



THIRD QUARTER REPORT
For the nine months ended September 30, 2006

Q3

Financial and operating highlights for the third quarter of 2006 with comparisons to the second quarter of 2006 and the year-to-date operations for 2006 are as follows:

FINANCIAL (\$000's except per share amounts)	Q3 2006	Q2 2006 *	% Change	YTD 2006
Production revenue	11,436	10,571	8	29,103
Cash flow from operations	6,280	5,854	7	16,268
Per basic share	0.24	0.23	4	0.67
Per diluted share	0.24	0.23	4	0.67
Net earnings	16	79	(80)	347
Per basic share	-	-	-	0.01
Per diluted share	-	-	-	0.01
Capital expenditures	15,556	12,544	24	38,902
Net debt	39,409	30,133	31	39,409
SHARE CAPITAL (000's)				
Basic, weighted average	25,907	25,603	1	24,145
Basic, end of period	25,907	25,907	-	24,145
Fully diluted	28,228	28,083	1	28,228
DAILY SALES VOLUMES				
Natural gas volumes (mcf/d)	12,424	10,057	24	9,423
Light oil (boe/d)	306	381	(20)	332
Liquids (boe/d)	336	293	15	265
Corporate (boe/d)	2,713	2,350	15	2,168
AVERAGE PRICES REALIZED				
Natural gas (\$/mcf)	6.21	6.70	(7)	6.84
Light Oil (\$/bbl)	77.52	80.61	(4)	75.13
Liquids (\$/bbl)	69.70	61.80	13	65.00
Corporate (\$/boe)	45.82	49.44	(7)	49.17
NETBACKS (\$/boe)				
Operating	28.38	30.00	(5)	30.44
Cash flow	25.16	27.38	(8)	27.49
WELLS DRILLED				
Gross	11	8	38	27
Net	6.2	3.8	63	15.8

All barrels of oil equivalent conversions use 6 Mcf to 1 barrel of oil.

* There were no comparative results for the third quarter of 2005 as oil and gas operations for Vero commenced on November 2, 2005.

THIRD QUARTER HIGHLIGHTS & FINANCIAL REVIEW

- Increased average daily production 15% from 2,350 boe/d in the second quarter to 2,713 boe/d in the third quarter.
- Cash flow increase of 7% to \$6,280 thousand.
- Production revenue increase of 8% to \$11,436 thousand.
- Reduced G&A costs by 42% to \$1.55 per boe and operating costs by 6% to \$5.70 per boe.
- Achieved an operating netback of \$28.38 per boe and cash flow netback of \$25.16 per boe.
- Increased the borrowing facility to \$45 million.

FINANCIAL REVIEW

Vero delivered another quarter of growth despite the significant natural gas price uncertainty over the summer months. Daily sales volumes rose by 15% to 2,713 boe/d in the third quarter from 2,350 boe/d in the second quarter. Natural gas drilling continued to be the company's focus in the third quarter and the 7% decline in natural gas prices did not curb our plans. In anticipation of strengthening natural gas prices, Vero spent \$15.5 million during the quarter including the drilling of 11 (6.2 net) wells. 60% of this amount was directed to drilling costs, while 33% was for facilities and tie-ins. Included in the facilities expenditures are several projects related to optimizations and clearing the inventory of wells drilled in the first and second quarters that could not previously be tied-in due to a lengthy break-up.

Cash flow for the third quarter reached \$6.3 million, a 7% increase over that realized in the second quarter. Increased production levels continued to offset natural gas price declines and ultimately resulted in increased cash flow. For the year-to-date, cash flow reached \$16.3 million, which translates into \$0.67 per share (basic and diluted). Net earnings of \$16 thousand were recorded for the third quarter and \$347 thousand for the year-to-date. Net earnings per share were \$0.01 for the nine months ended September 30, 2006 (basic and diluted).

As a result of Vero's successful drilling efforts, the company's bank line of credit has been increased to \$45 million to accommodate the expanding capital plan and to ensure that we have the resources for future opportunities.

VERO ENERGY INC.

OPERATIONS REVIEW

Edson, Alberta

In Edson, Vero drilled 4 (2.2 net) wells in the third quarter of which 3 (1.4 net) wells are tied in and producing with 1 (0.8 net) well to be tied in during December. Since the end of the third quarter 1 (1.0 net) additional well has been drilled and cased. This well is awaiting completion and is expected to be tied-in prior to year end. The Company currently plans to drill 3 (2.0 net) wells during the remainder of the year in this area. In addition, the company has entered into an agreement with the operator of the Edson gas facility where the majority of our gas is processed. Under this agreement, Vero will pay for upgrades to the facility, which will increase our liquids recovery. The upgrade is expected to be completed in December and under the terms of the agreement the operator has given Vero priority processing. This initiative will allow us to expand our Edson drilling program into 2007 and beyond. A drilling rig has been contracted to the end of the first quarter of 2007 to ensure we have the ability to execute on our winter drilling plans in the area.

Wilson Creek

Wilson Creek is our second largest area and is mainly an exploitation property. The significant future potential in this area is in the implementation of a water-flood into the Belly River oil pool. Preliminary submissions to the regulatory bodies for the use of source water have been made and the final submission will be forwarded once the approval for source water usage has been received. Vero believes that this project has the potential to substantially increase the current production and reserves from this pool. Based on the current status of the project, implementation of the water-flood is tentatively planned for the latter part of the first quarter of 2007. Vero drilled 1 (0.5 net) well in October in Wilson Creek, which is expected to be tied-in and producing by the end of November.

Whitecourt

In the third quarter, Vero drilled 2 (1.4 net) wells in the Whitecourt area. One well is producing and the second well was completed, but did not show economic results. In addition, construction projects targeted to tie-in production from wells drilled in prior quarters have been completed. There remains 150 boe/d to be placed on-production due to third party operator related facility issues. These issues are expected to be resolved prior to year end. Whitecourt is an area in which Vero has large land holdings coupled with high working interests and we expect to be more active in this area in 2007.

