC.

NOTES TO THE FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2007 and 2006

(thousands, except per share data) (unaudited)

2. FINANCIAL PRESENTATION AND POLICIES (Continued)

Financial Instruments

Effective January 1, 2007 the Company adopted the new recommendations from the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments Recognition and Measurement; Section 1530, Comprehensive Income; Section 3861, Financial Instruments - Disclosure and presentation; Section 3251, Equity and Section 3865, Hedges. The adoption of these new financial instruments standards resulted in changes in the accounting for financial instruments as well as the recognition of certain transitional adjustments that have been recorded in opening accumulated other comprehensive income as described below. The components of equity and changes thereto have been disclosed. The standards are applied retroactively with prospective presentation except for adjustments relating to cumulative translation adjustments to account for foreign self-sustaining subsidiaries which are applied and presented retroactively. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

(a) Financial assets and financial liabilities

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently measured based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. The classification generally cannot be changed subsequent to the designation at the initial recognition of the instruments.

Held for trading

Financial assets that are purchased and held with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in fair value recognized in net earnings during the period. Cash and cash equivalents were classified as held for trading, these instruments are highly liquid and are readily convertible to known amounts of cash and are so near maturity that there is no significant risk of changes in value due to rate changes.

Held-to-maturity

Securities that have a fixed maturity date and which the Company has positive intention and the ability to hold to maturity are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method. No investments were classified as held-to-maturity on January 1, 2007.

NOTES TO THE FINANCIAL STATEMENTS**For the three and six month periods ended June 30, 2007 and 2006***(thousands, except per share data) (unaudited)*

2. FINANCIAL PRESENTATION AND POLICIES (Continued)Available-for-sale

Financial assets designated to be available-for-sale or not designated as one of the above categories are classified as available-for-sale. These assets are accounted for at fair value, with changes in fair value recognized in other comprehensive income. When a decline in fair value is determined to be other-than-temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in net earnings. Gains and losses realized on disposal of available-for-sale securities are recognized in other income in net earnings. No investments were classified as available-for-sale on January 1, 2007.

(b) Comprehensive Income and equity

The Canadian Institute of Chartered Accountants (CICA) issued section 1530 of the CICA Handbook, comprehensive income during the year, effective for fiscal years beginning on or after October 1, 2006. Comprehensive income is described as the change in a company's net assets that results from transactions, events and circumstances related to sources other than the company's shareholders. The CICA also made changes to section 3250 of the CICA Handbook, Surplus, and reissued it as section 3251, Equity. The section is also effective for fiscal years beginning on or after October 1, 2006. The Company has adopted this policy effective January 1, 2007, but the results of both comprehensive income and accumulated comprehensive income are not material to the financial statements and therefore no additional disclosure has been included.

(c) Derivatives

All derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value unless they qualify for the normal sale and purchase exception. All changes in fair value are included in earnings unless cash flow hedge or net investment accounting is used, in which case changes in fair value are recorded in other comprehensive income, to the extent the hedge is effective, and in earnings, to the extent it is ineffective.

Flow-through shares

The Company finances a portion of its exploration program through the issuance of flow-through shares. Under the terms of the flow-through share agreements, and as provided for under the Income Tax Act, the tax attributes of qualifying exploration costs incurred by the Company are renounced to subscribers. To recognize the foregone tax benefits to the Company, the amount for which the shares are issued is reduced by the tax effect of the tax benefits renounced to subscribers at the time the renunciation documents are filed with the tax authorities.

