
VERO ENERGY INC.

Balance Sheet

(unaudited)

<i>(in thousands of dollars)</i>	September 30, 2010	December 31, 2009
ASSETS		
CURRENT		
Accounts receivable	28,126	29,541
Prepaid expenses and deposits	3,283	4,566
Current portion of risk management contracts	345	-
Loans receivable	-	2,289
	31,754	36,396
Risk management contracts	17	-
Property and equipment (Note 4)	332,158	287,645
Goodwill	19,913	19,913
	383,842	343,954
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	55,109	47,588
Current portion of risk management contracts	-	1,132
Bank debt (Note 5)	108,278	77,719
	163,387	126,439
Risk management contracts	-	113
Asset retirement obligations (Note 6)	5,378	5,379
Future taxes	17,651	15,286
	186,416	147,217
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	180,519	181,343
Contributed surplus (Note 9)	11,553	9,610
Retained Earnings	5,354	5,784
	197,426	196,737
	383,842	343,954

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 Loss and Retained Earnings

For the nine months ended September 30, 2010 and 2009

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

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
REVENUE				
Production revenue	24,295	15,897	81,250	55,644
Realized gain (loss) on risk management activities	574	(912)	405	(1,374)
Unrealized gain (loss) on risk management activities	(1,718)	3,271	1,607	(2,073)
	23,151	18,256	83,262	52,197
Royalties	(2,610)	(1,607)	(8,827)	(9,041)
Interest and other	-	20	190	62
	20,541	16,669	74,625	43,218
EXPENSES				
Operating	5,750	5,886	19,000	17,290
Transportation	1,245	778	3,614	2,460
General and administrative	1,902	1,472	5,004	4,417
Stock based compensation (Note 8(d))	636	664	2,357	4,222
Interest and bank charges	1,361	1,218	3,922	3,111
Depletion, depreciation and accretion	14,036	11,973	41,966	37,073
	24,930	21,991	75,863	68,573
LOSS BEFORE INCOME TAXES	(4,388)	(5,322)	(1,237)	(25,355)
INCOME TAXES (Note 7)				
Future tax expense (recovery)	(1,073)	(1,640)	(808)	(6,230)
	(1,073)	(1,640)	(808)	(6,230)
NET LOSS AND COMPREHENSIVE LOSS	(3,316)	(3,682)	(430)	(19,125)
RETAINED EARNINGS, BEGINNING OF PERIOD	8,670	10,397	5,784	25,851
Repurchase of shares (Note 8(b))	-	-	-	(11)
RETAINED EARNINGS, END OF PERIOD	5,354	6,715	5,354	6,715
NET LOSS PER SHARE (Note 10)				
Basic	(0.08)	(0.08)	(0.01)	(0.49)
Diluted	(0.08)	(0.08)	(0.01)	(0.49)

VERO ENERGY INC.

Statement of Cash Flows

For the nine months ended September 30, 2010 and 2009

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2010	2009	2010	2009
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net loss	(3,316)	(3,682)	(430)	(19,125)
Adjustments for:				
Unrealized (gain) loss on risk management activities	1,718	(3,271)	(1,607)	2,073
Stock based compensation	636	664	2,357	4,222
Depletion, depreciation and accretion	14,036	11,973	41,966	37,073
Future income taxes	(1,073)	(1,640)	(808)	(6,230)
	12,001	4,044	41,478	18,013
Asset retirement costs incurred	(23)	-	(288)	-
Changes in non-cash working capital (Note 12(a))	4,247	(919)	6,736	(12,292)
	16,225	3,125	47,926	5,721
FINANCING				
Increase (decrease) in bank debt	911	(998)	30,559	27,552
Proceeds from issuance of common shares, net of share issue costs (Note 8(a))	-	(7)	-	13,916
Loans to officers / directors (Note 14)	-	105	2,289	(2,401)
Stock option exercises (Note 8(c))	54	-	1,035	-
Repurchase of shares (Note 8(b))	-	-	-	(86)
	965	(900)	33,883	38,981
INVESTING				
Additions to petroleum and natural gas properties	(30,036)	(4,973)	(80,967)	(35,007)
Purchase of petroleum and natural gas assets	(2,270)	-	(8,021)	-
Additions to administrative assets	-	-	(3)	(7)
Proceeds on sale of petroleum properties	171	-	3,699	145
Changes in non-cash working capital (Note 12(a))	14,945	2,748	3,483	(9,833)
	(17,190)	(2,225)	(81,809)	(44,702)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	-	-	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD				
	-	-	-	-
CASH AND CASH EQUIVALENTS, END OF PERIOD				
	-	-	-	-

Supplementary cash flow information (Note 12(b))

See accompanying notes.