OPERATIONS REVIEW AND OUTLOOK

Corbett

At Corbett 2 (1.5 net) wells were drilled in the third quarter with one (1.0 net) additional well to be drilled prior to year end. In the Nordegg oil pool Vero has been forced to shut-in 275 boe/d until the solution gas is tied-in. The tie-in is scheduled to be completed prior to year end. Construction has commenced to install a gathering system, facility, and sales line to conserve this gas and allow us to produce both the oil and the gas concurrently. This 100% owned facility will also facilitate further production and support additional drilling in the area. Since it will be the only facility of its kind in the area, this also gives Vero the potential to generate third party revenue as other operators start drilling wells in proximity to this facility. These other operators are predominately drilling for coal bed methane (“CBM”) and while this is not the company’s primary focus in this area, the results of these projects will be monitored as Vero does own the CBM rights on the majority of the company’s lands in the area.

Alberta Miscellaneous

Vero drilled 3 (1.2 net) wells in the third quarter in Vero’s non-core areas. Currently 2 (0.2 net) of these wells are under post-completion evaluations, and the third well, which is in Ferrier (100% Vero) is awaiting completion. The Ferrier completion will commence upon freeze-up when surface access and lease conditions improve.

OUTLOOK AND PRESIDENT’S MESSAGE

In the third quarter of 2006 Vero again showed gains in production, and cash flow notwithstanding a drop of 7% in commodity prices. This was accomplished by continued drilling in the third quarter and also involved the tie-in of wells drilled in the first two quarters of the year.

Vero continues to make progress in the area of controllable costs. Specifically, per-boe operating and general and administration costs were reduced from the second quarter by 6% and 42% respectively. We believe that one of the best hedges against commodity price volatility is to have a low cost structure.

During the third quarter, we realized some cost reductions in drilling costs due to a general slowdown in drilling activity in the industry. However, we did not realize the same level of reductions for completion services nor in the tie-in of our wells.

Having said this, we were still able to get previously drilled wells producing during the latter part of August and throughout September. This enabled us to exceed the high end of our guidance for the quarter and we exited the third quarter over 3,000 boe/d.

OUTLOOK AND PRESIDENT'S MESSAGE

Through the end of the third quarter and into the fourth quarter we are placing a substantial amount of capital into facility and gathering system infrastructure, which will allow us to bring on shut-in, and restricted production. More importantly it will allow us the ability and flexibility to continue with our ongoing drilling program with little disruption due to presently encountered infrastructure limitations.

We are confident that we will meet our fourth quarter guidance of 3,100-3,400 boe/d and exceed the high end of our previous exit production guidance of 3,500-3,800 boe/d. Our new exit production guidance is 3,800-4,000 boe/d. Current production based on field estimates is at 3,200 boe/d with 400 boe/d behind pipe and a further 400 boe/d restricted or shut-in. With the success that we have demonstrated to date and the numerous opportunities that lay in from of us, Vero's Board of Directors has approved an increase in our 2006 capital budget to \$53.5 million.

Finally, the Board of Directors has given approval for the initial 2007 capital budget of \$50 million dollars. Planning for 2007 is underway. To assist in the timely execution of our 2007 program, we have contracted two drilling rigs to take us through to the end of the first quarter of 2007. We are planning our most aggressive drilling program to date with 16-18 gross wells, which carries an approximate average working interest to Vero of 60% per well. With our large inventory of projects, Vero's initial guidance for 2007 is to achieve 20-25 % growth in production.

As always I want to commend our employees for their efforts and their commitment to long term per-share growth for our shareholders. I would also like to thank our shareholders for their optimism in us over the last few months during the volatile times in the stock market. Finally, I wish to thank our Board of Directors for their guidance and the ongoing reaffirmation of the potential of the Company

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 discussion and analysis was prepared on November 9, 2006 and is management's assessment of the Company's financial and operating results and should be read in conjunction with the interim, unaudited Consolidated Financial Statements for the three and nine months ended September 30, 2006, as well as the audited Financial Statements for the period ended December 31, 2005.

Additional information related to the Company, including the interim Consolidated Financial Statements for September 30, 2006 and the Company's Annual Report for 2005 can be found on SEDAR at www.sedar.com as well as the Company's website at www.veroenergy.ca.

READER ADVISORIES

Forward Looking Statements

Information provided herein contains estimates and assumptions which management is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. 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 Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

Non-GAAP Terms

This Management, Discussion and Analysis use the terms "cash flow from operations" and "netbacks" which are terms not recognized under Generally Accepted Accounting Policies ("GAAP"). The Company uses these measures to help evaluate its performance. 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

Comparative Information

Oil and gas operations of Vero commenced on November 2, 2005. Consequently, comparative data for the period ended September 30, 2006 to the comparable period in 2005 is not available. Instead, comparative data for the third quarter of 2006 to the second quarter of 2006 has been done for reader information purposes.

FINANCIAL REVIEW

PRODUCTION REVENUE AND VOLUMES

Vero increased aggregate production volumes by 17% in the third quarter of 2006 to 249,588 boe as compared to 213,821 boe in the second quarter of 2006. Production growth in the third quarter was mainly attributable to the continued successful drilling program in Vero’s core area of Edson, as well as tieing-in previously drilled wells in both the Edson and Whitecourt areas. Natural gas drilling continues to be the major focus for Vero and as a result the most significant change in production is with the increase in natural gas volumes at 25% as new production was brought on stream. Much of the new production is liquids rich gas and as a result liquids volumes increased by 16% as well.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Aggregate Sales Volumes

	Q3 2006	Q2 2006	% Change	YTD 2006
Natural gas (mcf)	1,143,012	915,181	25	2,572,557
Light/medium oil (bbl)	28,190	34,647	(19)	90,673
Natural gas liquids (bbl)	30,896	26,644	16	72,397
Barrels of oil equivalent (boe)	249,588	213,821	17	591,829

Daily Sales Volumes

Daily sales volumes increased 15% from an average of 2,350 boe/d in the second quarter of 2006 to 2,713 boe/d in the third quarter of 2006. Successful drilling efforts continued into the third quarter, as well as the tie-in of five wells that were drilled in the first and second quarters contributed to this increase.