NOTES TO THE FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2007 and 2006

(thousands, except per share data) (unaudited)

3. ACQUISITION OF LEDGE RESOURCES LIMITED

Effective February 24, 2006 Vero acquired all of the outstanding common shares of Ledge Resources Limited (“Ledge”). Ledge shareholders received \$1.90 and 0.49473 Vero common shares for each Ledge share held. A total of 4,754,945 Vero shares were issued. The price ascribed to the common shares of \$6.44 was based on the trading prices of Vero common shares on the five days prior, the day of, and the five days following the announcement of the purchase. The operating results and corresponding cash flow and earnings related to the acquisition were included in the Company’s consolidated financial statements effective February 25, 2006. The acquisition was accounted for using the purchase method and the purchase price was allocated based on fair values as follows:

Consideration paid:

Cash paid to Ledge shareholders	18,261
Issuance of 4,754,945 common shares (Note 8(a))	30,622
Transaction costs	626
	49,509

Allocation of purchase price:

Current assets	3,837
Current liabilities	(3,678)
Debt assumed	(18,520)
	(18,361)
Property, plant and equipment	65,738
Goodwill	15,034
Asset retirement obligations	(666)
Future income taxes	(12,236)
	49,509

VERO ENERGY INC.**NOTES TO THE FINANCIAL STATEMENTS****For the three and six month periods ended June 30, 2007 and 2006***(thousands, except per share data) (unaudited)***4. PROPERTY AND EQUIPMENT**

	June 30, 2007		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	190,736	(40,424)	150,312
Administrative assets	194	(64)	130
	190,930	(40,488)	150,442

Undeveloped land costs and salvage values excluded from the depletion calculation as at March 31, 2007 were \$10,467 (2006 - \$9,480). Future development costs on proved undeveloped reserves of \$1,460 (2006 - \$7,291) were included in the depletion calculation. During 2007, the Company capitalized \$108 (2006 - \$56) in general and administrative expenses directly related to exploration and development activities.

	December 31, 2006		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	158,150	(22,846)	135,304
Administrative assets	169	(46)	123
	158,319	(22,892)	135,427

Undeveloped land costs and salvage values excluded from the depletion calculation as at June 30, 2007 were \$11,529 (2006 - \$11,399). Future development costs on proved undeveloped reserves of \$nil (2006 - \$7,291) were included in the depletion calculation. During 2007, the Company capitalized \$317 (2006 - \$148) in general and administrative expenses directly related to exploration and development activities.

NOTES TO THE FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2007 and 2006

(thousands, except per share data) (unaudited)

5. BANK DEBT

The Company has a \$70,000 revolving credit facility with a Canadian Chartered Bank. The advances bear interest at bank prime. The authorized limit is subject to a mandatory annual, borrowing base review by the bank. Interim reviews occur at the request of the Company with a view to make revisions to the borrowing base as new reserves are added. The facility is secured with a \$125,000 floating charge debenture over the assets of the Company.

6. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from the ownership interests it has in petroleum and natural gas assets, including well sites, gathering systems, batteries and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at June 30, 2007 to be \$4,053 (2006 - \$2,479), which will be incurred at various times between 2007 and 2021. The fair value of the asset retirement obligations incurred in the period ended June 30, 2007 was calculated using a credit-adjusted risk free rate of 8.4% (2006 – 8.4%) and an inflation factor of 2.4% (2006 – 2.6%). Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at June 30, 2007, no funds have been set aside to settle these obligations. Changes to asset retirement obligations during the periods ended June 30 were as follows:

	2007	2006
Asset retirement obligations at January 1	1,785	380
Liabilities assumed on the corporate acquisition	-	666
Liabilities incurred during the period	124	202
Liabilities settled during the period	-	-
Change in estimated future cash flows	(33)	-
Accretion	78	41
Asset retirement obligations at June 30	1,954	1,289

NOTES TO THE FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2007 and 2006

(thousands, except per share data) (unaudited)

7. INCOME TAXES

The provision for income tax differs from the amounts that would have resulted from the combined federal and provincial rate had it been applied for the six month periods ended June 30:

	2007	2006
Income (loss) before income taxes	2,446	(692)
Expected income tax (recovery) at the statutory rate of 32.1% (2006 – 34.5%)	785	(2
Tax effect of non-deductible and non-taxable amounts related to:		
Non-deductible crown payments	-	4
Resource allowance	-	(3
Stock-based compensation and other non-deductible	313	3
Alberta Royalty Tax Credit and Attributed Canadian		
Royalty Income	-	(1
Rate changes	(378)	(1,0
Reconcile book to actual on filing tax returns	499	
Other	3	
	1,222	(1,0

