

MANAGEMENT, DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Vero Energy Inc. ("Vero" or the "Company") was prepared on March 6, 2009 and is management's assessment of the Company's financial and operating results for the year ended December 31, 2008. This MD&A should be read in conjunction with the audited, financial statements of the Company for the year ended December 31, 2008 and 2007 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, including the Company's Annual Information Form, on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), or at the company's website (www.veroenergy.ca).

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, expected commodity prices and the impact on Vero, expected increase in royalty rates, and the timing of and impact of adoption of IFRS and other accounting policies may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, the inability to fully realize the benefits of the acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources

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

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

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

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

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

The Company considers corporate netbacks as a key measure as it demonstrates its profitability relative to current commodity prices. Corporate netbacks are comprised of operating, cash flow and net earnings netbacks. Operating netback is calculated as the average sales price of its commodities (including hedging gains and losses) less royalties, transportation costs and operating expenses. Cash flow netback starts with the operating netback and further deducts general and administrative costs, interest expense and current income tax expense. Net earnings netback takes the cash flow netback and deducts unrealized gains/losses on hedges, stock-based compensation expense, depletion, depreciation and amortization charges and future income tax expense. 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 and corporately.

Net debt and working capital deficiency, which terms represent current assets less current liabilities and bank debt is used to assess efficiency, liquidity and general financial strength. There is no GAAP measure that is reasonably comparable to net debt and working capital.

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

	2008	2007
Cash provided by operating activities	76,038	34,101
Add:		
Change in non-cash working capital	(659)	7,140
Asset retirement costs incurred	222	43
Cash flow from operations	75,601	41,284

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.

OUR BUSINESS AND STRATEGY

Vero is a grass-roots explorer primarily in search for natural gas. The Company operates in one geographical area – Alberta, Canada. Its main, core producing and exploration assets are located near Edson, Alberta. Vero is a leader in reserves and production growth in the junior oil and gas market and also has one of the lower operating and finding cost structures in Canada. Vero’s primary growth strategy is to explore, acquire and produce from its core areas in Alberta. Vero’s goal for its shareholders is to create repeatable production and reserve growth per share. This growth occurs mainly through drilling on its ever-expanding land base, but also through strategic

acquisitions of either producing assets or corporate entities. The Company's growth strategy is highly dependent on its ability to bring behind-pipe volumes on production in a timely manner. Vero has been very successful in keeping the time from completion of the well to first production to a minimum and thereby converting its capital spent into cash flow in an expeditious manner.

KEY PERFORMANCE DRIVERS

Each year we set corporate targets. We believe that two of the most key performance drivers are production and reserves growth per share. A company can increase production as well as reserves, but needs to ask at what cost and what benefits accrue to the shareholders. Throughout the year we continually assess whether the projects we pursue (organic drilling or acquisitions) will be accretive in terms of growth per share. For 2008 the reserves growth per share was 49% on a proved plus probable basis and was achieved through a combination of drilling success and accretive acquisitions. Production growth per share for the year was 16% using the basic weighted average number of shares.

FINANCIAL HIGHLIGHTS FROM 2008

Vero continued to deliver excellent financial and operational results throughout 2008. Vero drilled 34 (26.7 net) wells during the year with a 98% success rate. Aggregate and daily sales volumes grew by 34% wherein we averaged 6,295 boe/d compared to 4,709 boe/d in 2007. While 2008 had strong swings in both directions for commodity prices, the rapidly declining commodity prices in the last half of the year did not dampen our resolve. Vero's successful drilling effort was the real success story for the year, but 2008 also included four opportunistic acquisitions. Three of these acquisitions were corporate deals and one was an asset deal. The most recent acquisition was focused in our Edson area, where the upside included additions to drilling inventory equivalent to the number of wells drilled in the area during 2008. These acquisitions, along with our successful drilling culminated in an 83% increase in cash flow to \$75,601 from 2007 cash flow of \$41,284. Cash flow per share was \$2.32 per share (\$2.31 per diluted share) representing a 58% increase over \$1.47 in 2007 (\$1.46 diluted). Vero spent \$106,285 in executing its own exploration and development program during the year. This amount included: \$4,976 on Crown land acquisitions; \$5,600 for two 3-D seismic data shoots and one acquisition of trade data in its core area of Edson; \$93,874 in drilling and completing 26.7 net wells, 14 of which were horizontal wells; and \$25,414 equipping and tying in wells, and included the start of the facility expansion for the year-old Edson gas processing plant. The plant capacity will go from 20 mmcfd to 35 mmcfd to handle continued drilling and also to re-route Vero production from the Cyn-Pem area which suffered continual downtime in 2008 at third party facilities. All of this activity culminated in net debt of \$103,911 at the end of the year.