	Q3 2006	Q2 2006	% Change	YTD 2006
Natural gas (mcf/d)	12,424	10,057	24	9,423
Light/medium oil (bbl/d)	306	381	(20)	332
Natural gas liquids (bbl/d)	336	293	15	265
Barrels of oil equivalent (boe/d)	2,713	2,350	15	2,168

Production revenue

Despite natural gas prices declining in the third quarter, natural gas increased its proportionate share of total revenue to 62%. Oil and natural gas liquids contributed equally to gross revenues in the third quarter in the amount of 19%. Strong natural gas liquids prices and a 16% increase in aggregate liquids production levels brought the liquids contribution up from 16% in the second quarter. The combination of natural gas and the associated liquids revenue increased to 81% of total revenues for the third quarter and 77% for the year-to-date. Revenues did not experience the same percentage increase as Vero's bias to natural gas was exposed to the weaker gas prices throughout the quarter. For the balance of the year the weighting to gas will increase slightly as the bulk of our remaining drilling program for 2006 is for natural gas targets.

<i>Production Revenue</i>	Q3 2006	Q2 2006	% Change	YTD 2006
Natural gas	7,097	6,131	16	17,584
Light/medium oil	2,185	2,793	(22)	6,813
Natural gas liquids	2,154	1,647	31	4,706
Production revenue	11,436	10,571	8	29,103

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Commodity prices realized by the Company for 2006 were as follows:

<i>Commodity Prices Realized</i>	Q3 2006	Q2 2006	% Change	YTD 2006
Natural gas (\$/mcf)	6.21	6.70	(7)	6.84
Light/medium oil (\$/bbl)	77.52	80.61	(4)	75.13
Natural gas liquids (\$/bbl)	69.70	61.80	13	65.00
Barrels of oil equivalent (\$/boe)	45.82	49.44	(7)	49.17

Gas prices declined 7% in the third quarter as compared to the second quarter due to the increase in continental storage levels and reduced demand during the summer months. In addition, the anticipated, active hurricane season did not. Oil prices fell off by 4% in the third quarter as supply concerns and middle-east tensions eased. Liquids prices showed a strong increase at 13% over the second quarter and Vero's 15% increase in liquids production volumes was timely to take advantage of this increase. Gas prices have been strengthening in the October and November months as early cold weather has developed in the Eastern parts of the country and the United States. As a result industry analysts have made preliminary indications that there will be stronger gas prices for this winter. Oil prices are expected to be similar to present levels into the fourth quarter.

ROYALTIES

Net royalties were \$2,714 for the third quarter as compared to \$2,712 for the second quarter of 2006. On a per boe basis the rate declined in the third quarter to \$10.88 from \$12.68 in the second quarter. As a percentage of revenue, royalty expense averaged 24% of production revenue in the third quarter as compared to 26% in the second quarter and was 24% for the year-to-date. Vero reached maximum ARTC in the third quarter and to that end the royalty rates will rise slightly in the fourth quarter from the current levels.

<i>Royalties</i>	Q3 2006		Q2 2006		YTD 2006	
	\$	\$/boe	\$	\$/boe	\$	\$/boe
Crown – gross	2,445	9.80	2,659	12.44	6,423	10.85
Freehold/Gross over-riding	423	1.70	310	1.45	1,136	1.92
Total royalties	2,868	11.50	2,969	13.89	7,559	12.77
ARTC	(154)	(0.62)	(257)	(1.21)	(500)	(0.84)
Royalty expense, net of ARTC	2,714	10.88	2,712	12.68	7,059	11.93
Royalties - % of revenue		24%		26%		24%

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Aggregate DD&A increased marginally from \$6,106 in the second quarter of 2006 to \$6,139 in the third quarter. Increased production levels, which would normally carry their proportionate share of DD&A per unit, were mitigated by significant reserve additions. This in turn kept the aggregate amount DD&A relatively flat. On a per BOE basis, the rate decreased 14% to \$24.60 in the third quarter from \$28.56 in the second quarter due to new reserve additions. We anticipate the DD&A rate for the balance of 2006 to decline slightly from third quarter levels as we continue with our drilling program targeted towards our lower risk, developmental wells.

<i>DD&A</i>	Q3 2006		Q2 2006		YTD 2006	
	\$	\$/boe	\$	\$/boe	\$	\$/boe
Depletion and depreciation	6,109	24.48	6,080	28.44	15,565	26.30
Accretion	30	0.12	26	0.12	70	0.12
Total DD&A	6,139	24.60	6,106	28.56	15,635	26.42

OPERATING

Operating costs were \$1,423 or \$5.70 per boe in the third quarter of 2006 as compared to \$1,293 and \$6.05, respectively in the second quarter of 2006. While aggregate operating costs increased 10%, Vero was able to realize a 6% reduction in the cost per boe. Increased production levels in the third quarter made it possible to lower this rate as the fixed costs are now spread over larger volumes. The Company continues to enjoy a low operating cost environment due to the concentration of operations in two geographic areas. For the balance of 2006 it is anticipated that the per boe expense will remain consistent with third quarter levels as increasingly upward pressure on service prices will be offset by our anticipated, increased production.

