

## **MANAGEMENT'S, DISCUSSION AND ANALYSIS**

*The following Management's Discussion and Analysis ("MD&A") was prepared on August 4, 2010 and is management's assessment of the Company's financial and operating results for the quarters ended June 30, 2010 and 2009. This MD&A should be read in conjunction with the audited, consolidated, financial statements and MD&A of the Company for the year ended December 31, 2009 with the notes related thereto.*

*Additional information on the financial statements, this MD&A and other factors that could affect the company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)), or at the company's website ([www.veroenergy.ca](http://www.veroenergy.ca)). Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.*

### **READER ADVISORIES**

#### ***Forward Looking Statements***

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

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

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

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

*Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.*

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

<b><i>Forward-looking information</i></b>	<b><i>Key Assumptions</i></b>	<b><i>Relevant Risk Factors</i></b>
<i>2010 funds flow from operations of \$58-62 million (revision from \$61-66 million mainly due to changes in forward strip natural gas prices)</i>	<i>Dependent on: Vero achieving average production of gas, liquids and oil of between 8,500 to 9,000 boe/d; forward curve estimates for commodity prices and an estimated US/Canadian exchange rate of \$0.95-\$0.98.</i>	<i>Natural gas supply levels; North American economic activity; liquid natural gas imports; Vero well performance, downtime and drilling success.</i>
<i>2010 capital spending program of \$90 million, net of drilling incentives</i>	<i>Focus will be mainly on drilling 34-36 gross wells and related tie-in costs. Acquisitions and/or dispositions, if any, are not factored into this program. Change from 30-40 gross wells.</i>	<i>Achieving the projected, revised funds flow from operations; at a minimum maintaining the existing banking credit facility.</i>
<i>Operating, Transportation and G&amp;A expenses</i>	<i>Fixed costs will be spread over anticipated increasing volumes; assumes no significant increase in operations beyond the current drilling program e.g. an acquisition</i>	<i>Projected production volumes not achieved; third party processing fee increases; inability to route gas through Vero operated facilities; operating cost increases due to inflation and/or improvement in industry conditions</i>
<i>Interest costs</i>	<i>Bank prime rates remain in the 3.5-4% range. No changes to previous guidance.</i>	<i>Capital availability of the banks; Bank of Canada rate increases beyond small increments</i>

Income taxes	Commodity prices do not increase significantly from forward numbers. No changes to previous guidance.	Should prices increase significantly, existing tax pools may not be enough to shield taxable income; if sufficient exploration projects are not generated, investors may not receive their anticipated tax benefits
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**Dollar amounts**

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

**Non-GAAP Terms**

This Management, Discussion and Analysis uses the terms “cash flow from operations”, “netbacks” and “net debt”, which are terms not recognized under Generally Accepted Accounting Principles (“GAAP”). The Company uses these measures to help evaluate its performance, leverage, and liquidity as well as to assess potential acquisitions.

The Company considers funds flow from operations (also referred to as “funds flow”) a key measure as it demonstrates the Company’s ability to generate funds necessary to repay debt and to fund future growth through capital investment. Funds flow from operations should not be considered as an alternative to, or more meaningful than, funds flow from operating activities as determined in accordance with Canadian GAAP as an indicator of Vero’s performance. Vero’s determination of funds flow from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and funds flow from operations can be found in the statement of cash flows in the financial statements. Vero also presents funds flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of net earnings per share, which per share amount is calculated under GAAP and is more fully described in the notes to the financial statements.

The Company considers corporate netbacks as a key measure as it demonstrates its profitability relative to current commodity prices. Corporate netbacks are comprised of operating, funds flow and net earnings netbacks. Operating netback is calculated as the average sales price of its commodities (including hedging gains and losses) and then subtracts royalties, transportation costs and operating expenses. Funds flow netback starts with the operating netback and further deducts general and administrative costs, interest expense and adds interest income. To calculate the net earnings netback, Vero takes the funds flow netback and deducts unrealized gains/losses on hedges, stock-based compensation expense, depletion, depreciation and amortization charges and future income taxes. There is no GAAP measure that is reasonably comparable to netbacks. See the section below entitled “Operating Netbacks by Product” for calculations of operating netbacks for each commodity type.

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

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Cash provided by operating activities	18,788	8,444	31,701	2,596
<u>Add (deduct):</u>				
Change in non-cash working capital	(4,931)	(2,677)	(2,489)	11,373
Asset retirement costs incurred	22	-	265	
<b>Funds flow from operations</b>	<b>13,879</b>	<b>5,767</b>	<b>29,477</b>	<b>13,969</b>

### **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.

## **HIGHLIGHTS FROM THE SECOND QUARTER OF 2010**

In the face of declining natural gas prices in the second quarter of 2010, Vero delivered a solid, 28% increase in production levels from the second quarter of 2009. For the year to date in 2010 Vero achieved a 21% increase in production over the six months in 2009. Vero averaged 9,010 boe/d in the second quarter of 2010 versus 7,040 in the second quarter of 2009. Funds flow from operations in the second quarter was \$13,879 or \$0.32 per share compared with \$5,767 or \$0.15 per share in the comparable quarter of 2009. Average commodity prices increased 22% in the second quarter of 2010 as compared to the same quarter of 2009. Vero’s capital spending in the second quarter was approximately equivalent to its funds flow from operations. The capital program included two gross wells drilled versus ten gross wells drilled in the first quarter. In aggregate, Vero spent \$17,548 in capital during the quarter. Vero’s net debt was \$111,875 at June 30, 2010. The reduction from \$112,294 at the end of the first quarter was partially attributable to the \$3,528 in net proceeds realized from the disposition of non-core assets during the second quarter.

## **DETAILED FINANCIAL REVIEW**

### **PRODUCTION REVENUE AND VOLUMES**

Vero increased aggregate production volumes by 28% in the second quarter of 2010 to 819,932 boe as compared to 640,606 boe in the second quarter of 2009. Year-to-date volumes increased 21% as compared to 2009. Production growth in 2010 was attributable to the successful drilling programs in the fourth quarter of 2009 and the first and second quarter of 2010. Natural gas production contributed 79% to total volumes produced while natural gas liquids came in at 15%

and oil at 6%. This compares to 82% for gas in the second quarter of 2009, liquids at 14% and oil at 4%.

### Aggregate Sales Volumes

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	%	2010	2009	%
Natural gas (mcf)	<b>3,870,292</b>	3,132,865	24	<b>7,511,416</b>	6,327,840	19
Natural gas liquids (bbl)	<b>124,311</b>	89,861	38	<b>230,902</b>	180,624	28
Light/medium oil (bbl)	<b>50,572</b>	28,601	77	<b>93,489</b>	66,985	40
Barrels of oil equivalent (boe)	<b>819,932</b>	640,606	28	<b>1,576,293</b>	1,302,249	21

### Daily Sales Volumes

Daily sales volumes increased 28% to 9,010 boe/d in the second quarter of 2010 from 7,040 boe/d in the second quarter of 2009. The increase was realized from a combination of the successful drilling program in the latter half of 2009 and the first two quarters of 2010. Natural gas production increased by 24% for the second quarter of 2010 and 19% for the year to date versus 2009. Daily production from natural gas liquids increased by 38% for the quarter, and 28% for the year to date. Daily oil production increased by 77% in the second quarter of 2010 compared to 2009, and increased 40% for the year to date.

For the remainder of the year the Company is currently expecting to drill approximately 24-26 gross horizontal wells targeting a combination of both oil and natural gas prospects.