Below is the detailed discussion of the results from 2008 with comparative results to 2007.

DETAILED FINANCIAL REVIEW

PRODUCTION REVENUE AND VOLUMES

Vero increased aggregate production volumes by 34% in 2008 to 2,303,814 boe as compared to 1,718,760 boe in 2007. Natural gas, Vero's primary product, had an increase in volumes produced of 30%. The associated natural gas liquids production increased by 52% and oil production increased by 46% over 2007 levels. Production growth was largely attributable to the 98% success rate in our drilling program as well as the four acquisitions during the year. The production mix for 2008 had natural gas contributing 78% of total volumes while liquids came in at 13% and oil was at 9%. This compares to an 80% contribution from natural gas in 2007, while liquids was 12% and oil accounted for 8%. For 2009 it is expected that the commodity mix will gravitate towards natural gas being at 80% with liquids accounting for approximately 15% of total volumes.

Aggregate Sales Volumes

	2008	2007	%
Natural gas (mcf)	10,794,364	8,289,192	30
Light/medium oil (bbl)	204,304	139,943	46
Natural gas liquids (bbl)	300,449	197,285	52
Barrels of oil equivalent (boe)	2,303,814	1,718,760	34

Daily Sales Volumes

Daily sales volumes increased to 6,295 boe/d in 2008 from 4,709 boe/d in 2007, representing a 34% increase. Vero's focus continued to be on its natural gas drilling during the year. In addition the corporate acquisitions had similar product mixes to that of Vero's.

	2008	2007	%
Natural gas (mcf/d)	29,493	22,710	30
Light/medium oil (bbl/d)	558	383	46
Natural gas liquids (bbl/d)	821	541	52
Barrels of oil equivalent (boe/d)	6,295	4,709	34

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

	2008	2007	%
Edson	4,038	3,089	31
Whitecourt	847	466	82
Corbett	842	526	60
Wilson Creek	304	472	(36)
Other	264	156	69
Total	6,295	4,709	34

Benchmark Indices

	2008	2007	%
Natural gas			
NYMEX (US \$/mmbtu)	8.92	6.91	29
AECO- Daily (CDN \$/mcf)	8.16	6.45	27
Crude Oil			
WTI (US \$/bbl)	99.65	72.31	38
Edmonton light (CDN \$/bbl)	102.16	76.35	34
Foreign Exchange			
Canadian to US dollar	0.94	1.07	(12)
US to Canadian dollar	1.07	0.94	14

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, the general health of the economy and alternative fuel sources. AECO benchmark pricing was 27% higher in 2008 as compared to 2007 levels. The higher average prices compared to 2007 contributed significantly to the enhanced cash flows in 2008. However, the average prices for the year tell only part of the story. While average prices were significantly higher in 2008, the rapidly declining prices in the fourth quarter of 2008 set the stage for the start of 2009. The credit crisis and the recession in the U.S. have taken their toll on demand in the fourth quarter. AECO prices for December have fallen to \$6.62/mcf and continue to fall further into 2009. Even with a colder than normal winter currently being experienced for 2008-2009, the gas storage levels have now risen above the five year average mainly due to the collapsing demand. In addition oil prices hit a high of \$147 US per barrel for WTI in 2008 and then started a descent later in the year to average just over \$42 US in December. This decline was offset somewhat by the decline in the Canadian dollar. For 2009 forecasters are predicting low gas prices and Vero intends to continually review its capital program as the year unfolds.

Commodity prices realized by Vero were as follows:

	2008	2007	%
Natural gas (\$/mcf)	8.77	7.11	23
(Loss) gain on financial contracts (\$/mcf)	(0.10)	0.16	(63)
Realized gas price (\$/mcf)	8.67	7.27	19
Light/medium oil (\$/bbl)	96.46	70.66	37
Natural gas liquids (\$/bbl)	81.80	67.07	22
Barrels of oil equivalent (\$/boe)	59.84	48.53	23

Excluding the effects of its hedging program, Vero realized an average 8% premium to the AECO benchmark for its natural gas during 2008. The liquids rich, higher heat content gas in the Edson area is the primary reason for the premium. Before hedging, Vero realized 23% higher

aggregate prices in 2008 than in 2007. 2008 saw significant swings in commodity prices, but nevertheless the average for the year was a significantly higher overall average of 23%. Vero's gas hedging program resulted in a loss of \$0.10/mcf during the year as compared to a gain of \$0.16 in 2007. The Company had five gas hedges in place at various times during 2008: two costless collars for 5,000 gj/day each running from April through October; a swap for 5,000 gj/day at \$7.50/gj from April through October; a costless collar for 5,000 gj/day from November through December; and a swap for \$7.54 gj/day from July through October that was inherited on one of the corporate purchases. Realized natural gas liquids prices were 22% higher for the year at \$81.80 as compared to \$67.07 in 2007. The average commodity prices of \$59.84/boed for Vero were 23% higher than those realized in 2007.