<i>Operating</i>	Q3 2006	Q2 2006	% Change	YTD 2006
Expense per financial statements	1,423	1,293	10	3,529
Operating expense (\$ per boe)	5.70	6.05	(6)	5.96
Net expense (% revenue)	12.4%	12.2%	2	12.1

MANAGEMENT'S DISCUSSION AND ANALYSIS

TRANSPORTATION

Transportation expenses were \$214 for the quarter and amounted to 2.0% of production revenue for the period. On a per boe basis this amounted to a 21% increase from the second quarter of 2006. For the year-to-date the cost per BOE has averaged \$0.84 which is 2% lower than the rate for the third quarter. Transportation costs are dependent on a variety of factors such as: the type of production facilities; the method of transportation; the distances covered; the rates charged by the carriers; quantities shipped; the type of service offered (interruptible versus firm service) as well as ownership of the transportation facilities. The cost per boe is expected to be relatively consistent with that of the third quarter as the majority of these costs are variable in nature.

<i>Transportation</i>	Q3 2006	Q2 2006	% Change	YTD 2006
Expense	214	153	40	500
Expense (\$ per boe)	0.86	0.71	21	0.84
Expense (% revenue)	2.0	1.4	43	2.8

GENERAL AND ADMINISTRATIVE (G&A)

Aggregate G&A expense declined by \$10 in the third quarter from the second quarter while net G&A declined by 32%. Gross G&A reached a fairly stable level in the second and third quarters. Net G&A declined due mainly to the increase in G&A recoveries, which is the direct result of the number of operated properties that Vero has. Increased production levels had the significant impact of lowering the per boe G&A rates by 15% on a gross basis to \$3.29 and 42% on a net basis to \$1.55. In the fourth quarter, the per boe rates are expected to remain similar to third quarter levels as slightly increased costs will be offset by production gains. Vero does not anticipate any significant staffing or other G&A changes into the fourth quarter. Overhead recoveries are a function of field operating activity as well as the number of wells drilled during the year for which the Company is the operator. The Company capitalizes a portion of its G&A for the salaries of its technical staff, which are directly related to exploration and development. G&A capitalized for the second quarter was \$87, representing a 5% decrease from the second quarter.

<i>G&A</i>	Q3 2006	Q2 2006	% Change	YTD 2006
Gross expense	820	830	(1)	2,156
Less:				
Overhead recoveries	(346)	(172)	101	(674)
Capitalized G&A	(87)	(92)	(5)	(236)
Net expense	387	566	(32)	1,246
Average cost (\$ per boe)				
Gross expense	3.29	3.88	(15)	3.64
Net expense	1.55	2.65	(42)	2.10

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MANAGEMENT'S DISCUSSION AND ANALYSIS

INTEREST AND BANK CHARGES

Interest expense for the second quarter of 2006 increased 40% to \$422 from \$301 in the second quarter. The per boe interest expense rate was \$1.65 for the third quarter as compared to \$1.41 in the second quarter. The increased activity in our capital spending increased the average debt outstanding by 31% in the third quarter from the second quarter. In addition a small effective interest rate increase of 3% to 6.1% contributed to the increased interest charges. Vero expects that the per boe interest expense will increase slightly in the fourth quarter as additional debt is incurred with our winter drilling program for 2006.

<i>Interest and bank charges</i>	Q3 2006	Q2 2006	% Change	YTD 2006
Interest per financial statements	422	301	40	885
Deduct: Commitment & other fees	(10)	(4)	150	(49)
Debt bearing interest	412	296	39	836
Average debt outstanding	26,631	20,265	31	23,575
Average interest rate	6.1%	5.9%	3	4.7%
Average interest cost (\$ per boe)	1.69	1.41	17	1.50

STOCK BASED COMPENSATION

Stock based compensation expense was \$610 for the third quarter of 2006 as compared to \$520 for the second quarter. This represents a 17% increase quarter over quarter. Additional stock options granted during the quarter, continuing amortization of the expense from option grants in 2005, and higher stock price volatility all contributed to the increased expense. The fair value of all stock options is amortized over the options' vesting period, which is three years for all options granted.

<i>Stock Based Compensation</i>	Q3 2006	Q2 2006	% Change	YTD 2006
Expense	610	520	17	1,502
Expense (\$ per boe)	2.45	2.43	1	2.54

INCOME TAXES

During the second quarter of 2006 several tax initiatives were announced by both the Federal and Alberta Governments that were favourable to Vero. These included Federal initiatives for the elimination of the Federal Large Corporations tax effective January 1, 2006, the elimination of the Federal Surtax of 1.12% effective January 1, 2008 and a scheduled reduction of Federal corporate income tax rates from 21% to 19% commencing January 1, 2008 through January 1, 2010. In addition, the Alberta Government announced a reduction of corporate income tax rates

VERO ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

from 11.5% to 10% effective April 1, 2006. The impact on the Company's future tax obligation of these announcements was a recovery of \$1,216 for the year-to-date in 2006.

Taking into account projected spending for 2006 as well as anticipated production levels and prices realized it is anticipated that Vero will not be cash taxable throughout the remainder of 2006 and into 2007.

	Q3 2006		Q2 2006		YTD 2006	
<i>Income taxes</i>	\$	\$/boe	\$	\$/boe	\$	\$/boe
Current income tax	-	-	(308)	(1.44)	(292)	(0.49)
Future income tax (recovery)	(485)	(1.94)	(851)	(3.98)	(1,216)	(2.05)
Total income taxes (recovery)	(485)	(1.94)	(1,159)	(5.42)	(1,508)	(2.54)

The estimated combined income tax pools available at the end of September 2006 were as follows:

<i>Tax Pools</i>	Rate %	Q3 2006
Canadian exploration expenses	100	10,039
Canadian development expenses	30	31,362
Canadian oil and gas property expenses	10	26,860
Undepreciated capital costs	10 - 30	18,217
Financing costs	20% S.L.	1,062
Attributed Canadian Royalty Income	100 (Alberta)	2,797
Total		90,337