NOTES TO THE FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2007 and 2006

(thousands, except per share data) (unaudited)

8. SHARE CAPITAL

	Shares (000's)	Amount
Authorized		
Unlimited number of voting common shares		
Unlimited number of first preferred shares		
Issued		
<i>Common shares</i>		
Balance December 31, 2005	19,021	41,703
Issuance of shares on corporate acquisition (a)	4,755	30,622
Private placement, net of share issue costs (b)	2,131	12,061
Adjustment for tax benefits from share issue costs	-	324
Balance December 31, 2006	25,907	84,710
Private placement, net of share issue costs (c)	3,000	17,936
Exercise of stock options (d)	4	28
Adjustment for tax benefits from share issue costs	-	374
Total share capital at June 30, 2007	28,911	103,048

a) Acquisition of Ledge Resources Limited

On February 24, 2006 the Company acquired all of the outstanding shares of a private company. At closing, Vero issued 4,755 common shares at a deemed value of \$30,622 (see Note 3).

b) Private Placement – April 13, 2006

On April 13, 2006 the Company closed a private placement for the issuance of 2,131 common shares at a price of \$6.10 per share. The net proceeds of the issuance of \$12,061 are comprised of gross proceeds of \$13,000 less expenses of the issue of \$939.

NOTES TO THE FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2007 and 2006

(thousands, except per share data) (unaudited)

8. SHARE CAPITAL (continued)

c) Private placement – April 5, 2007

On April 5, 2007 the Company closed a private placement for the issuance of 1,500 Common Shares at a price of \$5.55 per share and 1,500 Flow-Through Common Shares at a price of \$7.25 per share. The net proceeds of issuance of \$17,936 were comprised of gross proceeds of \$19,200 less expenses of the issue of \$1,264. The tax effect of the tax benefits renounced to subscribers in respect of the flow-through shares will be recognized when the renouncement documents are filed. Using a combination of the regular, and the “look-back” provisions of the Income Tax Act with respect to the flow-through shares, the Company is required to incur eligible expenditures of \$10,875 prior to December 31, 2008.

d) Stock options

The Company has a stock option plan under which options to purchase common shares may be granted to officers, directors, employees and consultants. The Board has approved a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. As at June 30, 2007 there were 2,891 (2006 – 2,591) shares reserved for issuance under the plan. All options awarded have a maximum term of five years and vest in equal one-third increments on each anniversary of the grant. As at June 30, the following stock options were outstanding:

	2007		2006	
	Stock Options	Weighted Average Exercise Price \$	Share Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	2,32	5.14	1,600	4.87
Granted	13	5.83	576	6.07
Exercised	(5.35	-	-
Cancelled	(1	5.42	-	-
Outstanding, end of period	2,43	5.18	2,176	5.15
Exercisable, end of period	72		-	

NOTES TO THE FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2007 and 2006

(thousands, except per share data) (unaudited)

8. SHARE CAPITAL (continued)

Options Outstanding						
			2007		2006	
Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price \$	Weighted Average Years to Expiry	Number of Options Outstanding	Weighted Average Exercise Price \$	Weighted Average Years to Expiry
\$4.87 - 5.61	1,911	4.93	3.5	1,711	4.90	4.5
\$5.90 - 6.60	525	6.08	4.0	465	6.08	4.9
	2,436	5.18	3.6	2,176	5.15	4.6

During 2007, 4 (2006 - nil) options were exercised. \$21 was realized as cash proceeds and \$7 was debited to contributed surplus (note 9).

e) Stock-based compensation

The Company accounts for its stock options granted to employees, officers, and directors using the fair value method. In accordance with the Company's incentive stock plan, these options have an exercise price equal to the fair value of the security at the date of grant. The fair value of each option granted is estimated on the date of grant using a modified Black-Scholes option-pricing model. The following assumptions have been used:

	2007	2006
Risk free rate (%)	4.1	4.5
Expected life (years)	5	5
Expected volatility (%)	52	39
Expected dividends	-	-

For the period ended June 30, 2007, 130 (2006 - 576) stock options were granted to employees, officers and directors were outstanding. During the period, \$818 (2006 - \$892) was recorded as stock compensation expense with respect to the options outstanding with a corresponding credit to contributed surplus (Note 9). The option grants during the period had a weighted average fair value expense attributed to them of \$2.67 (2006 - \$2.35) per share.