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009

(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.

Effective January 1, 2010 Vero and Vero Oil and Gas Ltd., 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 consolidated financial statements for the year ended December 31, 2009, except as described below. The disclosures included below are incremental to those included with the annual consolidated financial statements. These interim financial statements do not include all the information and disclosure required by GAAP for annual financial statements and therefore should be read in conjunction with the consolidated financial statements and the notes thereto in the Company’s annual report for the year ended December 31, 2009. 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.

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2010 Vero adopted the following Canadian Institute of Chartered Accountants (“CICA”) Handbook sections:

a) The CICA issued Handbook Section 1582 *Business Combinations*, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2011. The new standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the acquisition date. The adoption of this standard will impact the accounting treatment of future business combinations entered into after January 1, 2010.

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009

(thousands, except per share data) (unaudited)

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

b) "Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard had no material impact on Vero's financial statements.

c) "Non-controlling Interests", Section 1602. The standard establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard had no material impact on Vero's financial statements.

4. PROPERTY AND EQUIPMENT

	September 30, 2010		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	520,403	(188,345)	332,058
Administrative assets	294	(194)	100
	520,697	(188,539)	332,158

	December 31, 2009		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	434,235	(146,711)	287,524
Administrative assets	291	(170)	121
	434,526	(146,881)	287,645

Notes to the Interim Financial Statements**For the nine months ended September 30, 2010 and 2009***(thousands, except per share data) (unaudited)*

Undeveloped land costs and salvage values excluded from the depletion calculation as at September 30, 2010 was \$19,574 (December 31, 2009 - \$20,157). Future development costs on proved undeveloped reserves of \$54,436 (December 31, 2009 - \$42,169) were included in the depletion calculation. For the nine months ended September 30, 2010, the Company capitalized \$991 (September 30, 2009 - \$722) in general and administrative expenses directly related to exploration and development activities.

5. BANK DEBT

The Company has a \$140,000 (December 31, 2009 - \$115,000) revolving credit facility with a banking syndicate and is comprised of letters of credit, bankers acceptances and revolving line of credit. The authorized limit is subject to a semi-annual borrowing base review by the syndicate. The facility is available to the Company at their discretion until April 30, 2011. At that date Vero may request a renewal for a period of up to 364 days. The facility is secured by a \$300,000 (December 31, 2009 - \$300,000) floating charge debenture over all the assets of the Company. Interest on the outstanding advances is calculated using a pricing grid that is dependent on net debt to cash flow ratio. In addition to these advances, the Company has access to bankers acceptances and LIBOR loans, which are subject to stamping fees and margins ranging from 2.5 percent to 4.0 percent depending on the debt to cash flow ratio as calculated at the Company's immediately preceding quarter's end. Standby fees are charged on the undrawn facility at rates ranging from 0.625 percent to 1.00 percent depending on the net debt to cash flow ratio at the Company's previous quarter end. For the nine months ended September 30, 2010 the effective interest rate was 4.3% (September 30, 2009 - 3.9%).

Notes to the Interim Financial Statements

For the nine months ended September 30, 2010 and 2009

*(thousands, except per share data) (unaudited)***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 September 30, 2010 to be \$14,057 (2009 - \$14,164), which will be incurred at various times between 2010 and 2023. The fair value of the asset retirement obligations incurred in the nine months ended September 30, 2010 was calculated using a credit-adjusted risk free rate of 7.5% (2009 - 7.9%) and an inflation factor of 1.6% (2009 - 1.8%). Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at September 30, 2010, no funds have been set aside to settle these obligations. Changes to asset retirement obligations during the periods were as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Asset retirement obligations, beginning of period	5,289	5,815	5,379	5,570
Liabilities incurred during the period	21	3	73	31
Liabilities disposed of during the period	-	-	(46)	-
Liabilities settled during the period	(23)	-	(288)	31
Change in estimated future cash flows	(9)	-	(48)	(1)
Accretion	100	117	308	335
Asset retirement obligations, end of period	5,378	5,935	5,378	5,935