Production revenue

The predominant factor in the increase in revenues was the 34% increase in production volumes. In addition the 23% average increase in commodity prices assisted in bringing aggregate revenues up by 65% from 2007 levels. For 2008, natural gas revenues (excluding hedges) accounted for 69% of corporate revenues followed by liquids at 18%, oil revenues at 14% and the hedging loss accounted for a negative 1%. As a comparison, the revenue profile from 2007 was: natural gas was at 71%; oil was 16%; liquids came in at 12%; and hedging gains represented 2% of total revenue. The higher realized prices for oil and liquids during the year in relation to gas prices caused oil and liquids to contribute a higher percentage of revenues than the production mix noted above.

	2008	2007	%
Natural gas	94,678	58,942	61
Light/medium oil	19,708	9,889	99
Natural gas liquids	24,576	13,232	86
Realized (loss) gain on financial contracts	(1,107)	1,344	(182)
Production revenue	137,855	83,407	65

ROYALTIES

Vero's royalty expense consists mainly of Crown royalties and these rates can fluctuate due to commodity price changes or production volume changes on a well by well basis as the Crown has varying royalty rates depending on the productivity of the well. Gross over-riding and freehold royalty rates are fairly consistent and will fluctuate with commodity prices along with the volumes produced from the wells burdened by these royalties. Aggregate royalties were \$35,601 for 2008 as compared to \$23,003 for 2007. The increase is directly tied to the significant increase in production revenues in 2008. There was a small reduction of 2% in gross over-riding royalties for 2008 as the production of older wells that were burdened with these types of royalties has declined during the year. On a per boe basis the rate increased to \$15.45 from \$13.38 per boe. The Alberta Royalty Tax Credit adjustment in 2008 relates to an Alberta Government audit adjustment on properties acquired by Vero in 2006. As a percentage of revenue, royalty expense averaged 25.8% of production revenue in 2008 as compared to 27.6% in 2007. For 2009 Vero currently anticipates that the overall royalty rate will decline slightly

from that of 2008 due to a combination of lower gas prices coupled with the impact of the New Royalty framework which is price sensitive.

	\$			\$/boe		
	2008	2007	%	2008	2007	%
Crown – gross	31,563	20,417	55	13.70	11.88	15
Freehold/gross over-riding	3,966	2,586	53	1.72	1.50	15
Total royalties	35,529	23,003	54	15.42	13.38	15
ARTC	72	-	-	0.03	-	-
Royalty expense, net of ARTC	35,601	23,003	55	15.45	13.38	15
Royalties - % of production revenue	25.8	27.6%	(7)			

The New Royalty Framework (“NRF”) for Alberta was released on October 25th of 2007 by the Alberta Government and became effective on January 1, 2009. The NRF is sensitive to both production rates and gas prices. Vero has a wide range of wells with low and high rates of production. The higher rate wells tend to come from our deeper wells, and predominantly our horizontal wells that reach measured depths of over 3,400 meters. These higher rate wells should be less affected by the NRF due to relief being granted for the measured depth of a well, as opposed to true vertical depth. Based upon our review of the new royalty structure, we currently anticipate for 2009 that the wells, in our largest producing area of Edson (representing approximately 70% of aggregate current production), and which have measured depths in the range of 2,200 to 3,500 meters, will have approximately 2-3% lower rates at the current 2009 prices. On November 19, 2008 the Alberta Government announced that for wells that commenced drilling after this date companies can elect, on a well by well basis to either have the NRF apply to the production from that well or have new transitional royalty rates apply to the well. Vero will make a determination on each well to see which method is most advantageous.

In addition, on March 3, 2009 the Alberta Government announced further royalty relief, which provides for royalty drilling credits of \$200 per meter drilled for new wells drilled after March 31, 2009, as well as a 5% royalty rate on wells that commence production after March 31, 2009. Both programs are currently proposed to run for one year commencing on April 1, 2009. While it is still early to estimate the impact of these incentives, Vero believes this program to be very beneficial to our effective Crown royalty rate for 2009.