NOTES TO THE FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2007 and 2006

(thousands, except per share data) (unaudited)

9. CONTRIBUTED SURPLUS

The following table reconciles the Company's contributed surplus as at June 30,

	2007	2006
Balance at January 1	2,159	103
Stock-based compensation expense	811	892
Exercise of stock options	(7)	-
Balance at June 30	2,963	995

10. NET EARNINGS PER SHARE

The following table summarizes the shares used in calculating net earnings per share as at June 30:

	2007	2006
Weighted average shares outstanding - basic	27,333	23,249
Dilutive stock options outstanding	2,416	1,676
Shares notionally repurchased with proceeds from dilutive stock options and returned to treasury	(2,204)	(1,676)
Weighted average shares outstanding - diluted	27,545	23,249

During the six months ended June 30, 2007, 20 (2006 – 115) of the issued stock options were excluded from the calculation of diluted weighted average shares outstanding as to include them would be anti-dilutive.

11. COMMITMENTS

In addition to the commitments listed below, the Company has various indemnifications in place in the ordinary course of business, none of which, as assessed by management, are expected to have a significant impact on the Company's financial statements.

a) Transportation costs

The Company has committed to firm-service contracts for the transportation of its natural gas. The amounts below are the minimum cash obligations that the Company must pay under the terms of the contract. The combined minimum future costs as at June 30, were as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2007 and 2006

(thousands, except per share data) (unaudited)

11. COMMITMENTS (Continued)

a) Transportation costs(continued)

	2007	2006
2006	-	12
2007	105	23
2008	209	23
2009	209	23
2010	197	12
2011	194	7
2012	80	2
Total minimum payments	994	102

b) Office lease costs

The Company has committed to future minimum payments under an operating lease that covers the rental of office space and a proportionate share of operating costs as follows:

	2007	2006
2006	-	126
2007	455	252
2008	910	252
2009	910	252
2010	910	252
2011	531	63
Total minimum payments	3,716	1,197

c) Indemnifications

From time to time, the Company may become involved in litigation or have claims sought against it in the normal course of business operations. Management of the corporation is not currently aware of any claims or actions that would materially affect the Corporation's reported financial position or results from operations.

Under the terms of certain agreements and the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The Company has no outstanding claims having a potentially material adverse effect on the Company as a whole.

VERO ENERGY INC.

NOTES TO THE FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2007 and 2006

(thousands, except per share data) (unaudited)

11. COMMITMENTS (Continued)

d) Drilling commitments

As at June 30, 2007 Vero had committed to drill a total of eight wells in Alberta with varying commencement dates in 2007 pursuant to farm-in agreements with industry partners. The Company expects to satisfy their net portion of these drilling commitments at an estimated cost of \$8,210.

e) Flow-through shares

Pursuant to the flow-through share private placement entered into on April 5, 2007, the Company was obligated to incur \$10,875 in eligible costs by December 31, 2008. As at June 30, 2007 Vero had \$10,848 remaining on this commitment.