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 periods ended:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Loss before income taxes	(4,388)	(5,322)	(1,237)	(25,355)
Expected income tax recovery at the statutory rate of 28.0% (2009 - 29.0%)	(1,229)	(1,543)	(346)	(7,353)
Tax effect of non-deductible and non-taxable amounts related to:				
Stock-based compensation and other non-deductible items	184	193	670	1,230
Rate changes	(39)	(322)	(1,135)	(121)
Other	11	32	3	14
	(1,073)	(1,640)	(808)	(6,230)

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009
(thousands, except per share data) (unaudited)

8. SHARE CAPITAL

	Shares (000's)	\$000's
Authorized:		
Unlimited number of voting common shares, no par value		
Unlimited number of first preferred shares, no par value		
Issued:		
<i>Common shares</i>		
Balance December 31, 2008	36,969	160,103
Normal course issuer bid (b)	(17)	(75)
Adjustment for tax cost of flow-through shares (a)	-	(4,844)
Private placement, net of share issue costs (a)	4,000	13,916
Private placement, net of share issue costs (a)	2,231	11,720
Adjustment for tax benefits from share issue costs	-	523
Balance December 31, 2009	43,183	181,343
Issued on asset acquisition (f)	131	900
Exercise of stock options (c)	213	1,449
Adjustment for tax cost of flow-through shares (a)	-	(3,173)
Balance September 30, 2010	43,527	180,519

a) Private placement

On May 21, 2009, the Company closed a placement for the issuance of 4,000 common shares at a price of \$3.75 per share. The net proceeds of issuance of \$13,916 were comprised of gross proceeds of \$15,000 less expenses of the issue of \$1,084.

On November 3, 2009 the Company closed a private placement for the issuance of 2,231 flow-through common shares at a price of \$5.65 per share. The net proceeds of issuance of \$11,720 were comprised of gross proceeds of \$12,609 less expenses of the issue of \$889. The tax effect of the tax benefits renounced to subscribers in respect of the flow-through shares was recognized in February 2010, which is when the renouncement documents were filed with the taxation authorities. This renunciation resulted in \$3,173 in future tax liability being offset to share capital. Using a combination of the regular, and the "look-back" provisions of the Income Tax Act, the Company is required to incur eligible expenditures in the amount of \$12,609 prior to December 31, 2010 (Note 11(e)).

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009

(thousands, except per share data) (unaudited)

8. SHARE CAPITAL (CONTINUED)

b) Normal Course Issuer Bid

In August 2007, the Toronto Stock Exchange approved the Company's application to initiate a Normal Course Issuer Bid ("Bid"). The Bid is renewable on a yearly basis. Under each Bid, Vero is entitled to purchase up to 5% of its outstanding common shares. During the period ended September 30, 2010, the Company purchased and subsequently cancelled Nil (2009 – 17) common shares pursuant to its Normal Course Issuer Bid. The aggregate cost of the purchases was Nil (2009 - \$86) of which Nil (2009 - \$75) was charged to share capital based on the average book value per share as of the date of repurchase, and Nil (2009 - \$11) was charged to retained earnings. The average per share cost of the repurchase in 2009 was \$4.95. In August 2009, the Company did not renew its Bid.

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, 2010 there were 4,353 (September 30, 2009 – 4,095) 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. The following stock options were outstanding at the end of the respective periods:

	September 30, 2010		September 30, 2009	
	Stock Options	Weighted Average Exercise Price \$	Stock Options	Weighted Average Exercise Price
				\$
Outstanding, beginning of period	4,203	5.26	3,085	6.69
Granted	176	6.54	765	3.00
Exercised	(212)	4.86	-	-
Forfeited	(100)	4.24	(9)	5.29
Surrendered for cancellation	(200)	9.50	(682)	7.90
Outstanding, end of period	3,867	5.14	3,159	5.68
Exercisable, end of period	1,918	5.63	1,684	5.67

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009
(thousands, except per share data) (unaudited)

8. SHARE CAPITAL (CONTINUED)

Exercise Price	Options Outstanding					
	September 30, 2010			September 30, 2009		
	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
\$3.00 - 3.70	580	3.46	3.8	705	3.18	4.8
\$3.43 - 5.61	-	-	-	1,181	4.92	1.5
\$4.00 - 5.65	2,097	4.46	2.4	-	-	-
\$5.90 - 7.71	1,190	7.18	2.8	1,058	7.24	3.4
\$8.34 - 10.80	-	-	-	215	9.44	3.8
	3,867	5.14	2.7	3,159	5.68	3.0