RISK MANAGEMENT ACTIVITIES

During the 2008 year the Company had the following commodity contracts:

Type	Amount	Term	Price (\$/gj)	Type
Collar	5,000 gj/day	April 1 – October 31, 2008	\$6.50 - \$8.25	Financial
Swap	5,000 gj/day	April 1 – October 31, 2008	\$7.50	Financial
Collar	5,000 gj/day	April 1 – October 31, 2008	\$7.00 - \$8.80	Financial
Collar	5,000 gj/day	November 1 – December 31, 2008	\$7.75 - \$9.50	Financial
Swap	1,000 gj/day	July 1 – October 31, 2008	\$7.54	Financial

These hedges were considered to be financial derivatives wherein the fair value of the contract was recognized on the balance sheet with changes in fair value recorded in income. Realized gains or losses are recorded in income in the period in which they occur. For the year ended December 31, 2008, the realized loss from the Company's hedging contracts was \$1,107. There were no contracts outstanding by the end of the year.

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

DD&A expense is determined by a combination of: Vero's spending on its own exploration and development program; Vero's drilling successes and the cost of any acquisitions. These factors plus the increase in production levels during the year caused aggregate DD&A expense to increase from \$36,052 in 2007 to \$40,917 in 2008. The 13% increase was primarily due to the increased depletion base from Vero's 2008 capital spending program. In addition, the 34% increase in production volumes in 2008 caused more DD&A to be recognized as the depletion calculation uses the unit-of-production method in its computation. Vero's successful drilling program as well as the accretive acquisitions throughout 2008 caused the depletion rate per boe to drop 16% to \$17.63 per boe from the 2007 level of \$20.87. Accretion expense for 2008 increased 68% from 2007 due to the addition of wells drilled as well as those acquired throughout the year. For 2009 we anticipate the DD&A rate to be similar to the rate realized in 2008 as new reserve additions are balanced against the increased cost of finding and developing the reserves.

	\$			\$/boe		
	2008	2007	%	2008	2007	%
Depletion and depreciation	40,609	35,869	13	17.63	20.87	(16)
Accretion on asset retirement obligations	308	183	68	0.13	0.11	18
Total DD&A	40,917	36,052	13	17.76	20.98	(15)

CEILING TEST

The Company performs a ceiling test calculation at least annually within the Canadian Institute of Chartered Accountants full cost accounting guidelines. The calculation assesses the carrying value of its oil and gas properties to determine if impairment has occurred. The Company applies a two-stage ceiling test to capitalized costs to ensure that such costs do not exceed the undiscounted future cash flows from production of proved reserves. Undiscounted future cash flows are calculated based on independent petroleum engineers estimates of forward indexed prices applied to estimated production of proved reserves, less estimated future operating costs, royalties net of applicable tax credits, and future capital development costs. When the carrying amount of a cost center is not recoverable the second stage of the process will determine the amount of the impairment whereby the cost center would be written down to its fair value. The second stage requires the calculation of discounted cash flows from proved plus probable reserves using the risk-free interest rate plus the cost of undeveloped land, net of any impairment. The fair value is estimated using generally accepted present value techniques, which incorporate risks and other uncertainties when determining expected cash flows. As at December

31, 2008 there was no impairment based on the independent, third party engineering consultant report.

OPERATING

Operating costs were \$16,704 in aggregate or \$7.25 per boe for 2008 as compared to \$11,189 and \$6.51 per boe in 2007. While aggregate operating costs increased 49% year over year, the increase on a per boe basis was less significant at 11% to \$7.25 per boe. Increases in per boe amounts occurred throughout 2008, but were mainly attributable to the higher operating cost acquisitions which occurred in each of the second, third and fourth quarters. Production volumes from the acquisitions predominately went to third party gathering and processing facilities. Optimization processes were started on these properties during the year, and consisted mainly of workovers and installation of liquids lifting equipment.