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	%	2010	2009	%
Natural gas (mcf/d)	<b>42,531</b>	34,427	24	<b>41,500</b>	34,960	19
Natural gas liquids (bbl/d)	<b>1,366</b>	987	38	<b>1,276</b>	998	28
Light/medium oil (bbl/d)	<b>556</b>	314	77	<b>517</b>	370	40
Barrels of oil equivalent (boe/d)	<b>9,010</b>	7,040	28	<b>8,709</b>	7,195	21

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

Area (boe/d)	Three months ended June 30,			Six months ended June 30,		
	2010	2009	%	2010	2009	%
Edson	<b>7,087</b>	5,168	37	<b>6,825</b>	5,088	34
Whitecourt	<b>1,481</b>	779	90	<b>1,381</b>	874	58
Corbett	<b>197</b>	426	(54)	<b>223</b>	517	(57)
Other	<b>245</b>	667	(63)	<b>280</b>	716	(61)
Total	<b>9,010</b>	7,040	28	<b>8,709</b>	7,195	21

The decrease in the Alberta Other category is mainly attributable to the sale of assets which occurred in the fourth quarter of 2009.

	Three months ended			Six months ended		
	June 30,			June 30,		
	2010	2009	%	2010	2009	%
<b>Natural gas</b>						
NYMEX (US \$/mmbtu)	<b>4.09</b>	3.59	14	<b>4.70</b>	4.22	11
AECO- Daily (CDN \$/mcf)	<b>3.86</b>	3.46	12	<b>4.61</b>	4.21	10
<b>Crude Oil</b>						
WTI (US \$/bbl)	<b>77.79</b>	59.62	30	<b>78.22</b>	51.35	52
Edmonton light (CDN \$/bbl)	<b>75.42</b>	65.90	14	<b>77.86</b>	57.78	35
<b>Foreign Exchange</b>						
Canadian to US dollar	<b>0.97</b>	0.86	13	<b>0.97</b>	0.83	17
US to Canadian dollar	<b>1.03</b>	1.17	(12)	<b>1.03</b>	1.21	(15)

### Benchmark Indices

United States natural gas prices are usually referenced to the New York Mercantile Exchange Henry Hub in Louisiana (NYMEX), while in Canada the generally recognized benchmark is the AECO hub in Alberta. Gas prices are influenced by a variety of factors such as: weather patterns; LNG imports; supplies in Western Alberta; demand in Eastern Canada and the United States, relative storage levels in North America and alternative fuel sources. AECO benchmark pricing was 12% higher in the second quarter of 2010 as compared to the same quarter in 2009. The continued lag in U.S. industrial demand from the recovery of the recession of 2008-2009 combined with persistent new supply sources from shale gas drilling in the United States has caused the current over-supply situation in North America. AECO prices averaged \$3.86 per mcf in the second quarter of 2010 as compared to \$3.46 in the same quarter of 2009 and \$5.36 in the first quarter of 2010.

West Texas Intermediate at Cushing, Oklahoma (“WTI”) is the benchmark reference price for North America crude oil prices. Canadian crude prices are based upon postings at Edmonton, Alberta and represent the WTI price adjusted for quality and transportation differentials and the US/Canadian dollar exchange rate. Through the second quarter of 2010, WTI increased 30% to \$77.79 from \$59.62 in the same quarter in 2009. Coupled with the increase in WTI price, came a significant appreciation in the Canadian dollar. Movements in the Canadian dollar and the price of oil are highly correlated. While WTI increased significantly from 2009 levels, WTI and the Canadian dollar experienced minor changes from the first quarter of 2010.

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

	Three months ended			Six months ended		
	June 30,			June 30,		
	2010	2009	%	2010	2009	%
Natural gas (\$/mcf)	<b>4.24</b>	3.92	8	<b>4.74</b>	4.56	4
Light / medium oil (\$/bbl)	<b>73.40</b>	59.28	24	<b>74.12</b>	51.30	44
Natural gas liquids (\$/bbl)	<b>59.09</b>	40.38	46	<b>62.32</b>	41.31	51
Barrels of oil equivalent (\$/boe)	<b>33.51</b>	27.49	22	<b>36.13</b>	30.52	18

The volatility in commodity prices continued into the second quarter of 2010 as Vero realized an average of 22% more compared to the second quarter of 2009. Realized natural gas prices increased by 8% in the second quarter of 2010 compared to the same quarter in 2009. However,

because of the higher quality of Vero's natural gas, the Company averaged a 9% premium to the AECO standard throughout the quarter. Vero's realized oil prices increased by 24% in 2010 compared to 2009 and natural gas liquids prices showed a 46% increase in 2010. In the immediate future there does not appear to be any meaningful signs of a reduction in gas storage numbers and as a result, natural gas prices are expected to remain range bound for the remaining summer months.

### Production revenue

Vero realized a 153% increase in aggregate production revenues including realized hedging losses in the second quarter of 2010 compared to the same quarter of 2009. The realized loss on financial contracts of \$45 was mitigated by revenue realized from increased production levels. Since natural gas was 79% of total production and gas prices increased by 8%, the result was that natural gas contributed 60% of total revenues. Liquids production was 15% of total volumes but contributed 27% of revenues while oil production was 6% of total volumes and contributed 14% of revenues. The realized loss on financial derivatives was a minimal draw on total revenues. For the six months ended June 30, 2010, the increase in production revenue was 77% to \$60,111 as compared to \$33,941 in 2009.

<i><b>Production Revenue</b></i>	Three months ended June 30,			Six months ended June 30,		
	<b>2010</b>	2009	%	<b>2010</b>	2009	%
Natural gas	<b>16,414</b>	12,288	34	<b>35,636</b>	28,849	24
Light / medium oil	<b>3,712</b>	1,696	119	<b>6,929</b>	3,437	102
Natural gas liquids	<b>7,346</b>	3,628	102	<b>14,390</b>	7,461	93
Production revenue	<b>27,472</b>	17,612	56	<b>56,955</b>	39,747	43
Realized loss on financial contracts	<b>(45)</b>	(462)	(90)	<b>(169)</b>	(462)	(63)
Unrealized gain (loss) on financial contracts	<b>2,420</b>	(5,344)	(145)	<b>3,325</b>	(5,344)	(162)
Total revenue	<b>29,847</b>	11,806	153	<b>60,111</b>	33,941	77

### ROYALTIES

Royalties were \$2,541 for the second quarter of 2010 as compared to \$2,177 for the second quarter of 2009. For the year-to-date the decrease was 16% to \$6,217 from \$7,434 in 2009.

On a per boe basis the rate decreased to \$3.10 in the second quarter of 2010 from \$3.40 in the second quarter of 2009. As a percentage of revenue, the rate for 2010 was lower as royalty expense averaged 9.2% of production revenue in the second quarter of 2010 as compared to 12.4% in 2009.

For the six months ended June 30, royalties as a percentage of revenue was 10.9% in 2010 as compared to 18.7% in 2009. Vero anticipates the aggregate royalty rate to average between 10-13% for the remainder of 2010. However, these rates will be significantly dependent on realized prices.

On May 27, 2010, the Alberta Government unveiled new initiatives to accelerate new technologies to encourage the development of Alberta's unconventional and deep resource pools and finalize royalty curves for conventional oil and gas. The specifics of these changes are summarized further in this document under "Update on the New Royalty Framework". These changes will have a positive impact on Vero's royalty burden in the future.