NETBACKS

Below is a breakdown of the netbacks for the Company. Operating netbacks of \$28.38 per boe for the third quarter of 2006 were 5% lower than those realized for the second quarter of 2006. The largest single contributor to the decline was the 7% decrease in realized, average, commodity prices. The decline in commodity prices were partially offset by a 6% decrease in operating costs per boe and a 14% decrease in royalties per boe. Cash flow netbacks were lower by 8% as the gains we made in operating cost efficiencies were more than offset by price declines and a small increase in transportation rates. For the corporate netback, the largest expense, at \$24.60 per boe, was DD&A and reduced the earnings netback significantly. Although the DD&A rate per boe decreased by 14%, its larger amount was directly the result of the acquisition in the first quarter. In addition stock based compensation expense is significant as the amortization period is three years for all stock options. 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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MANAGEMENT'S DISCUSSION AND ANALYSIS

<i>Netbacks (\$ per boe)</i>	Natural Gas	Light Oil	Liquids	Q3 2006 Total	Q2 2006 Total	% Change
	(\$/mcf)	(\$/boe)	(\$/boe)	(\$/boe)	(\$/boe)	
Realized price	6.21	77.52	69.70	45.82	49.44	(7)
Royalties (net of ARTC)	(1.57)	(13.65)	(17.25)	(10.88)	(12.68)	(14)
Operating expenses	(1.02)	(7.51)	(1.41)	(5.70)	(6.05)	(6)
Transportation expenses	(0.13)	(2.00)	(0.46)	(0.86)	(0.71)	21
Operating netback	3.49	54.36	50.58	28.38	30.00	(5)
G&A				(1.55)	(2.65)	(41)
Interest expense				(1.69)	(1.41)	(20)
Interest and other income				0.02	-	-
Current income taxes				-	1.44	-
Cash flow netback				25.16	27.38	(8)
Stock based compensation				(2.45)	(2.43)	1
D,D&A				(24.60)	(28.56)	(14)
Future income taxes				1.94	3.98	(51)
Net earnings netback				0.05	0.37	(86)

<i>Netbacks (\$ per boe)</i>	Natural Gas	Light Oil	Liquids	YTD 2006 Total
	(\$/mcf)	(\$/boe)	(\$/boe)	(\$/boe)
Realized price	6.84	75.13	65.00	49.17
Royalties (net of ARTC)	(1.73)	(15.17)	(17.04)	(11.93)
Operating expenses	(1.04)	(7.95)	(1.75)	(5.96)
Transportation expenses	(0.12)	(1.39)	(0.89)	(0.84)
Operating netback	3.95	50.62	45.32	30.44
G&A				(2.10)
Interest expense				(1.50)
Interest and other income				0.16
Current income taxes				0.49
Cash flow netback				27.49
Stock based compensation				(2.54)
D,D&A				(26.42)
Future income taxes				2.05
Net earnings netback				0.58

MANAGEMENT'S DISCUSSION AND ANALYSIS

CASH FLOW AND NET EARNINGS

Cash flow from operations in the third quarter of 2006 was \$6,280, an increase of 7% from \$5,854 from the second quarter of 2006. While natural gas prices declined again in the third quarter by 7% from the second quarter, this was offset by a 17% increase in production volumes and a 6% decline in operating expense costs per boe. Consequently, Vero was able to realize growth in cash flow. Net earnings were lower by 80% from the second quarter as depletion and stock based compensation charges were higher in the quarter. Cash flow from operations is calculated as follows:

	Q3 2006	Q2 2006	% Change	YTD 2006
Net earnings	16	79	(80)	347
Adjustments for:				
Depletion, depreciation and accretion	6,139	6,106	1	15,635
Future income tax (recovery)	(485)	(851)	(43)	(1,216)
Stock based compensation expense	610	520	17	1,502
Cash flow from operations	6,280	5,854	7	16,268

On a per share basis, there were no net earnings per share (basic or diluted) for the second or third quarter of 2006. Cash flow per share in the third quarter was \$0.24 (basic and diluted) representing a 4% increase from the \$0.23 realized in the second quarter. On the year, Vero has realized cash flow of \$0.67 per share (basic and diluted).

Per share data (\$)	Q3 2006	Q2 2006	% Change	YTD 2006
Net earnings				
Basic	-	-	-	0.01
Diluted	-	-	-	0.01
Cash flow				
Basic	0.24	0.23	4	0.67
Diluted	0.24	0.23	4	0.67

VERO ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL EXPENDITURES

Vero concentrated its efforts in the third quarter on drilling and optimizations. Vero spent \$15,556 on its capital program for the third quarter of 2006 and \$38,902 for the year-to-date. Vero drilled 11 (6.2 net) wells in the third quarter and for the year-to-date drilled 27 (15.8 net).

<i>Capital expenditures</i>	Q3 2006	Q2 2006	% Change	YTD 2006
Exploration and development				
Land acquisitions and lease rentals	907	833	9	3,731
Geological and geophysical	274	348	(21)	596
Drilling and completions	9,258	9,345	(1)	25,757
Well equipment and facilities	5,112	2,269	125	8,988
Disposals	-	(300)	-	(300)
Exploration and development expenditures	15,551	12,495	24	38,773
Other expenditures	5	49	(90)	129
Total capital expenditures	15,556	12,544	24	38,902
Corporate acquisition (cash cost)	-	-	-	18,887
Net capital expenditures before ARO	15,556	12,544	24	57,789
Capitalized asset retirement obligations	192	126	60	394
Total capital additions	15,748	12,670	24	58,183

<i>Wells drilled</i>	Q3 2006		Q2 2006		YTD 2006	
	Gross	Net	Gross	Net	Gross	Net
Exploration	1	0.5	-	-	4	3.3
Development	9	4.8	8	3.8	21	10.5
Dry holes	1	1	-	-	2	2
Standing wells	-	-	-	-	-	-
Total wells	11	6.2	8	3.8	27	15.8

For 2006, Vero has accelerated its capital plan to take into account the numerous drilling opportunities it has generated. Vero is on target to exceed its capital projections and is now anticipated to spend approximately \$53 million for 2006. Remaining spending for the fourth quarter 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.