The company significantly expanded its core areas and resource base through land purchases and farm-ins on other operators. The majority of these drilling commitments were far enough away from Vero's own processing facilities that they needed to be tied into third party facilities, which had much higher operating expenses and shrinkages than Vero's facilities. In the first quarter of 2008 Vero processed 77% of its natural gas through its Edson-owned facility versus 25% in the fourth quarter. Therefore, a higher proportion of gas in the Edson area is now subject to third party processing fees. In addition, new horizontal wells drilled into new horizons have required costly workovers to clean out completion sands. The company has been working on different completion techniques and reduced rates of flow-back to mitigate the excess sand production. In addition, start up costs for both our new gas compression and dehydration facility in Pine Creek, as well as the 15 mmcf/d expansion to our operated Edson facility caused increases in operating costs in the fourth quarter. The Company is currently working on plans to re-route a portion of the production volumes from the recent acquisitions plus volumes from wells drilled by the Company into Vero operated facilities. The Pine Creek gas compression facility built in the second half of 2008 was to be expanded into a full fledged gas processing facility for the second quarter of 2009 but has since been postponed to a later date. This facility currently compresses 25% of the corporation's natural gas (33% of the natural gas in Edson) and is transported through third party pipelines and processed at a third party facility. When this facility conversion is complete, it is anticipated that the processing costs in that area will be reduced significantly. We anticipate that operating costs will average in the \$7.75 - \$8.00 per boe range for 2009. These costs will be higher in the first and second quarters and then decrease throughout the remainder of the year as we undertake ongoing efforts to optimize our operations. These numbers will still be top quartile costs amongst our peers.

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

	2008	2007	%
Expense per financial statements	16,704	11,189	49
Add: processing income	480	78	511
Gross expense	17,184	11,267	53
Net expense (\$ per boe)	7.25	6.51	11
Net expense (% of revenue)	12.1	13.5	(10)

TRANSPORTATION

Transportation expenses were \$2,942 for the current year and amounted to 2.1% of production revenue as compared to \$2,348 and 2.8% for 2007. The increase in aggregate transportation expense in 2008 was mainly attributable to the increase in natural gas volumes produced in 2008. On a per boe basis, the rate actually declined by 7% from \$1.37 in 2007 to \$1.28. Transportation costs are comprised of gas transportation, pipeline tariffs for oil and liquids transportation as well as trucking charges. The charges for the current period are not necessarily indicative of future costs and will depend on the type of production additions (oil and liquids versus natural gas). These costs are dependent on a variety of factors such as: the type of production facilities; the method of transportation; the distances covered; the rates charged by the carriers; quantities shipped; cost of the carrier's fuel; the type of service offered (interruptible versus firm service) as well as ownership of the transportation facilities. The cost per boe for 2009 is currently expected to be consistent with that of 2008 as the majority of these costs are variable in nature and there are currently no unutilized firm service contracts.

	2008	2007	%
Expense per financial statements	2,942	2,348	25
Expense (\$ per boe)	1.28	1.37	(7)
Expense (% of revenue)	2.1	2.8%	(25)

GENERAL AND ADMINISTRATIVE (G&A)

Gross G&A expense increased 42% to \$6,901 in 2008 from \$4,847 in 2007. Net G&A increased 42% to \$4,461 from \$3,132 for the same periods. The increase in costs is primarily driven by the increase in staff during the year. During 2008 Vero added eight new full time staff, four part time staff and three consultants. All of this was done to facilitate the acquisitions during the year and also prepare for the future growth of the Company. Along with the staff increases came the resulting need for additional office space and the attendant services. Vero increased its head office space by approximately 30% in June of 2008 to accommodate the additional staff. Included in G&A for 2008 is a bad debt provision of \$230 related to the partial default of a payment for one month by the gas marketer that was inherited from the corporate acquisition completed in April. This marketer had re-marketed a portion of its gas sales to SemCanada. SemCanada filed for creditor protection in Canada in July and defaulted on payments to producers in July and August. As a result of the SemCanada default the marketer in turn passed

along this default to all of the producers that it marketed gas for. The bad debt is a one-time charge which increased G&A expense by \$0.10 per boe in the year.

On a per boe basis Vero realized net G&A of \$1.94 in 2008 as compared to \$1.82 during 2007. This represents a 7% increase in G&A costs on a per boe basis. Excluding the SemCanada default, the rate would be flat from 2007. Overhead recoveries increased by 47% in 2008 as compared to 2007 as a result of the number of operated exploration and development projects increasing during the year. Overhead recoveries are a function of field operating activity as well as the number of projects for which the Company is the operator. The Company capitalizes a portion of its G&A for the salaries of its geological and geophysical staff, which are directly related to exploration and development activities. G&A capitalized for 2008 was \$688, representing a 31% increase from 2007. As production volumes continue to grow in 2009 the G&A per boe rate is expected to decline somewhat as the current levels of staff and other overheads are expected to remain stable with those at years end.