<i>Royalties</i>	Three months ended June 30,			Six months ended June 30,		
	2010	2009	%	2010	2009	%
Crown – gross	1,924	1,737	11	4,705	6,415	(27)
Freehold/gross over-riding	617	440	40	1,512	1,019	48
Total royalties	2,541	2,177	17	6,217	7,434	(16)
Royalties (\$/boe)	3.10	3.40	(9)	3.94	5.71	(31)
Royalties - % of production revenue	9.2	12.4	(26)	10.9	18.7	(42)

## RISK MANAGEMENT ACTIVITIES

Vero enters into commodity contracts as part of its risk management program so as to manage commodity price fluctuations. During the second quarter of 2010, the Company had the following risk management contracts in place:

Type	Amount	Term	Price (\$/bbl) (\$/MMBtu)	Type
Costless collar	500 bbl/day	Apr. 1 - Dec.31, 2010	\$75.00 - \$100.00	Financial
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

These hedges are considered to be financial derivatives wherein the fair value of the contract will be recognized on the balance sheet with changes in fair value recorded in income. Vero realized \$45 in hedging losses in the second quarter of 2010 as compared to a loss of \$462 in 2009. The mark-to-market unrealized gain for the hedges in place was \$2,420 at June 30, 2010 as compared to a loss of \$5,344 as at June 30, 2009.

## OPERATING

Vero continually directs significant efforts to maintaining or reducing its controllable costs. Operating costs were \$6.824 or \$8.32 per boe in the second quarter of 2010 as compared to \$5.583 and \$8.71 per boe respectively in the second quarter of 2009. Aggregate operating costs increased 22% in the second quarter of 2010 as compared to 2009 while production volumes increased by 28%. The higher volumes more than offset the increase in aggregate costs and therefore the per boe costs decreased by 4%. For the six months ended June 30, operating costs per boe were \$8.41 as compared to \$8.76 for the same period in 2009. Processing income has been increasing throughout 2010 as more third party volumes are being taken into Vero's operated gas plants and thereby utilize spare capacity. For the balance of the year, Vero anticipates that operating costs will be in the low to mid \$8 range.

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	%	2010	2009	%
<b><i>Operating</i></b>						
Expense per financial statements	<b>6,824</b>	5,583	22	<b>13,250</b>	11,404	16
Add: processing income	<b>378</b>	169	124	<b>1,046</b>	322	225
Gross expense	<b>7,202</b>	5,752	25	<b>14,296</b>	11,726	22
Operating expense (\$ per boe)	<b>8.32</b>	8.71	(4)	<b>8.41</b>	8.76	(4)
Net expense (as a % revenue)	<b>24.8</b>	31.7	(22)	<b>23.3</b>	29.0	(20)

## TRANSPORTATION

Transportation expenses were \$1,380 for the second quarter of 2010 and amounted to 5% of production revenue for the period as compared to \$818 and 4.6% from the second quarter of 2009. For the second quarter of 2010, the cost per boe averaged \$1.68, which is 31% higher than the rate for the second quarter of 2009. For the year to date, the cost per boe increased 16% from \$1.29 in 2009 to \$1.50 in 2010. Transportation costs include: clean oil trucking, trucking of natural gas liquids, and transportation and fuel costs associated with the usage of natural gas pipelines. Transportation costs are dependent on a variety of factors such as: the type of production facilities; the method of transportation; the distances covered; the rates charged by the carriers; oil and NGL quantities shipped which can be affected by road restrictions and bans; cost of the carrier's fuel; the type of service offered (interruptible versus firm service) as well as ownership of the transportation facilities. The cost per boe for the balance of the year is expected to be consistent with that experienced for the first six months of 2010 as the majority of these costs are variable in nature.

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	%	2010	2009	%
<b><i>Transportation</i></b>						
Expense per financial statements	<b>1,380</b>	818	69	<b>2,369</b>	1,682	41
Expense (\$ / boe)	<b>1.68</b>	1.28	31	<b>1.50</b>	1.29	16
Expense (% of revenue)	<b>5.0</b>	4.6	9	<b>4.2</b>	4.2	-

## GENERAL AND ADMINISTRATIVE (G&A)

Aggregate G&A expense, before recoveries, increased 10% to \$2,456 in 2010 from \$2,224 in 2009. Net G&A decreased 7% to \$1,626 from \$1,749 for the same comparative quarter. On a per boe basis, the rate decreased by 14% on a gross basis in 2010 to \$3.00 and 27% on a net basis to \$1.98 for the quarters ended June 30, 2010 and 2009 respectively. For the six months to June 30, 2010, the decrease in net G&A per boe was 13% to \$1.97 as compared to \$2.26 in 2009. G&A costs per boe declined mainly due to the 28% increase in production in the second quarter. Overhead recoveries increased by 98% in 2010 to \$439 from \$221 in 2009. Overhead recoveries are a function of field operating activity as well as the number of wells drilled during the year for which the Company is the operator. As a result of the increased activity in the first and second quarter of 2010, the recoveries were correspondingly higher. The Company capitalizes a portion of its G&A for the salaries of its technical staff, which are directly related to exploration and development activities. G&A capitalized for the second quarter of 2010 was \$391, representing a 54% increase from the second quarter in 2009. Vero anticipates that net G&A cost per boe for the balance of 2010 will be in the \$1.80 to \$2.00 range.

<b>G&amp;A</b>	Three months ended June 30,			Six months ended June 30,		
	<b>2010</b>	2009	%	<b>2010</b>	2009	%
Gross expense	<b>2,456</b>	2,224	10	<b>4,760</b>	4,149	15
Less:						
Overhead recoveries	<b>(439)</b>	(221)	99	<b>(995)</b>	(720)	38
Capitalized G&A	<b>(391)</b>	(254)	54	<b>(663)</b>	(484)	37
Net expense	<b>1,626</b>	1,749	(7)	<b>3,102</b>	2,945	5
Average cost (\$ per boe)						
Gross expense	<b>3.00</b>	3.48	(14)	<b>3.02</b>	3.18	(5)
Net expense	<b>1.98</b>	2.73	(27)	<b>1.97</b>	2.26	(13)

## INTEREST AND BANK CHARGES

Interest expense for the second quarter of 2010 increased 22% to \$1,317 from \$1,077 in the second quarter of 2009. The average, interest-bearing debt increased by 3% in the second quarter of 2010 compared to the same quarter of 2009. Higher debt levels are attributable to the capital expenditure program throughout the last quarter of 2009 and first two quarters of 2010. The effective interest rate also increased by 22% in the most recent quarter of 2010 and this was attributable to increases in bank prime interest rates. The per boe interest expense rate was \$1.61 for the second quarter of 2010 as compared to \$1.68 for the second quarter of 2009, representing a 4% decrease quarter to quarter. For the six months ended June 30, interest cost per boe increased by 12% to \$1.63 as compared to \$1.45 in 2009.