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 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:

	Three months ended		Nine months ended	
	September 30, 2010	2009	September 30, 2010	2009
Risk free rate (%)	2.0%	2.3%	2.2%	2.4%
Expected life (years)	5	5	5	5
Expected volatility (%)	48%	49%	48%	48%
Expected dividends	-	-	-	-

For the nine months ended September 30, 2010, 176 (September 30, 2009 – 765) stock options were granted to employees, officers and directors. During the nine month period in 2010, \$2,357 (September 30, 2009 - \$4,222) 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 \$2.91 (September 30, 2009 - \$1.58) per share.

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009
(thousands, except per share data) (unaudited)

8. SHARE CAPITAL (CONTINUED)

e) Directors Compensation Unit Plan

In November 2009, Vero established a Directors Compensation Plan which includes compensation units granted only to directors of the Company. These units vest annually over a three - year period and expire three years from the date of grant. Upon vesting, the holder is entitled to exercise the units for cash equal to the amount by which the exercise price (the fair value of a Vero common share on the date of exercise) exceeds the grant price (the fair value of a Vero common share on the day preceding the date of grant). On November 9, 2009, 225 units were issued to directors of Vero. During 2010, 45 units were forfeited and at September 30, 2010 there were 350 units outstanding. Included in accounts payable and accrued liabilities is \$268 (2009 - nil) pertaining to these grants. During the third quarter ended September 30, 2010, \$107 (2009 – nil) was charged to general and administrative expense.

f) Acquisition of petroleum and natural gas assets

On February 16, 2010, Vero acquired certain assets in the Rosevear, Alberta area. Upon closing of the acquisition, 131 common shares were issued at a deemed value of \$900 or \$6.89 per share.

9. CONTRIBUTED SURPLUS

The following table reconciles the Company's contributed surplus as at September 30:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Balance at beginning of period	10,941	8,317	9,610	4,759
Stock-based compensation expense	636	664	2,357	4,222
Exercise of stock options	(24)	-	(414)	-
Balance at end of period	11,553	8,981	11,553	8,981

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009

(thousands, except per share data) (unaudited)

10. PER SHARE AMOUNTS

The following table summarizes the shares used in calculating net earnings (loss) per share for the periods ended:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Basic loss per share computation				
Net loss	(3,316)	(3,682)	(430)	(19,125)
Weighted average shares outstanding - basic	43,515	40,952	43,409	38,887
Basic loss per share	(0.08)	(0.08)	(0.01)	(0.49)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Diluted loss per share computation				
Net loss	(3,316)	(3,682)	(430)	(19,125)
Weighted average shares outstanding - basic	43,515	40,952	43,409	38,887
Dilutive stock options outstanding	-	-	-	-
Shares notionally repurchased with proceeds from dilutive stock options and returned to treasury	-	-	-	-
Weighted average shares outstanding - diluted	43,515	40,952	43,409	38,887
Diluted earnings (loss) per share	(0.08)	(0.08)	(0.01)	(0.49)

During the respective three and nine month periods ended September 30, 2010, 3,867 (September 30, 2009 – 3,159) and 3,867 (September 30, 2009 – 3,159) of the issued stock options were excluded from the calculation of diluted weighted average shares outstanding as to include them would be anti-dilutive.

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009

(thousands, except per share data) (unaudited)

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 are as follows:

	As at September 30,	
	2010	2009
2009	-	107
2010	389	410
2011	1,557	406
2012	1,402	268
2013	1,047	14
2014	774	-
2015	360	-
Total minimum payments	5,529	1,205

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:

	As at September 30,	
	2010	2009
2009	-	304
2010	263	1,045
2011	660	651
Total minimum payments	923	2,000

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. Currently, there are several statements of claim which have been filed against the Company. Management does not believe that any of the lawsuits have merit and consequently has not made any provision in these financial statements for any loss. In addition, management is not currently aware of any other claims or actions, actual or threatened that would materially affect the Company'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

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009

(thousands, except per share data) (unaudited)

11. COMMITMENTS (Continued)

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.

d) Drilling commitments

As at September 30, 2010 Vero had committed to drill and complete a total of 3 (2009 – 6) wells in Alberta with a commencement date later in 2010, pursuant to farm-in agreements with industry partners. The Company expects to satisfy their net portion of these commitments at an estimated cost of \$3,167 (2009 – \$8,223).