	2008	2007	%
Gross expense	6,901	4,847	42
Less:			
Overhead recoveries	(1,752)	(1,190)	47
Capitalized G&A	(688)	(524)	31
Net expense	4,461	3,132	42
Average cost (\$ per boe)			
Gross expense	3.00	2.82	6
Net expense	1.94	1.82	7

INTEREST AND BANK CHARGES

Interest expense for 2008 increased 4% to \$2,559 from \$2,451 in 2007. This was a modest increase in aggregate expense as the increase in bank debt outstanding increased 26% from 2007. Declining interest rates of an average of 21% in the year was the prime determinant of this minor increase. Even though Vero spent \$125,870 on its own capital program and also assumed \$10,989 in bank debt on its corporate acquisitions, its cash flow of \$75,601 and lower interest rates kept the interest expense at a modest increase. Vero exited 2008 with bank debt of \$75,419. As a result of lower interest rates and a 34% increase in production levels during the year the per boe rate for interest expense decreased from \$1.43 in 2007 to \$1.11 in 2008. It is currently anticipated that the aggregate interest cost will increase in 2009 as Vero's early-year weighted capital program will make more use of the existing bank lines.

	2008	2007	%
Interest per financial statements	2,559	2,451	4
Deduct: Commitment & other fees	(153)	(57)	165
Debt bearing interest	2,406	2,394	1
Average bank debt outstanding	48,535	38,408	26
Average interest rate	4.9%	6.2%	(21)
Average interest cost (\$ per boe)	1.11	1.43	(22)

STOCK BASED COMPENSATION

Stock based compensation expense represents the amortization of the expense associated with the notional fair value of stock options granted. The fair value of the options is determined by the price of the stock, its volatility, risk-free rates of return and the vesting periods. The fair value of all stock options is amortized over the options' vesting period, which is three years for all options granted. Stock based compensation expense in 2008 increased by 78% to \$2,575 from \$1,449 in 2007. 1,528 new options were granted during the year at an average notional expense of \$4.93 and this led to the increase in expense. The per boe rate for the year increased 33% to \$1.12 from \$0.84 in 2007 as the increase in production levels only partially offset the additional expense caused by the new stock option grants.

	2008	2007	%
Expense per financial statements	2,575	1,449	78
Expense (\$ per boe)	1.12	0.84	33

INCOME TAXES

The total income tax provision for 2008 was \$10,240 and this was comprised entirely of future income taxes. This provision represented a 1,555% increase in tax expense from 2007. The increase was mainly the result of the low, effective tax rate in 2007 which was caused by a large income tax recovery in 2007. 2007 saw two federal tax rate reductions. The first was Bill C-52, an Act to implement a reduction to the general corporate income tax rate from 19% to 18.5% effective January 1, 2008, which was created in March and passed into law in June. This rate reduction was reflected in the second quarter, 2007 financial statements. The second was introduced in the October 30, 2007 economic statement. In this document the federal government announced a further corporate tax rate reduction of 3.5% which was to be phased in over the years 2008 to 2011. The federal tax rate commencing in 2012 will now be 15%. For this latter legislation Bill C-28 received Royal Assent on December 14, 2007 and was passed into law. Accordingly, this additional rate reduction was reflected in the tax provision for the fourth quarter of 2007. All of the future benefits of these rate reductions were recognized in the 2007 income tax provision. There were no new tax rate adjustments introduced in 2008.

Pursuant to the flow-through share private placement financing, which closed in April of 2007 the Company entered into a commitment to renounce \$10,875 of exploration expenses to subscribers by December 31 of 2007. Vero satisfied this commitment in full during 2007. The Company entered into another flow-through share financing in February of 2008. Under this financing Vero is committed to renounce \$17,945 of exploration expenses to subscribers by December 31, 2008. As of December 31, 2008, \$14,186 had been expended leaving \$3,759 to be spent by December 31, 2009. The tax effects of the renunciations are recorded when the documents relating to the renunciation are filed with the tax authorities. The future tax liability related to the April 2007 flow-through financing was recognized in the first quarter of 2008 and it is anticipated that the tax effect of the February 2008 financing will be recorded in the first

quarter of 2009. At the time the renunciation is made the estimated tax effect of the foregone tax benefits is charged to share capital with a corresponding increase to the future income tax liability.

Taking into account projected spending for 2009 as well as the anticipated production levels and commodity prices, it is anticipated that Vero will not be cash taxable throughout the remainder of 2009.