VERO ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LAND HOLDINGS

The undeveloped land holdings (all Alberta) at September 30, 2006 are as follows:

Area	Gross Acres	Net Acres	Average WI %
Corbett	23,520	14,496	62
Edson	15,840	9,363	59
Whitecourt	38,240	32,586	85
Other Alberta	24,640	15,039	61
Total	102,240	71,484	70

LIQUIDITY AND CAPITAL RESOURCES

	September 30, 2006	December 31, 2005
Debt and working capital		
Bank debt	31,550	-
Working capital deficiency (surplus)	7,859	(8,412)
Net debt (surplus)	39,409	(8,412)
Capital Program Funding	Q3 2006	YTD 2006
Funds provided by operations	6,280	16,268
Change in bank debt	9,996	13,030
Issuance of shares, net of costs	-	12,061
Change in non-cash working capital	(720)	3,907
	15,556	45,266

The Company funded its \$38,902 in total capital expenditures, plus the \$18,887 spent on the corporate acquisition in February from a variety of resources. Vero had a surplus working capital position it carried forward from 2005 of \$8,412. In addition, cash flow of \$16,268 for the year-to-date and a private placement in April, which netted the company \$12,061 were direct cash injections. The balance was funded by increases to Vero's bank facility and the change in accounts payable. All of this resulted in net debt of \$39,409 at September 30, 2006. For the balance of 2006, Vero expects to generate an additional \$8.5 million of cash flow. This, plus the unutilized bank line, which is approximately \$13 million will be sufficient to fund the remaining capital program for the year of \$13 million.

Available borrowings on the bank credit facility are limited by the borrowing base, which is established by the bank. The amount of available credit is based mainly upon the value of petroleum and natural gas assets. The most recent formal evaluation by our external engineers determined these reserve values as at December 31, 2005. The bank facility is subject to periodic borrowing base reviews. The credit facility is subject to a borrowing base review by the bank.

VERO ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The next review is scheduled for May of 2007. Corporate working-capital liquidity is maintained by drawing from the unutilized facility as needed and then repaying it periodically through production revenues. As new reserves are added and as the financing needs of the company are expanded, Vero will apply for interim reviews of the facility with a view to upgrading it. Most recently, the bank has approved the increase to our credit facility to \$45 million. This will further enhance our flexibility to expand the capital program if warranted.

Below is a summary of the trading history of the Company for 2006 and 2005.

	Q3 2006	Q2 2006	Q1 2006	Q4 2005
High	6.00	7.06	7.18	5.70
Low	4.60	5.02	5.00	4.02
Close	4.69	5.43	6.15	5.31
Volume (000's)	3,683	3,773	11,409	5,867

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

On the date Vero was created, it was considered to be related to True Energy Trust ("True") as we had a common shareholder base. Since then, Vero completed two private placements, thereby issuing an aggregate of 2,726 shares. In addition, we issued 4,755 shares in the course of a corporate acquisition in 2006 and traded 24,732 shares since our inception. Therefore, since Vero no longer has the same shareholder base as True, and the management of Vero is separate and distinct from True, we no longer consider ourselves related to True.

CONTRACTUAL OBLIGATIONS

The Company is obligated, at September 30, 2006 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
Head Office Lease	1,134	252	504	378
Transportation obligations	96	23	46	27
Total contractual obligations	1,230	275	550	405

VERO ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Vero entered into a five-year lease for its head office space effective April 1, 2006. The transportation obligations are comprised of firm service natural gas commitments with a gas transmission company. In the event of a shortfall in gas deliveries to the pipeline, the Company must pay the carrier the difference between volumes delivered and the contracted volumes in cash at the contracted rate.

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 and the preceding year-end:

(000's)	November 4, 2006	September 30, 2006	December 31, 2005
Common shares outstanding	25,907	25,907	19,021
Stock options outstanding	2,321	2,321	1,600
Fully diluted shares	28,228	28,228	20,621
Weighted average common shares			
Basic - year-to-date	-	24,145	9,379
Diluted - year-to-date	-	24,145	9,379

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)	Q3 2006	Q2 2006	Q1 2006	Q4 2005
Production (boe/d)	2,713	2,350	1,427	980
Average prices realized (\$/boe)	45.82	49.44	55.26	71.65
Production revenue	11,436	10,571	7,096	4,212
Net earnings	16	79	252	665
Basic - per share (\$/share)	-	-	0.01	0.07
Diluted - per share (\$/share)	-	-	0.01	0.07
Cash flow	6,280	5,854	4,133	1,896
Basic - per share (\$/share)	0.24	0.23	0.20	0.20
Diluted - per share (\$/share)	0.24	0.23	0.20	0.20
Total assets	155,480	142,344	132,787	53,130
Long term financial liabilities	-	-	-	-
Net debt (surplus)	39,409	30,133	35,768	(8,411)
Dividends paid	-	-	-	-

VERO ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISK MANAGEMENT

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, 2005.

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 2005 except for Goodwill as described below.

Goodwill

Goodwill is the excess purchase price over the fair value of identifiable assets and liabilities acquired. Goodwill is not amortized. However, goodwill impairment will be assessed annually at December 31, or as economic events dictate, by comparing the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit is less than its carrying value, the fair value of the reporting unit's goodwill is compared with its carrying value to measure the amount of goodwill impairment loss.