<b>Interest and bank charges</b>	Three months ended June 30,			Six months ended June 30,		
	<b>2010</b>	2009	%	<b>2010</b>	2009	%
Interest per financial statements	<b>1,317</b>	1,077	22	<b>2,561</b>	1,893	35
Deduct: Commitment & other fees	<b>(159)</b>	(144)	10	<b>(381)</b>	(143)	166
Debt bearing interest	<b>1,158</b>	933	24	<b>2,180</b>	1,750	25
Average debt outstanding	<b>106,012</b>	102,681	3	<b>98,601</b>	95,885	3
Average interest rate	<b>4.4%</b>	3.6%	22	<b>4.5%</b>	3.7%	22
Average interest cost (\$ per boe)	<b>1.61</b>	1.68	(4)	<b>1.62</b>	1.45	12

## STOCK BASED COMPENSATION

Stock based compensation expense was \$741 for the second quarter of 2010 as compared to \$2,219 for the second quarter of 2009. The 67% decrease from the second quarter of 2009 was attributable to the expensing of \$1,116 from the unamortized expense relating to the surrender of 682,125 stock options during the second quarter in 2009. These options were surrendered for cancellation by non-executive, non-board employees of the Company. The per boe rate decreased by 74% from 2009 levels to \$0.90 from \$3.46 in 2009 as a result of higher produced volumes. For the year-to-date, the per boe cost decreased by 60% to \$1.09 compared to \$2.73 in 2009. The fair value of all stock options is amortized over the options' vesting period, which is three years for all options granted.

	Three months ended			Six months ended		
	June 30,			June 30,		
<i>Stock Based Compensation</i>	<b>2010</b>	2009	%	<b>2010</b>	2009	%
Expense per financial statements	<b>741</b>	2,219	(67)	<b>1,721</b>	3,558	(52)
Expense (\$ / boe)	<b>0.90</b>	3.46	(74)	<b>1.09</b>	2.73	(60)

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

Aggregate DD&A increased from \$12,491 in the second quarter of 2009 to \$14,496 in the second quarter of 2010. The lower costs of finding and developing proved reserves in late 2009 and the first quarter of 2010 lead to the 9% decrease in the per boe depletion rate in 2010 to \$17.68 from \$19.51 experienced in 2009. As a result of Vero’s drilling success over the last two years and its ability to add reserves through acquisitions that are similar or better than its finding costs, the Company manages to maintain one of the best DD&A rates in its peer group. For the balance of 2010 we anticipate the DD&A rate to be similar to the second quarter.

	Three months ended			Six months ended		
	June 30,			June 30,		
<i>DD&amp;A</i>	<b>2010</b>	2009	%	<b>2010</b>	2009	%
Depletion and depreciation	<b>14,395</b>	12,379	16	<b>27,722</b>	24,883	11
Accretion on asset retirement obligations	<b>101</b>	112	(10)	<b>208</b>	218	(5)
Total DD&A	<b>14,496</b>	12,491	16	<b>27,930</b>	25,101	11
DD&A (\$ / boe)	<b>17.68</b>	19.51	(9)	<b>17.72</b>	19.28	(8)

## INCOME TAXES

The income tax provision for the second quarter of 2010 was an expense of \$488 and was comprised entirely of future income taxes. The tax provision represents a 114% decrease from the tax recovery of \$3,539 for the comparable period in 2009. The expense was primarily the result of the income generated in the second quarter of 2010.

Pursuant to the flow-through share private placement financing, which closed in November of 2009, Vero was committed to incur \$12,609 in eligible costs by December 31, 2010. As of June 30, 2010, all amounts had been expended on qualifying expenditures.

Taking into account the projected spending for the balance of 2010 as well as the anticipated production levels and commodity prices, it is anticipated that Vero will not be cash taxable throughout the remainder of 2010 and into 2011.

	Three months ended			Six months ended		
	June 30,			June 30,		
<i>Income Taxes</i>	<b>2010</b>	2009	%	<b>2010</b>	2009	%
Future income tax expense	<b>488</b>	(3,539)	(114)	<b>265</b>	(4,591)	(106)
Tax expense (\$ / boe)	<b>0.60</b>	(5.52)	(111)	<b>0.17</b>	(3.53)	(105)
Effective tax rate	<b>46.0%</b>	24.8%	85	<b>8.4%</b>	22.9%	(63)

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

<b><i>Tax Pools</i></b>	<b>Rate %</b>	<b>2010</b>	<b>2009</b>
Canadian exploration expenses	100	<b>23,048</b>	8,420
Canadian development expenses	30	<b>93,023</b>	91,368
Canadian oil and gas property expenses	10	<b>55,287</b>	57,845
Undepreciated capital costs	10 - 30	<b>58,827</b>	62,419
Financing costs	20%	<b>3,195</b>	3,486
Attributed Canadian Royalty Income	100 (Alberta)	<b>38</b>	38
Non-capital losses	100	<b>1,928</b>	3,914
<b>Total</b>		<b>235,346</b>	227,490

## **NETBACKS**

Operating netbacks of \$20.36 per boe for the second quarter of 2010 were higher by 52% as compared to the \$13.38 realized in the second quarter of 2009. The 22% increase in average commodity prices in the second quarter of 2010 was the largest single contributor to the increase in operating netbacks. While reductions of 9% in royalty expense and 4% for operating expenses helped mitigate the decrease in commodity prices, this was partially offset by a 31% increase in transportation costs. Continuing below the operating netback, the general and administrative expense and interest costs were also lower than those experienced in 2009 at 27% and 4% respectively. The resulting funds flow netback was \$16.94 and was 88% higher than in the second quarter of 2009. The unrealized gain on hedging contracts was higher by 135% in the second quarter of 2010 at \$2.95 as compared to a loss of \$8.33 in the second quarter of 2009. This amount represents the mark-to-market gain on these contracts and may or may not be reflective of the ultimate cash settlements under the contracts. Stock based compensation expense decreased significantly as a result of the combination of stock options being cancelled and the issuance of new stock options in the second quarter of 2009 versus 2010. DD&A charges were lower by 9% as decreased costs of finding and developing reserves reduced the per boe rate to \$17.68. In line with the net income generated in the second quarter of 2010, Vero realized an income tax expense of \$0.60 per boe. The net income for the second quarter of 2010 was \$0.71 per boe as compared to a net loss of \$16.78 in 2009. It is anticipated that the net earnings netback for the balance of 2010 will improve somewhat from the second quarter as gas prices firm up as we approach the winter heating season.

<i>Netbacks (\$ per boe)</i>	Three months ended			Six months ended		
	June 30,			June 30,		
	2010	2009	%	2010	2009	%
Production revenue	<b>33.51</b>	27.49	<b>22</b>	<b>36.13</b>	30.52	18
Realized loss on hedges	<b>(0.05)</b>	(0.72)	<b>(93)</b>	<b>(0.11)</b>	(0.35)	(69)
Royalties	<b>(3.10)</b>	(3.40)	<b>(9)</b>	<b>(3.94)</b>	(5.71)	(31)
Operating expenses	<b>(8.32)</b>	(8.71)	<b>(4)</b>	<b>(8.41)</b>	(8.76)	(4)
Transportation expenses	<b>(1.68)</b>	(1.28)	<b>31</b>	<b>(1.50)</b>	(1.29)	16
Operating netback	<b>20.36</b>	13.38	<b>52</b>	<b>22.17</b>	14.41	54
G&A	<b>(1.98)</b>	(2.73)	<b>(27)</b>	<b>(1.97)</b>	(2.26)	(13)
Interest expense	<b>(1.61)</b>	(1.68)	<b>(4)</b>	<b>(1.62)</b>	(1.45)	12
Interest income	<b>0.17</b>	0.03	<b>467</b>	<b>0.12</b>	0.03	300
Funds flow netback	<b>16.94</b>	9.00	<b>88</b>	<b>18.70</b>	10.73	74
Unrealized gain (loss) on hedges	<b>2.95</b>	(8.33)	<b>(135)</b>	<b>2.11</b>	(4.11)	(151)
Stock based compensation	<b>(0.90)</b>	(3.46)	<b>(74)</b>	<b>(1.09)</b>	(2.73)	(60)
D,D&A	<b>(17.68)</b>	(19.51)	<b>(9)</b>	<b>(17.72)</b>	(19.28)	(8)
Future income taxes	<b>(0.60)</b>	5.52	<b>(111)</b>	<b>(0.17)</b>	3.53	(105)
Net earnings (loss) netback	<b>0.71</b>	(16.78)	<b>(104)</b>	<b>1.83</b>	(11.86)	(115)