(e) Flow-through shares

Pursuant to the flow-through share private placement entered into on November 3, 2009 (Note 8(a)), the Company was obligated to incur \$12,609 in eligible costs by December 31, 2010. As at September 30, 2010, the Company had fulfilled the entire commitment.

12. SUPPLEMENTARY INFORMATION

a) Changes in non-cash working capital

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Accounts receivable	3,878	(312)	1,415	11,428
Prepaid expenses and deposits	211	704	1,283	(500)
Accounts payable and accrued liabilities	15,103	1,437	7,521	(33,053)
Net change in non-cash working capital	19,192	1,829	10,219	(22,125)
Relating to:				
Investing activities	14,945	2,748	3,483	(9,833)
Operating activities	4,247	(919)	6,736	(12,292)
	19,192	1,829	10,219	(22,125)

b) Supplementary cash flow information

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Interest paid	1,260	1,038	3,182	2,899

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009

(thousands, except per share data) (unaudited)

13. FINANCIAL INSTRUMENTS

The Company holds various forms of financial assets and liabilities. The fair values of financial assets and liabilities and a discussion of the risks associated with these assets and liabilities are presented as follows:

a) Fair Value of Financial Assets and Liabilities

The carrying value of financial instruments, which include accounts receivable, deposits, loans receivable, derivative financial instruments, accounts payable and accrued liabilities approximates amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties. The fair value of accounts receivable, deposits, accounts payable and accrued liabilities approximates their carrying amounts due to their short term nature. The fair value of derivative financial instruments is determined by calculating the difference between the contracted price and published forward price curves as at the balance sheet date, and then multiplying this price differential by the contracted commodity volumes. Vero's bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

The carrying and fair values of the Company's financial instruments as at September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial Assets</u>				
Held-for-trading:				
Deposits	2,720	2,720	4,159	4,159
Loans and receivables:				
Accounts receivable	28,126	28,126	29,541	29,541
Loans receivable	-	-	2,289	2,289
<u>Financial Liabilities</u>				
Held-for-trading:				
Risk management liabilities	-	-	1,245	1,245
Other financial liabilities				
Accounts payable and accrued liabilities	55,109	55,109	47,588	47,588
Credit facility	108,278	108,278	77,719	77,719

As at each reporting period the Company will assess whether a financial asset, other than those classified as held-for-trading, is impaired. Any impairment loss will be included in earnings for the period.

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009

(thousands, except per share data) (unaudited)

13. FINANCIAL INSTRUMENTS (CONTINUED)

Commodity Price Sensitivities

The following table summarizes the sensitivities of the fair value of the Company's risk management positions to fluctuations in commodity price changes while holding all other variables constant. The Company believes that a ten percent change in commodity prices is a reasonable measure of volatility. Based on the financial instruments that were outstanding at September 30, 2010, fluctuations in commodity prices could have resulted in unrealized gains (losses) that would impact after-tax net earnings as at September 30, 2010 as follows:

	2010	
	Favorable 10% change	Unfavorable 10% change
Crude oil prices	816	(816)
Natural gas basis spread	45	(45)

b) Risks Associated with Financial Assets and Liabilities

The nature of these instruments and the Company's operations expose the Company to commodity price, credit and interest rate risks. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure.

Market risk

Market risks are generally those risks that are outside of the control of the Company. These are: commodity prices, foreign exchange rates and interest rates. The objective of the Company is to mitigate exposure to these risks, while maximizing returns to the Company.

Commodity price risk

Due to the volatility of commodity prices the Company is exposed to adverse consequences of declining prices. The Company may enter into future related oil and natural gas contracts in order to protect its cash flow on future sales from the potential adverse impact of declining prices. The contracts reduce the fluctuation in sales revenue by locking in prices with respect to future deliveries of oil and natural gas. The use of these risk management contracts is governed by a formal policy and is subject to maximum limits established by the Board of Directors. From time to time, the Company has entered into a variety of risk management contracts. As at September 30, 2010, the Company had the following contracts outstanding:

	Amount	Term	Price (CDN \$/bbl)	Type
Costless collar	500 bbl/day	Apr. 1- Dec. 31, 2010	\$75.00 - \$100.00	Financial
Basis spread	7,500 MMBtu/day	Apr. 1 - Oct. 31, 2010	\$0.35/MMBtu	Financial
Crude oil swap	500 bbl/day	Apr. 1 - Dec. 31, 2010	\$86.00	Financial
Costless collar	500 bbl/day	Oct. 1,2010 - Mar. 31, 2011	\$80.00-\$98.00	Financial
Costless collar	500 bbl/day	Jan. 1,2011- Dec. 1, 2011	\$80.00-\$100.00	Financial

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009

(thousands, except per share data) (unaudited)

13. FINANCIAL INSTRUMENTS (CONTINUED)

The contracts in place resulted in an unrealized gain (loss) for the nine months ended September 30, 2010 of \$1,582 (2009 – \$(1,883)).

Credit risk

Credit risk arises from the potential loss resulting from a counterparty failing to meet its obligations in accordance with the agreed terms. Substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable counterparties and partners. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence. Receivables related to the sale of the Company's petroleum and natural gas production are mainly from major marketing companies who have excellent credit ratings. These revenues are normally collected on the 25th day of the month following delivery.

The counter party with which the Company maintains its risk management contracts (hedges) is a major Canadian chartered bank, which has an investment grade credit rating.

As at September 30, 2010, accounts receivable and their respective aging were comprised of the following:

	Less than 30 days	31 – 60 days	61 – 90 days	More than 90 days	Total
Sales and accrued revenue receivables	9,470	40	-	62	9,572
Joint interest billings with partners	1,917	2,203	410	4,829	9,359
Provincial government incentives	1,262	-	-	6,525	7,787
Other receivables	793	-	-	615	1,408
Total accounts receivable	13,442	2,243	410	12,031	28,126

Liquidity risk

Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. The Company has established a standard of ensuring that it has enough resources available to withstand downturns in the industry or the economy in general. As our industry is very capital intensive, the majority of our spending is related to our capital programs. See Note 15 for disclosure related to the management of Vero's overall debt position. The Company's goal is to prudently spend its capital while maintaining its credit reputation amongst its suppliers. All of the financial liabilities of the Company are estimated to be settled within one year of the balance sheet date. The Company will manage its capital spending to stay within its expected and revised borrowing base limits for the duration of 2010.

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009

(thousands, except per share data) (unaudited)

13. FINANCIAL INSTRUMENTS (CONTINUED)

The timing of cash outflows relating to financial liabilities are outlined in the table below:

	Less than 1 Year	1-3 Years	4-5 Years	There- after	Total
Accounts payable and accrued liabilities	55,109	-	-	-	55,109
Bank debt	108,278	-	-	-	108,278

Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect the future cash flows from the Company's financial assets or liabilities. The Company's revolving demand loan facility is subject to floating rates and is therefore exposed to fluctuations in the market rates of interest. Periodically, the Company will enter into a variety of risk management contracts to mitigate exposure to interest rate risk. The Company had the following interest rate swap in place at September 30, 2010.

Contract	Notional Quantity	Term	Reference	Strike Price	Type
BA Rate	\$25,000/year	January 4, 2010 – January 3, 2012	CAD-BA - CDOR	2.05%	Swap

The contract in place resulted in an unrealized gain (loss) for the period ended September 30, 2010 of \$24 (2009 – \$(190)).

Based on the interest rate financial instrument that was outstanding at September 30, 2010, fluctuations in interest rates could have resulted in unrealized gains (losses) that would impact after-tax net earnings as at September 30, 2010 as follows:

	2010	
	Favourable 1% change	Unfavourable 1% change
Interest rate swap	203	(203)

The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As a result, the Company is exposed to similar fluctuations in its net earnings. The Company's assessment of the sensitivity of net earnings to interest rate changes while holding all other variables constant and utilizing a one percent change in interest rates is a reasonable measure of volatility. At September 30, 2010, the increase or decrease in net earnings, on an after-tax basis, for a one percent change in interest rates on the floating rate debt amounts to \$203 (2009 - \$19).

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009

(thousands, except per share data) (unaudited)

13. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency exchange risk

Although all of Vero's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices for these commodities are impacted by the exchange rate between Canada and the United States. In addition, the fair value of our risk management contracts will fluctuate as a result of changes in foreign exchange rates as most derivative contracts are denominated in US dollars. As the effects of foreign exchange fluctuations are imbedded in the Company's results from operations, the aggregate effect of foreign exchange rate fluctuations are not separately identifiable. As at September 30, 2010, the Company had no forward foreign exchange contracts in place.