Disclosure Controls and Procedures

As at the interim period ended September 30, 2006, an evaluation was carried out under the supervision of and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at September 30, 2006 to provide reasonable assurance that material information relating to the Company and would be made known to them by others within the entity. 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.**CONSOLIDATED BALANCE SHEETS**

<i>(in thousands of dollars)</i>	September 30, 2006	December 31, 2005
	<i>(unaudited)</i>	
ASSETS		
CURRENT		
Cash and cash equivalents	-	12,523
Accounts receivable	16,041	6,013
Prepaid expenses and deposits	958	156
	16,999	18,692
Property and equipment (Note 4)	123,677	34,207
Goodwill (Note 3)	14,804	-
Future tax benefit (Note 7)	-	232
	155,480	53,131
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	24,858	9,988
Taxes payable	-	292
Bank debt (Note 5)	31,550	-
	56,408	10,280
Asset retirement obligations (Note 6)	1,511	380
Future taxes	10,234	-
	68,153	10,660
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	84,710	41,703
Contributed surplus (Note 9)	1,605	103
Retained Earnings	1,012	665
	87,327	42,471
	155,480	53,131
Commitments (Note 11)		

See accompanying notes.

APPROVED BY THE BOARD
"Signed" Paul R. Baay, Director

"Signed" Douglas J. Bartole, Director

VERO ENERGY INC.**CONSOLIDATED STATEMENTS OF OPERATIONS AND
RETAINED EARNINGS**

	Three months ended September 30, 2006	Nine Months ended September 30, 2006
<i>(in thousands of dollars, except per share data) (unaudited)</i>		
REVENUE		
Production revenue	11,436	29,103
Royalties	(2,714)	(7,059)
Interest and other	4	93
	8,726	22,137
EXPENSES		
Operating	1,423	3,530
Transportation	214	500
General and administrative	387	1,246
Stock-based compensation (Note 8(c))	610	1,502
Interest and bank charges	422	885
Depletion, depreciation and accretion	6,139	15,635
	9,195	23,298
LOSS BEFORE INCOME TAXES	(469)	(1,161)
INCOME TAX RECOVERY (Note 7)		
Current	-	(292)
Future	(485)	(1,216)
	(485)	(1,508)
NET EARNINGS	16	347
RETAINED EARNINGS, BEGINNING OF PERIOD	996	665
RETAINED EARNINGS, END OF PERIOD	1,012	1,012
NET EARNINGS PER SHARE (Note 10)		
Basic	-	0.01
Diluted	-	0.01

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(in thousands of dollars) (unaudited)</i>	Three months ended September 30, 2006	Nine Months ended September 30, 2006
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	16	347
Adjustments for:		
Depletion, depreciation and accretion	6,139	15,635
Future income taxes	(485)	(1,216)
Stock-based compensation	610	1,502
	6,280	16,268
Changes in non-cash working capital (Note 12(a))	(3,556)	(8,753)
	2,724	7,515
FINANCING		
Increase in bank debt	9,996	13,030
Proceeds from issuance of common shares, net of share issue costs	-	12,061
	9,996	25,091
INVESTING		
Corporate acquisition (Note 3)	-	(18,887)
Additions to petroleum and natural gas properties	(15,551)	(39,073)
Disposals of capital assets	-	300
Additions to administrative assets	(5)	(129)
Changes in non-cash working capital (Note 12(a))	2,836	12,660
	(12,720)	(45,129)
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))

See accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the nine months ended September 30, 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).

2. FINANCIAL PRESENTATION AND POLICIES

The Consolidated Financial Statements of Vero have been prepared by management in accordance with Canadian generally accepted accounting principles. The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiary. 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, 2005, except as described below. The disclosures included below are incremental to those included with the annual financial statements. 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, 2005. Preparation of the Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

Goodwill is the excess purchase price over the fair value of identifiable assets and liabilities acquired. Goodwill is not amortized. However, goodwill impairment will be assessed annually at December 31, or as economic events dictate, by comparing the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit is less than its carrying value, the fair value of the reporting unit’s goodwill is compared with its carrying value to measure the amount of goodwill impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

For the nine months ended September 30, 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 acquisition may be subject to adjustments if additional information related to the company during the pre-acquisition periods becomes known. The acquisition was accounted for using the purchase method of accounting as follows:

Consideration paid:

Cash	18,261
Common shares	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	14,804
Asset retirement obligations	(666)
Future income taxes	(12,006)
	49,509

NOTES TO THE FINANCIAL STATEMENTS

For the nine months ended September 30, 2006

(thousands, except per share data) (unaudited)

4. PROPERTY AND EQUIPMENT

	June 30, 2006		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	139,955	(16,403)	123,552
Administrative assets	158	(33)	125
	140,113	(16,436)	123,677

	December 31, 2005		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	35,050	(870)	34,180
Administrative assets	28	(1)	27
	35,078	(871)	34,207

Undeveloped land costs and salvage values excluded from the depletion calculation as at September 30, 2006 were \$10,316. Future development costs on proved, undeveloped reserves of \$7,291 were included in the depletion calculation. During 2006, the Company capitalized \$236 in general and administrative expenses directly related to exploration and development activities.

NOTES TO THE FINANCIAL STATEMENTS

For the nine months ended September 30, 2006

(thousands, except per share data) (unaudited)

5. BANK DEBT

The Company has a \$35,000 (see Note 13) revolving credit facility with a Canadian Chartered Bank. The authorized limit is subject to an annual review and re-determination of the Company's borrowing base by the bank. The advances bear interest at bank prime. The facility is secured with a \$75,000 floating charge debenture over all of the assets of the Company.

6. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from the net 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 September 30, 2006 to be \$2,917, which will be incurred at various times between 2007 and 2021. The fair value of the asset retirement obligations incurred in the period ended September 30, 2006 was calculated using a credit-adjusted risk free rate of 8.0% and an inflation factor of 2.0%. Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at September 30, 2006, no funds have been set aside to settle these obligations. Changes to asset retirement obligations during the period were as follows:

	2006
Asset retirement obligations at beginning of period	380
Liabilities assumed on the corporate acquisition (note 3)	666
Liabilities incurred during the period	394
Liabilities settled during the period	-
Accretion	71
Asset retirement obligations at end of period	1,511

VERO ENERGY INC.