### Operating Netback by Commodity Type

<i>Natural gas (\$/mcf)</i>	Three months ended			Six months ended		
	June 30,			June 30,		
	2010	2009	%	2010	2009	%
Production revenue	<b>4.24</b>	3.92	8	<b>4.74</b>	4.56	4
Royalties	<b>(0.03)</b>	(0.26)	(88)	<b>(0.19)</b>	(0.71)	(73)
Operating expenses	<b>(1.20)</b>	(1.15)	4	<b>(1.20)</b>	(1.18)	2
Transportation costs	<b>(0.26)</b>	(0.19)	37	<b>(0.23)</b>	(0.18)	28
Operating netback	<b>2.75</b>	<b>2.32</b>	19	<b>3.12</b>	2.49	25

<i>Crude oil (\$/bbl)</i>	Three months ended			Six months ended		
	June 30,			June 30,		
	2010	2009	%	2010	2009	%
Production revenue	<b>73.40</b>	59.28	24	<b>74.12</b>	51.31	44
Royalties	<b>(6.69)</b>	(2.15)	211	<b>(6.03)</b>	(3.31)	82
Operating expenses	<b>(9.90)</b>	(9.27)	7	<b>(9.90)</b>	(9.75)	2
Transportation costs	<b>(2.01)</b>	(1.96)	3	<b>(2.01)</b>	(2.20)	(9)
Operating netback	<b>54.80</b>	45.91	19	<b>56.18</b>	36.05	56

<i>Natural gas liquids (\$/bbl)</i>	Three months ended			Six months ended		
	June 30,			June 30,		
	2010	2009	%	2010	2009	%
Production revenue	<b>59.09</b>	40.38	46	<b>62.32</b>	41.31	51
Royalties	<b>(16.79)</b>	(14.45)	16	<b>(18.28)</b>	(15.13)	21
Operating expenses	<b>(13.35)</b>	(19.25)	(31)	<b>(14.32)</b>	(18.33)	(22)
Transportation costs	<b>(2.11)</b>	(1.77)	19	<b>(2.11)</b>	(2.14)	(1)
Operating netback	<b>26.84</b>	4.91	447	<b>27.61</b>	5.71	384

## FUNDS FLOW AND NET EARNINGS

Funds flow from operations in the second quarter of 2010 was \$13,879, representing an increase of 141% from \$5,767 realized in the second quarter of 2009. The increase was largely attributable to the 22% increase in corporate average commodity prices in addition to a 28% increase in average daily production. Net earnings increased from a loss of \$10,748 in the second quarter of 2009 to net income of \$574 in the second quarter of 2010. Higher interest costs from elevated debt levels and an increase in DD&A were offset by a substantial increase in revenues resulting from production growth. Funds flow from operations was calculated as follows:

	Three months ended			Six months ended		
	June 30,			June 30,		
	2010	2009	%	2010	2009	%
Net earnings (loss)	574	(10,748)	105	2,886	(15,443)	119
<u>Adjustments for:</u>						
Unrealized (gain) loss on risk management	(2,420)	5,344	(145)	(3,325)	5,344	(162)
Stock based compensation expense	741	2,219	(67)	1,721	3,558	(52)
Depletion, depreciation and accretion	14,496	12,491	16	27,930	25,101	11
Future income tax	488	(3,539)	(114)	265	(4,591)	(106)
Funds flow from operations	13,879	5,767	141	29,477	13,969	111

On a per share basis, Vero realized \$0.01 for both basic and diluted earnings per share for the second quarter of 2010. This was a 104% turnaround from the loss of \$0.28 of earnings per basic and fully diluted share realized in the second quarter of 2009. Funds flow per share in the second quarter of 2010 was \$0.32 (basic and diluted) representing a 113% increase from \$0.15 (basic and diluted) realized in the second quarter of 2009. For the year-to-date in 2010, funds flow per share was \$0.68 basic and \$0.67 diluted as compared to \$0.37 (basic and diluted) in 2009.

<i>Per share data</i> (\$)	Three months ended			Six months ended		
	June 30,			June 30,		
	2010	2009	%	2010	2009	%
Net earnings (loss)	<b>574</b>	(10,748)	105	<b>2,886</b>	(15,443)	119
Basic	<b>0.01</b>	(0.28)	104	<b>0.07</b>	(0.41)	117
Diluted	<b>0.01</b>	(0.28)	104	<b>0.07</b>	(0.41)	117
Funds flow	<b>13,879</b>	5,767	141	<b>29,477</b>	13,969	111
Basic	<b>0.32</b>	0.15	113	<b>0.68</b>	0.37	84
Diluted	<b>0.32</b>	0.15	113	<b>0.67</b>	0.37	81

## CAPITAL EXPENDITURES

Vero spent \$14,020 in capital expenditures during the second quarter of 2010 representing an increase of 717% from the second quarter of 2009. This brings net capital expenditures for the year-to-date in 2010 to \$54,057 as compared to \$29,895 in 2009, representing an 81% increase year over year. A breakdown of the costs incurred during each of the comparable quarters and year to date is as follows:

	Three months ended			Six months ended		
	June 30,			June 30,		
<i>Capital expenditures</i>	2010	2009	%	2010	2009	%
Exploration and development						
Land acquisitions and lease rentals	5,442	456	1,093	6,333	1,288	392
Geological and geophysical	648	855	(24)	1,142	1,888	(40)
Drilling and completions	8,238	-	-	33,591	20,164	67
Well equipment and facilities	3,090	404	665	9,865	6,693	47
Exploration and development expenditures	17,418	1,715	916	50,931	30,033	70
Other expenditures	3	2	50	3	7	(57)
Total capital expenditures	17,421	1,717	915	50,934	30,040	70
Property acquisition in exchange for shares	-	-	-	900	-	-
Producing property acquisition (cash outlay)	127	-	-	5,751	-	-
Property acquisition (disposal)	(3,528)	-	-	(3,528)	(145)	2,333
Net capital expenditures before ARO	14,020	1,717	717	54,057	29,895	81
Capitalized asset retirement obligations	(87)	-	-	(34)	27	(226)
Total capital additions	13,933	1,717	711	54,023	29,922	81

	Three months ended June 30,				Six months ended June 30,			
	2010		2009		2010		2009	
<i>Wells drilled</i>	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploration	-	-	-	-	4	3.5	1	1.0
Development	2	2.0	-	-	8	7.1	6	5.4
Dry holes	-	-	-	-	-	-	-	-
Total wells	2	2.0	-	-	12	10.6	7	6.4
Success rate	100%	100%	-	-	100%	100%	100%	100%

Given the current economic environment, Vero's goal is to keep its capital budget flexible for the remainder of 2010. Vero will continue to monitor commodity prices and redirect capital spending as necessary but does anticipate drilling 22-24 wells prior to the end of 2010.