14. RELATED PARTY TRANSACTIONS

Three officers and one director of the Company received demand loans during the period from December 2008 to September 30, 2009. The aggregate amount outstanding from these related parties at September 30, 2010 was nil (December 31, 2009 - \$2,289). Interest on these loans was at a commercial, arms length, rate of interest. The rate used was the Company's rate of borrowing from its banks plus 25 basis points. Included in the accounts receivable balances is nil (December 31, 2009 - \$43) of interest receivable from these related parties.

15. CAPITAL DISCLOSURES

The Company considers its capital structure to include shareholders' equity, bank debt and working capital. The Company will adjust its capital structure to manage its current and projected debt through the issuance of shares, increasing its bank line of credit and/or adjusting its capital spending. Vero continually monitors its capital structure and makes adjustments to it primarily in light of a combination of its drilling successes, the general economic conditions in the petroleum industry and global events that may affect commodity prices.

Vero's objectives in managing its capital structure are to:

- a) create and maintain flexibility so that Vero can continue to meet its financial obligations; and
- b) finance its growth either through internally generated projects, joint venture relationships or asset/corporate acquisitions.

The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including acquisitions, financing arrangements, transactions with related parties, and the purchase of Vero shares for cancellation pursuant to its normal course issuer bids.

Notes to the Interim Financial Statements
For the nine months ended September 30, 2010 and 2009

(thousands, except per share data) (unaudited)

15. CAPITAL DISCLOSURES (CONTINUED)

The Company monitors its capital structure using primarily the non-GAAP financial ratio of net debt to annualized, most recent quarters' cash flow from operations. Vero's objective is to maintain a net debt to cash flow from operations ratio of one and one half times or less. This ratio may temporarily increase as a result of an acquisition, however, the Company aims to reduce it below this level as the acquisition is incorporated into Vero's operations over time. Given the recent declines in commodity prices attributable mainly to the slowdown in global economies, this ratio has changed Vero's target ratio. The goal for 2010 will be to achieve a ratio of between 2.0 to 2.5 times by the end of the year given the current economic conditions. Should commodity prices improve throughout the year, the Company will revert to its desired goal of no more than 1.5 times, which does not take into account any extraordinary items such as an acquisition.

To facilitate the management of this ratio, the Company prepares an annual budget, which is updated monthly for any significant acquisition(s), changes in economic circumstances outside the control of the Company; and the success or failure of recently deployed capital. Each of the annual budget and the quarterly updates used for Board meetings are approved by the Board of Directors and capital spending adjusted accordingly. As at September 30, 2010 the net debt to adjusted cash flow (annualized) was 2.7 (2009 – 6.6) times calculated as follows:

	As at September 30,	
	2010	2009
Current assets	31,409	26,336
Accounts payable and accrued liabilities	(55,109)	(30,301)
Bank debt	(108,278)	(102,971)
Net debt	131,978	(106,936)
	Three months ended,	
	September 30	
	2010	2009
Net loss	(3,316)	(3,682)
Add (deduct):		
Unrealized loss (gain) on risk management activities	1,718	(3,271)
Stock based compensation	636	664
Depletion, depreciation and accretion	14,036	11,973
Future income taxes	(1,072)	(1,640)
Funds flow from operations	12,002	4,044
Annualized funds flow	48,008	16,176
Net debt to annualized funds flow	2.7X	6.6X

The Company's capital is not subject to any external restrictions as to how it is deployed. The only financial covenant the Company has in respect of its credit facility was that aggregate corporate net debt must not exceed \$140,000. At no time during 2009 or the first three quarters of 2010 has net debt exceeded this threshold.

Notes to the Interim Financial Statements**For the nine months ended September 30, 2010 and 2009***(thousands, except per share data) (unaudited)*

16. SUBSEQUENT EVENTS

- a) On October 14, 2010, the Company entered into a bought deal financing with a syndicate of underwriters to issue 1,539 common shares at a price of \$6.50 per Common Share and 3,068 common shares on a flow-through basis at a price of \$8.15 per flow-through Common Share for aggregate gross proceeds of approximately \$35 million.
- b) On October 20, 2010, the Company entered into a financial derivative, crude oil swap contract. The fixed price under this contract is CDN \$89.00 per barrel and is in respect of 500 barrels of oil per day for the period January 1, 2011 through December 31, 2011.