NOTES TO THE FINANCIAL STATEMENTS

For the nine months ended September 30, 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 nine months ended September 30, 2006:

	<u>2006</u>
Loss before income taxes	<u>(1,161)</u>
Expected income tax recovery at the statutory rate of 34.5%	(400)
Tax effect of non-deductible and non-taxable amounts related to:	
Non-deductible crown payments	787
Resource allowance	(608)
Stock-based compensation and other non-deductible	523
Alberta Royalty Tax Credit and Attributed Canadian Royalty Income	(283)
Rate changes	(1,230)
Other	(5)
	<u>(1,216)</u>
Income tax recovery is comprised of:	
Current income taxes	(292)
Future income taxes	(1,216)
	<u>(1,508)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the nine months ended September 30, 2006

(thousands, except per share data) (unaudited)

8. SHARE CAPITAL

	Shares (000's)	Amount
Authorized		
Unlimited number of common shares		
Unlimited number of first preferred shares		
Issued		
<i>Common shares</i>		
Balance September 23, 2005	-	-
Shares issued pursuant to the Plan of Arrangement	9,836	21,313
Private placement	2,726	6,052
Conversion of warrants to common shares	6,459	14,338
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
Total share capital at September 30, 2006	25,907	84,710

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 (Note 3).

b) Private placement

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 nine months ended September 30, 2006

(thousands, except per share data) (unaudited)

8. SHARE CAPITAL (continued)

c) 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 September 30, 2006 there were 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. Options granted under the plan are summarized as follows:

	September 30, 2006	
	Stock Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of period	1,600	4.87
Granted	721	5.74
Exercised	-	-
Cancelled	-	-
Outstanding, end of period	2,321	5.14
Exercisable, end of period	-	

September 30, 2006			
Range of Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$	Weighted Average Years to Expiry
4.87 - 5.35	1,856	4.91	4.3
6.00 - 6.31	465	6.08	4.6
	2,321	5.14	4.3

NOTES TO THE FINANCIAL STATEMENTS

For the nine months ended September 30, 2006

(thousands, except per share data) (unaudited)

8. SHARE CAPITAL (continued)

d) 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 warrants and options have an exercise price equal to the fair value of the security at the date of grant. Compensation costs attributable to share options granted to employees, officers and directors are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. The fair value of each warrant or option granted is estimated on the date of grant using a modified Black-Scholes option-pricing model. The following assumptions have been used for grants during the period:

	2006
Risk free rate (%)	4.1
Expected life (years)	5
Expected volatility (%)	44
Expected dividends	-

For the nine months ended September 30, 2006, 721 stock options were granted to employees, officers and directors. During that period \$1,502 was recorded as stock compensation expense with respect to the options with a corresponding credit to contributed surplus (Note 9). The option grants during the period had an average weighted average fair value expense attributed to them of \$2.32 per share.

9. CONTRIBUTED SURPLUS

The following table reconciles the Company's contributed surplus:

	2006
Balance at beginning of period	103
Stock-based compensation	1,502
Balance at end of period	1,605

NOTES TO THE FINANCIAL STATEMENTS

For the nine months ended September 30, 2006

(thousands, except per share data) (unaudited)

10. NET EARNINGS PER SHARE

The following table summarizes the shares used in calculating basic and diluted net earnings per share:

	3 months ended September 30	9 months ended September 30
Weighted average shares outstanding - basic	25,907	24,145
Effect of stock options	-	-
Weighted average shares outstanding - diluted	25,907	24,145

For the three and nine month periods in 2006, there were 539 and 115 options, respectively, excluded from the diluted earnings per share calculations as they would have been anti-dilutive.

11. COMMITMENTS

In addition to the commitments listed below, the Company has various guarantees and 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) Head office lease

The Company has entered a lease agreement for its head office which commenced on April 1, 2006. The minimum future payments under the lease as at September 30, 2006 are as follows:

2006	63
2007	252
2008	252
2009	252
2010	252
2011	63
Total minimum payments	1,134

NOTES TO THE FINANCIAL STATEMENTS

For the nine months ended September 30, 2006

(thousands, except per share data) (unaudited)

11. COMMITMENTS (continued)

b) Transportation obligations

The Company has entered into 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 September 30, 2006 are as follows:

2006	6
2007	23
2008	23
2009	23
2010	12
2011	7
2012	2
Total minimum payments	96

12. SUPPLEMENTARY INFORMATION

a) Changes in non-cash working-capital

	3 months ended September 30	9 months ended September 30
Accounts receivable	(3,536)	(10,028)
Prepaid expenses and deposits	39	(802)
Accounts payable and accrued liabilities	2,777	14,870
Taxes payable	-	(292)
Change in non-cash working capital (accounts payable) from investing	(2,836)	(12,660)
Corporate acquisition of working capital	-	159
	(3,556)	(8,753)

b) Supplementary cash flow information

	3 months ended September 30	9 months ended September 30
Interest received	4	93
Interest paid	412	839

NOTES TO THE FINANCIAL STATEMENTS

For the nine months ended September 30, 2006

(thousands, except per share data) (unaudited)

13. SUBSEQUENT EVENT

Effective November 2, 2006 the Company's bank approved the increase of the revolving credit facility from \$35,000 (Note 5) to \$45,000.

CORPORATE INFORMATION

OFFICERS

Douglas J. Bartole
President and CEO

Kevin W. Yakiwchuck
Vice President, Exploration

Gerald N. Gilewicz
Vice President, Finance and CFO

Robert Bachynski
Vice President, Land

BOARD OF DIRECTORS

Kenneth P. Acheson

Paul R. Baay, Chairman

Douglas J. Bartole

Clinton T. Broughton

W.D. (Mickey) Dunn

Robert G. Rowley

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

GLJ Petroleum Consultants Ltd.

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Ltd.

CORPORATE OFFICE



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