## LAND HOLDINGS

The undeveloped land holdings at June 30, 2010 are as follows:

Area	Gross Acres	Net Acres	Average WI %
Edson	68,800	58,258	85
Whitecourt	33,440	26,247	78
Other Alberta	27,160	16,536	61
Corbett	17,920	15,578	87
Saskatchewan	10,926	10,869	99
British Columbia	2,597	2,597	100
Total	160,843	130,085	81

## LIQUIDITY AND CAPITAL RESOURCES

	as at June 30,		
<b>Debt and working capital</b>	<b>2010</b>	2009	%
Bank debt	<b>107,367</b>	103,969	3
Working capital deficiency (excluding unrealized hedging gains or losses)	<b>4,508</b>	2,031	122
<b>Net debt</b>	<b>111,875</b>	106,000	6

	Three months ended June 30,			Six months ended June 30,		
<b>Capital Program Funding</b>	<b>2010</b>	2009	%	<b>2010</b>	2009	%
Cash, beginning of period	-	-	-	-	-	-
Funds flow from operations	<b>13,879</b>	5,767	141	<b>29,477</b>	13,969	111
Asset retirement costs	<b>(22)</b>	-	-	<b>(265)</b>	-	-
Increase decrease in bank debt	<b>13,884</b>	1,521	813	<b>29,648</b>	28,550	4
Share issuance, net of costs	-	13,923	(100)	<b>900</b>	13,923	(94)
Exercise of stock options	<b>582</b>	-	-	<b>981</b>	-	-
Repurchase of shares	-	-	-	-	(86)	(100)
Loans to officers/director	-	1,167	(100)	<b>2,289</b>	(2,506)	(191)
Change in non-cash working capital	<b>(14,303)</b>	(20,661)	(31)	<b>(8,973)</b>	(23,955)	(63)
<b>Net capital expenditures</b>	<b>14,020</b>	1,717	717	<b>54,057</b>	29,895	81

Vero's funds flow from the second quarter, \$13,879, was sufficient to fund the bulk of the capital program. The \$88,911 of net debt brought forward from December 31, 2009 plus the financial activity of the first and second quarters culminated in net debt at June 30, 2010 of \$111,875 or 26% higher than at the end of 2009. Using annualized funds flow for the second quarter of 2010, the net debt to funds flow ratio was 2.0 times. Based on Vero's current forecast for the remainder of 2010, we anticipate the net debt to funds flow ratio to be approximately 1.5-2.0 times by the end of the year.

Vero continually revisits its capital program as continued commodity price volatility dictates good management of the net debt position. The Board of Directors had previously approved a \$90 million (net of drilling incentive credits) exploration and development capital budget for 2010. However, this threshold will be under continual review during the year as Vero finds it prudent to maintain as much financial flexibility as possible. The balance of the capital program for 2010 will be financed through expected funds flows for the remainder of the year, and the undrawn credit facility with our banks. These resources give Vero the flexibility to execute its currently planned capital program, which provides superior growth in production for the year. The key driver for Vero is to remain flexible and prepare for the expected upward movement in commodity prices.

The bank facility at June 30, 2010 is a \$140 million extendible revolving credit facility. This facility is available until April 30, 2011. Upon request by the Company the facility may be extended for an additional 364 days beyond this date subject to acceptance by the syndicate of lenders. Available borrowings on the bank credit facility are limited by the borrowing base, which is established by the bank. The amount of available credit is based mainly upon the value of petroleum and natural gas assets. The most recent formal evaluation by our external engineers

determined these reserve values as at December 31, 2009. The bank facility is subject to a semi-annual borrowing base review. The most recent annual review by the bank was completed in April of 2010. Corporate working-capital liquidity is maintained by drawing from the unutilized facility as needed and then repaying it periodically through production revenues.

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

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

	<b>Q2 2010</b>	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
High	<b>7.24</b>	8.00	5.00	4.43	4.29	5.94
Low	<b>5.07</b>	4.63	3.37	2.74	3.18	2.70
Close	<b>6.17</b>	5.81	4.43	4.06	3.24	3.28
Volume (000's)	<b>23,141</b>	40,459	22,072	19,792	16,617	10,562

### **OFF BALANCE SHEET TRANSACTIONS**

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

### **RELATED PARTY TRANSACTIONS**

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

### **CONTRACTUAL OBLIGATIONS**

The Company is obligated, at June 30, 2010 to make the following payments under the terms of long-term contracts it has entered into:

	<b>Total</b>	<b>Payments Due by Period</b>		
		<b>Less than 1 year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>
Transportation obligations	<b>891</b>	406	485	-
Head Office Lease	<b>1,170</b>	779	391	-
Flow-through share obligations	-	-	-	-
Farm-in obligations	<b>3,600</b>	3,600	-	-
<b>Total contractual obligations</b>	<b>5,661</b>	4,785	876	-

The transportation obligations are comprised of firm service natural gas commitments with a gas transmission company. In the event of a shortfall in gas deliveries to the pipeline, the Company must pay the carrier the difference between volumes delivered and the contracted volumes in cash at the contracted rate. The head office lease obligations are comprised of the lease (including parking and a reasonable estimate of occupancy costs) of the Company's head office space, certain of the furnishings contained therein as well as leased space assumed on a corporate acquisition in 2008. In addition, and as at June 30, 2010, Vero was committed to drill 4 (3.5 net) wells in Alberta. This project has a commencement date later in 2010. This commitment is pursuant to a farm-in agreement with an industry partner. The Company expects to satisfy the net portion of this drilling commitment in 2010 at an estimated cost of \$3,600.

## SHARE CAPITAL

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

	August 4,	Period ended June 30, 2010		December 31,
	2010	3 months	Six months	2009
000's				
Common shares outstanding	43,511	<b>43,511</b>	<b>43,511</b>	43,183
Stock options outstanding	3,865	<b>3,865</b>	<b>3,865</b>	4,204
Fully diluted shares	47,376	<b>47,376</b>	<b>47,376</b>	47,387
Weighted average common shares				
Basic		<b>43,472</b>	<b>43,355</b>	39,762
Diluted		<b>44,037</b>	<b>43,903</b>	39,762

## SELECTED QUARTERLY INFORMATION

Below is summarized quarterly information for the previous eight quarters.

<i>(000's except as noted)</i>	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Production (boe/d)	<b>9,010</b>	8,404	6,775	6,610
Average prices realized (\$/boe)	<b>33.51</b>	38.98	36.10	24.64
Production revenue	<b>27,472</b>	29,483	22,500	15,897
Net earnings (loss)	<b>574</b>	2,312	(931)	(3,682)
Basic - per share (\$/share)	<b>0.01</b>	0.05	(0.01)	(0.08)
Diluted - per share (\$/share)	<b>0.01</b>	0.05	(0.01)	(0.08)
Funds flow from operations	<b>13,879</b>	15,598	9,538	4,044
Basic - per share (\$/share)	<b>0.32</b>	0.36	0.23	0.09
Diluted - per share (\$/share)	<b>0.32</b>	0.36	0.23	0.09
Total assets	<b>371,541</b>	371,371	343,954	342,106
Net capital expenditures	<b>14,020</b>	39,137	2,662	4,973
Long term financial liabilities	-	-	-	-
Net debt	<b>111,875</b>	112,294	88,911	106,936
Dividends paid	-	-	-	-

<i>(000's except as noted)</i>	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008
Production (boe/d)	7,040	7,352	7,076	6,236
Average prices realized (\$/boe)	27.49	33.45	49.80	55.78
Production revenue	17,612	22,135	30,859	33,495
Net earnings (loss)	(10,748)	(4,695)	(1,075)	10,421
Basic - per share (\$/share)	(0.28)	(0.13)	(0.03)	0.31
Diluted - per share (\$/share)	(0.28)	(0.13)	(0.03)	0.31
Funds flow from operations	5,767	8,201	14,370	16,584
Basic - per share (\$/share)	0.15	0.22	0.40	0.50
Diluted - per share (\$/share)	0.15	0.22	0.40	0.50
Total assets	349,482	364,612	352,472	291,733
Net capital expenditures	1,717	28,177	44,152	48,234
Long term financial liabilities	-	-	-	-
Net debt (surplus)	106,000	123,973	103,911	67,725
Dividends paid	-	-	-	-

Petroleum and natural gas sales are impacted by production levels and volatile commodity pricing. Production levels are impacted by decline rates and the Company's capital program. Commodity prices are affected by both domestic and international factors that are beyond the control of the Company. In addition, royalties are impacted by the underlying commodity prices.