12. SUPPLEMENTARY INFORMATION

a) Changes in non-cash working-capital

	Six months ended,	
	2007	2006
Accounts receivable	4,214	(6,492)
Prepaid expenses and deposits	15	(841)
Accounts payable and accrued liabilities	(12,985)	12,093
Taxes payable	-	(292)
Corporate acquisition of working capital (Note 3)	-	159
Net change in non-cash working capital	(8,756)	4,627
Investing activities	4,094	(9,824)
Operating activities	(4,662)	(5,197)

b) Supplementary cash flow information

	2007	2006
Interest received	-	89
Interest paid	1,212	426

NOTES TO THE FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2007 and 2006

(thousands, except per share data) (unaudited)

12. SUPPLEMENTARY INFORMATION

a) Changes in non-cash working-capital

	2007	2006
Accounts receivable	2,562	(3,279)
Prepaid expenses and deposits	(63)	(865)
Accounts payable and accrued liabilities	1,297	10,486
Taxes payable	-	16
Corporate acquisition of working capital (Note 3)	-	159
Net change in non-cash working capital	3,796	6,517
Investing activities	(8,189)	(11,274)
Operating activities	(4,393)	(4,757)

b) Supplementary cash flow information

	2007	2006
Interest received	-	89
Interest paid	675	124

13. FINANCIAL INSTRUMENTS

Financial instruments consist primarily of accounts receivable, prepaid expenses, risk management assets, accounts payable and accrued liabilities and bank debt. There are no significant differences between the carrying value of these instruments and their estimated fair value.

A substantial portion of the Company's accounts receivable are with customers and joint-venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Company's oil, natural gas and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

The Company is exposed to interest rate risk to the extent that changes in the market interest rates will impact the Company's cash and cash equivalents that have a floating interest rate. The bank facility is also based on a floating interest rate. The Company had no interest rate swaps or hedges at June 30, 2007.

During the period ended June 30, 2007 the Company entered into the following commodity contract:

Type	Amount	Term	Price (\$/gj)	Type
Costless collar	5,000 gj/day	April 1 – October 31, 2007	\$7.00 - \$8.80	Financial

VERO ENERGY INC.

CORPORATE INFORMATION

OFFICERS

Douglas J. Bartole, P.Eng.
President and CEO

Kevin W. Yakiwchuck, P.Geol., M.Sc.
Vice President, Exploration

Gerald N. Gilewicz, C.M.A
Vice President, Finance and CFO

Robert Bachynski, P.Land
Vice President, Land

Shane Manchester, P.Eng
Vice President, Operations

BOARD OF DIRECTORS

Kenneth P. Acheson, C.A

Paul R. Baay, Chairman

Douglas J. Bartole, P.Eng.

Clinton T. Broughton, P.Eng.

W.D. (Mickey) Dunn

Robert G. Rowley, LLB, Q.C.

STOCK EXCHANGE LISTING

The Toronto Stock Exchange –
“VRO”

LEGAL COUNSEL

Burnett, Duckworth & Palmer LLP

AUDITORS

PricewaterhouseCoopers LLP

BANKERS

Canadian Imperial Bank of
Commerce

RESERVE ENGINEERS

Sproule Associates Limited.

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services
Ltd.

ABBREVIATIONS

bbl	barrels
bbl/d	barrels per day
bcf	billion cubic feet
boe	barrels of oil equivalent (6mcf: 1 bbl)
bopd	barrels of oil per day
mmbtu	million British thermal units
mboe	thousand barrels of oil equivalent (6 mcf: 1bbl)
mmboe	million barrels of oil equivalent (6mcf: 1bbl)
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
mmcf/d	million cubic feet per day
ngl	natural gas liquids

CAUTIONARY STATEMENT

This report contains forward-looking statements relating to Management's approach to operations expectations relating to the number of wells, amount and timing of capital projects, company production, commodity prices, foreign exchange rates, royalties, operating costs and funds from operations. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable by Vero at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to : general economic, market and business conditions; industry capacity competitive action by other companies; fluctuation in oil and gas prices; the ability to produce and transport crude oil and natural gas to markets; the result of exploration and development drilling and related activities; fluctuation in foreign currency exchange rates; the imprecision of reserve estimates; the ability of suppliers to meet commitments; actions by governmental authorities including increases in taxes; decisions or approvals of administrative tribunals; change in environmental and other regulations; risks associated with oil and gas operations; the weather in the Company's areas of operations; and other factors, many of which are beyond control of the Company. There is no representation by Vero that actual results achieved during the forecast period will be the same in whole or in part as that forecast.



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