	\$			\$/boe		
	2008	2007	%	2008	2007	%
Future income tax expense	10,240	619	1,555	4.44	0.36	1,133
Effective tax rate (%)	31.9	16.4	95			

The Company acquired favourable tax pool positions from each of the three corporate acquisitions during the year. These tax pools in addition to Vero's own pools available at December 31 for each year were follows:

<i>Tax Pools</i>	Rate %	2008	2007
Canadian exploration expenses	100	28,235	21,121
Canadian development expenses	30	73,755	39,619
Canadian oil and gas property expenses	10	58,346	29,221
Undepreciated capital costs	10 - 30	61,177	35,162
Financing costs	20% S.L.	3,023	1,849
Attributed Canadian Royalty Income	100 (Alberta)	38	3,698
Non-capital losses	100%	3,877	-
Total		228,451	130,670

NETBACKS

Corporate operating netback of \$35.86 per boe for 2008 was 31% higher than that realized in 2007. A 23% increase in realized prices lead the way for the increase in the operating netback. Likewise cash flow netbacks were 37% higher for 2008 as the increase in G&A cost per boe was more than offset by the 22% reduction in interest expense. For the net earnings netback, the largest single expense was DD&A at \$17.76 per boe. Vero was successful in reducing this expense from the 2007 level of \$20.98 as the Company increased proved reserves through a combination of a successful drilling program and favourable acquisitions. Stock based compensation expense increased by 33% for the year, but this had a relatively minor impact on the earnings netback. Income tax cost was significantly higher as the tax rate recoveries pursuant to a five year phase in were all realized in 2007. Vero anticipates netbacks in 2009 to be lower than 2008 as the year started off with low natural gas and oil prices and they continue to slide downward. Natural gas storage levels remain high as a result of a lack of industrial demand and there does not appear to be any relief in the first half of the year.

Corporate Netbacks

<i>Netbacks (\$ per boe)</i>	2008	2007	%
Realized price (including hedges)	59.84	48.53	23
Royalties (net of ARTC)	(15.45)	(13.38)	15
Operating expenses	(7.25)	(6.51)	11
Transportation expenses	(1.28)	(1.37)	(7)
Operating	35.86	27.27	31
G&A	(1.94)	(1.82)	6
Interest expense	(1.11)	(1.43)	(22)
Interest and other income	0.01	-	-
Cash flow	32.82	24.02	37
Stock based compensation	(1.12)	(0.84)	33
D,D&A	(17.76)	(20.98)	(15)
Future income taxes	(4.44)	(0.36)	1,135
Net earnings	9.50	1.84	416

Operating Netback by Commodity Type

<i>Operating netback – Natural gas (\$/mcf)</i>	2008	2007	%
Realized price	8.67	7.11	22
Royalties (excluding ARTC)	(2.26)	(2.06)	10
Operating expenses	(1.10)	(0.68)	62
Transportation costs	(0.19)	(0.25)	(24)
Operating netback	5.12	4.12	24

<i>Operating netback – Crude oil (\$/bbl)</i>	2008	2007	%
Realized price	96.46	70.66	37
Royalties (excluding ARTC)	(13.34)	(10.72)	24
Operating expenses	(8.55)	(8.07)	6
Transportation costs	(2.79)	(0.88)	217
Operating netback	71.78	50.99	41

<i>Operating netback - Natural gas liquids (\$/bbl)</i>	2008	2007	%
Realized price	81.80	67.07	22
Royalties (excluding ARTC)	(28.33)	(22.42)	26
Operating expenses	(10.33)	(22.43)	(54)
Transportation costs	(1.22)	(0.93)	31
Operating netback	41.92	21.29	97

Operating expenses with respect to liquids production are attributable to processing fee charges as these represent the incremental charges to extract, collect and transport natural gas liquids. The large decrease in the per boe processing rates from 2007 are attributable to a reduction in the third party charges at the non-operated gas plants to which the liquids-rich gas was previously

delivered. These charges decreased at the beginning of 2008 as the gas was processed at Vero's own facility in the Edson area.

CASH FLOW AND NET EARNINGS

Cash flow from operations for 2008 was \$75,601, an increase of 83% from \$41,284 realized in 2007. The largest contributors to the increase in cash flow for the year were a 34% increase in production volumes and a 23% increase in average commodity prices. Consequently, Vero was able to realize significant growth in cash flow. Vero realized net earnings of \$21,869 for the year representing a 591% increase over 2007. The growth in production volumes was more than enough to offset the 15% increase in royalties, 49% increase in operating expense and the 25% increase in transportation charges. Cash flow from operations is reconciled as follows:

	2008	2007	%
Net earnings	21,869	3,164	591
Adjustments for:			
Depletion, depreciation and accretion	40,917	36,052	13
Stock based compensation expense	2,575	1,449	78
Future income tax	10,240	619	1,554
Cash flow from operations	75,601	41,284	83

On a per share basis, Vero had net earnings of \$0.67 for both basic and diluted earnings per share for 2008 as compared to \$0.11 basic and diluted earnings per share for 2007. Cash flow per share in 2008 was \$2.32 basic and \$2.31 diluted, representing a 58% increase from the \$1.47 basic and \$1.46 diluted per share results from 2007.