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

- Production in the second quarter of 2008 increased due to a corporate acquisition of approximately 500 boe/d. The assets acquired were exclusively natural gas and liquids production as well as undeveloped lands. During this quarter, while commodity prices were rapidly increasing, so was the cost of doing business. Operating expenses, general and administrative costs and capital costs were all subject to significant inflationary pressures due to the demand for scarcer services. By the fourth quarter of 2008, the global economic crisis took full effect and while these inflationary pressures subsided, the demand for commodities was curtailed, thereby increasing supply and compounding what was to become a significant downturn in prices.
- Commencing with the third quarter of 2008 and continuing into the fourth quarter of 2008, revenue was negatively impacted by the decreases in both oil and natural gas prices. Vero is predominantly a natural gas producer and the rapid decline in natural gas prices has exacerbated the decline in revenues.
- Production in the fourth quarter of 2008 increased as a result of a corporate acquisition which added approximately 850 boe/d. However, as the severe decline in natural gas prices continued into 2009, the Company chose not to spend its capital drilling wells and produce new volumes into what Vero believes were unprofitable gas prices. With no new wells drilled, declines took their toll on corporate production.
- During the second quarter of 2009, the Company's net loss was increased by a large mark-to-market unrealized loss on its oil hedge. Almost half of the loss for the quarter was attributable to this loss.
- In the third quarter of 2009, the Company was faced with decade low natural gas prices. It conserved capital and spent only on optimization projects at the beginning of the quarter. At the end of August the Company spudded a horizontal well and another in September. The

drilling initiatives had two purposes. The first was to take advantage of the new Alberta Government Drilling Incentive Credits and the second was to start taking advantage of the early signs that gas prices were turning upward.

- In the fourth quarter of 2009, the Company embarked on two initiatives to prepare itself financially for the 2009/2010 drilling season. First the Company completed a flow-through share private placement which brought in net proceeds of \$11,720. On December 1, the Company disposed of \$16,190 of non-core producing assets. Both of these initiatives significantly reduced the net debt outstanding in order that the Company would be able to complete its winter drilling season and also prepare itself for any sustained low commodity prices. Vero drilled 8 (6.4 net) wells in the fourth quarter and generated funds flow from operations of \$9,538.
- In the first quarter of 2010, the Company returned to profitability as production increased from new drilling, royalties decreased as a result of lower natural gas prices and operating expenses were decreased from efficiencies gained from the additional production. In the end, Vero produced net earnings of \$2,312. In addition to the above positive factors, DD&A decreased as new reserve additions brought this rate down by 7%.
- During the second quarter of 2010, Vero realized the benefits of the drilling program in Q4, 2009 and the first two quarters of 2010. Year over year daily production increased 28% to 9,010 boe/d. Commodity revenues including realized hedging losses increased approximately 45% in conjunction with average realized price increases of 22%. The company was able to achieve a profit of \$574 in light of a continued weak natural gas price environment. Net capital spending was \$14,020 including the drilling of 2 (2.0 net) horizontal wells and the entry of Vero into the N.E. B.C. shale gas play with a \$4.0 million purchase of 2,598 acres of undeveloped land.

## RISK MANAGEMENT

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

### Commodity price

Vero's strategy focuses on the use of puts, swaps, costless collars and fixed price contracts to limit exposure to downturns in commodity prices while allowing, to the maximum extent possible, participation in commodity price increases. Revenues and the resulting funds flows fluctuate with commodity prices, which are tied directly to the US/Canadian dollar exchange rate. Commodity prices are determined on a global basis and circumstances that occur in various parts of the world are outside of the control of the Company. The Company protects itself from fluctuations in prices by maintaining an appropriate hedging strategy, diversifying its asset mix and strengthening its balance sheet in order to take advantage of low price environments by making strategic acquisitions. We enter into commodity price contracts to actively manage the risks associated with price volatility and thereby protect our funds flows, which are used to fund our capital program. The following contracts were outstanding as at June 30, 2010.

Type	Notional Quantity	Term	CDN \$/bbl	Type
Costless collar	500 bbl/d	Apr. 1 – Dec 31, 2010	\$75 - \$100	Financial
Basis spread	7,500 MMBtu/d	Apr. 1 - Oct.31, 2010	\$0.35/MMBtu	Financial
Crude oil swap	500 bbl/d	Apr. 1 – Dec 31, 2010	\$86	Financial
Costless collar	500 bbl/d	Oct. 1, 2010-Mar. 31, 2011	\$80 - \$98	Financial
Costless collar	500 bbl/d	Jan. 1, 2011-Dec. 31, 2011	\$80 - \$100	Financial

Commodity	Notional Quantity	Term	Price (CDN \$)	Option Traded	Realized Gain (loss)	Fair Value	Change in Fair Value
Oil	500 bbl/day	Apr. 1–Dec. 31, 2010	\$75.00-\$100.00 /bbl	Collar	(89)	137	96
Natural Gas	7,500 gj/day	Apr. 1 – Oct. 31, 2010	\$0.35 /MMBtu	Basis Swap	(22)	897	1,082
Oil	500 bbl/day	Apr. 1 – Dec. 31, 2010	\$86.00 /bbl	Swap	154	486	540
Oil	500 bbl/day	Oct 1, 2010 – Mar. 31, 2011	\$80.00-\$98.00 /bbl	Collar	-	307	307
Oil	500 bbl/day	Jan 1, 2011 – Dec. 31, 2011	\$80.00-\$100.00 /bbl	Collar	-	563	564
Total gain (loss)					43	2,390	2,589

The realized gain (loss) and the change in fair value above is for the three month period ended June 30, 2010.

The fair value of these financial instruments was derived at each reporting date by taking the forward strip prices for the commodity over the term of the contract and applying the Canadian/US dollar exchange rate in existence on that date. The risk associated with using these derivative contracts include: commodity prices moving materially in favour of the counter-party and the credit risk associated with the collection of settlements from price movements in Vero's favour. Vero mitigates these risks by entering mainly into collar transactions that give acceptable ranges of prices and furthermore by dealing with its chartered bank as the primary counterparty.

#### Foreign Exchange risk

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

#### Credit risk

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

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

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

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

### Financing Risk

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

### Interest rate risk

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

<b>Contract</b>	<b>Notional Quantity</b>	<b>Term</b>	<b>Reference</b>	<b>Type</b>	<b>Realized gain (loss)</b>	<b>Fair Value</b>	<b>Change in Fair Value</b>
BA Rate	\$25,000/year	January 4, 2010– January 3, 2012	CAD-BA - CDOR	2.05%	(88)	(310)	(169)

The realized gain (loss) and the change in fair value above is for the three month period ended June 30, 2010.

The fair value of this financial instrument was derived at the reporting date by using the forward strip prices for the interest rates over the term of the contract. The forward rates are established by an actively traded market for interest rate swaps and the market expectations as to where the rates are expected to be. The risk associated with this type of contract is that interest rates will remain at a low level and thereby cause the Company to have a funds cost upon settlement. In addition, there is potential for a credit risk associated with the counterparty's inability to pay any positive settlements as they come due. Vero mitigates these risks by analyzing economic indicators as to future interest rate movements and by dealing with its chartered bank as the primary counterparty.

### The maturing Western Canadian Sedimentary Basin

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

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

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

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

### Administrative risks

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

### Environmental Regulations

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to specified levels. There has been

much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Protocol or as otherwise determined could have a material impact on the nature of oil and natural gas operations, including those of the Company.

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

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

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

## **CRITICAL ACCOUNTING ESTIMATES**

Management is often required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. There were no changes to Vero's critical accounting estimates in the period from those used in the audited financial statements from 2009.

## **UPDATE ON THE ALBERTA ROYALTY REGIME**

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

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

On May 27, 2010, the Alberta Government unveiled new initiatives to accelerate new technologies to encourage development of Alberta’s unconventional and deep resource pools and finalize royalty curves for conventional oil and gas.

The most significant changes impacting Vero’s operations are:

### **A- Horizontal Gas New Well Royalty Rate**

This program is a new, lower, upfront royalty rate at the start of production to account for the high cost of horizontal drilling. The qualifying wells are:

- Applies to wells that commence drilling on or after May 1, 2010.
- Wells defined as a horizontal gas well by the Energy Resources Conservation Board. These wells will receive a maximum royalty rate of 5% for 18 producing months;
- Volume will be limited to 500 mcmcf of gas equivalent production;

### **B- Horizontal Oil New Well Royalty Rate**

This program provides a lower upfront royalty rate at the start of production to facilitate the recovery of investment costs prior to imposing a higher royalty rate. The qualifying wells are:

- Applies to wells that commence drilling on or after May 1, 2010.
- Wells defined as a horizontal oil well or a horizontal non-project oil sands well by the Energy Resources Conservation Board and will receive a maximum royalty rate of 5% for all products;
- Volume and production month limits will be set according to depth of the well.
- Benefits will run concurrent with royalty rates for new wells.

## **C- Natural Gas Deep Drilling Program**

The Government proposed modifications to its previously announced deep gas drilling incentive program. The changes, which are retroactive to May 1, 2010 are:

- Adjusting the vertical depth requirement from 2,500 metres to 2,000 metres;
- Removing the supplemental benefit (\$875,000) for wells that exceed 4,000 metres for wells that commence drilling after May 27, 2010;
- Re-defining measured depth to better reflect new technology;
- Including wells drilled into pools discovered prior to 1985; and
- Making the program an on-going feature of Alberta's royalty regime.

For the province's NRF gas royalty curves, the government stated that the maximum and minimum royalty rates for natural gas are 36% and 5% respectively, as per government's announcement on March 11, 2010. The royalty rate is the sum of a price component and the quantity component. The quantity component of the formula remains the same as under existing gas royalty framework. There are changes to the price component of the gas royalty formula to moderate the increase in the rate at prices higher than \$5.25 per gigajoule.

The new formula will be applied to all Alberta Crown production including production from existing wells effective Jan. 1, 2011, with the exception of production from wells that choose to remain on the Transitional Royalty formulas. Wells that remain on the Transitional Royalty formulas will receive those rates until December 31, 2013.

For the province's NRF oil royalty curves, the maximum and minimum rates for conventional oil are 40% and zero per cent respectively, as per the government's announcement on March 11, 2010. The royalty rate is the sum of the price component and the quantity component. The quantity component of the formula remains the same as under the existing oil royalty framework. There are changes to the price component of the oil royalty formula to moderate the increase in the rate at prices higher than \$535 per cubic metre.

The new formula will be applied to all Alberta Crown production including production from existing wells effective Jan.1, 2011, with the exception of production from wells that choose to remain on the Transitional Royalty formulas. Wells that remain on the Transitional Royalty formulas will receive those rates until December 31, 2013.

The above royalty changes will have a positive impact to Vero as follows:

### **Natural Gas Deep Development Drilling Program (NGDDP)**

- The majority of Vero's horizontal well inventory is now eligible for NGDDP royalty relief, compare to less than 5% previously (threshold was 2,500m in total vertical depth-TVD).
- A typical Vero horizontal well exceeds 2,000 metres TVD (new threshold) and has a measured depth of 3,500 metres. This will provide \$937,500 worth of royalty offsets per well.
- With the new well royalty of 5% extended to 18 months plus the benefits of NGDDP, Vero estimates that the first 0.9-1.3 bcf of production will pay 5% in royalties.
- The estimated combined benefits are 20-40% NPV per well

## **Horizontal Oil Program**

- Vero's wells are typically in the range of +/- 3,000 metres.
- For wells between 2,500m-3,000m, they will now incur royalties at 5% for 24 months or 60,000 boe.
- For wells between 3,000m-3,500m, they will now incur royalties at 5% for 30 months or 70,000 boe.
- The estimated benefits are 20-30% net present value per well .

## **ACCOUNTING STANDARDS CHANGES**

### *Accounting Standard Changes*

In February 2009, the AcSB issued Handbook Section 3064, Goodwill and Intangible Assets and amended Section 1000, Financial Statement Concepts clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The standard is effective for fiscal years beginning on or after October 1, 2009 and early adoption is permitted.

### *Future Accounting Pronouncements*

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

The Corporation has completed its initial phase of the implementation which included conceptual application of the new rules, diagnostic analysis of Vero's accounting data and a high-level assessment of key areas that may be impacted by the adoption of IFRS. The next phase will include the analysis of accounting policy alternatives available under IFRS as well as the determination of changes required to existing information systems and business processes. Vero continues to assess the impact of the conversion on internal controls over financial reporting and disclosure controls and procedures and will continue to invest in training and resources throughout the transition period. Changes in accounting policy are highly probable and may materially impact the financial statements. Due to anticipated changes in IFRS policies and applications, especially for the oil and gas industry, the final impact of the conversion on Vero's financial statements cannot currently be measured.

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

### **IFRS Changeover Plan - Update**

The CICA's Accounting Standards Board confirmed in February of 2008 that IFRS will replace Canadian GAAP in 2011 for Canadian publicly accountable enterprises. Vero will therefore be

required to report its results in accordance with IFRS commencing in 2011. The Company has developed a changeover plan to complete the transition to IFRS by January 1, 2011 including the preparation of 2010 comparative information. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure. Vero has undertaken to assess the potential impacts of the transition to IFRS. The key elements of Vero's changeover plan are as follows:

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

Vero has acquired sufficient personnel to assist in the transition to IFRS next year. Vero has now completed phase one and phase two and is well entrenched in phase three. Vero has analyzed its accounting policy alternatives and come up with its new accounting policies. Vero expects that it will be in a position to have its restated January 1, 2010 balance available for its auditors review during the third quarter.

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

### Disclosure Controls and Procedures

Vero's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of Vero's disclosure controls and procedures at the financial year end of the Company and have concluded that the Company's disclosure controls and procedures are effective at June 30, 2010 for the foregoing purposes.

## Internal Controls

Vero's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting at June 30, 2010.

Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2010, the Company's internal controls and procedures are effective regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP and includes those policies and procedures that:

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

The Company is required to disclose herein any change in the design of the Company's internal control over financial reporting that occurred during the quarter ended on September 30, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. No material changes in Vero's internal controls over financial reporting were identified during the three months ended June 30, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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