	2008	2007	%
Net earnings per share			
Basic	0.67	0.11	509
Diluted	0.67	0.11	509
Cash flow per share			
Basic	2.32	1.47	58
Diluted	2.31	1.46	58

CAPITAL EXPENDITURES

Vero spent a net amount of \$128,685 in 2008, representing an 80% increase over \$71,453 spent in 2007. The largest single cash expenditure, representing 15% of the total expenditures was the producing asset acquisition which occurred at the end of July, 2008. The acquisition cost of \$19,537 represented approximately 500 boe/d plus undeveloped lands in excess of 48,000 net acres. In total, Vero made four acquisitions during the year. Included in these acquisitions were three corporate acquisitions, which had total cash outlays of \$2,816, with the rest of the consideration of \$38,746 being shares of Vero. In all, Vero purchased approximately 1,700 boe/d through acquisitions during 2008. In addition to the acquisitions, Vero also spent \$4,976 on new

land additions, mainly in its core areas adding over 10,000 net undeveloped acres of land to its inventory. Other significant expenditures during the year included: \$5,600 on two 3-D seismic data shoots and one acquisition of trade data in its core area of Edson; \$68,460 in drilling and completing 26.7 net wells, 14 of which were horizontal wells; and \$25,414 equipping and tie-in in these wells as well as the commencement of an expansion to the year-old Edson gas processing facility from 20 mmcf/d to 35 mmcf/d. Part of the increase to our planned capital expenditures for 2008 relates to an increase of 3.4 net wells resulting from partners going penalty. The additional cost we absorbed from these penalty wells was \$5,769 and all coming in the fourth quarter. A summary of the costs incurred for the year is as follows:

	2008	2007	%
Exploration and development			
Land acquisitions and lease rentals	5,228	3,716	41
Geological and geophysical	7,206	2,456	193
Drilling and completions	68,460	44,245	55
Well equipment and facilities	25,414	18,515	37
Disposals	(15)	-	-
Total exploration and development	106,293	68,932	54
Other expenditures	39	43	(9)
Total capital expenditures	106,332	68,975	54
Corporate acquisition (cash outlay)	2,816	-	-
Property acquisition	19,537	2,478	688
Net capital expenditures before ARO	128,685	71,453	80
Capitalized asset retirement obligations	1,681	717	134
Total capital additions	130,366	72,170	81

	2008		2007	
	Gross	Net	Gross	Net
Wells drilled				
Exploration	6	5.1	10	5.6
Development	27	21.1	22	15.4
Dry holes	1	0.5	4	3.1
Total wells	34	26.7	36	24.1
Success rate (%)	97%	98%	89%	87%

Vero's capital spending budget for 2009 was originally set at \$90,000 in October of 2008. This budget has been revised as a result of the changing economic climate and currently is in a range of between \$45-50 million. This level of expenditures will be dependent on many factors such as: commodity prices, availability of capital, weather, new opportunities that arise during the year, rig and services availability and success rates on wells that may require follow-up locations. The Company is currently planning to drill approximately 15 (13.4 net) wells. Vero will re-visit these plans continually throughout the year. We will remain flexible and realistic in revising the capital budget with the emphasis being on maintaining a healthy balance sheet.

LAND HOLDINGS

The undeveloped land holdings at December 31, 2008 are as follows:

Area	Gross Acres	Net Acres	Average WI %
Whitecourt	66,400	52,261	79
Edson	66,240	50,349	76
Corbett	30,400	23,155	76
Other Alberta	57,737	34,354	60
Saskatchewan and BC	11,586	11,064	95
Total	232,363	171,183	74

LIQUIDITY AND CAPITAL RESOURCES

Debt and working capital	2008	2007	%
Bank debt	75,419	46,013	64
Working capital deficiency	28,492	15,761	81
Net debt	103,911	61,774	68

Capital Program Funding	2008	2007	%
Cash, beginning of period	-	-	-
Funds provided by operations	75,601	41,284	83
Asset retirement costs	(222)	(43)	416
Increase in bank debt	18,417	10,362	78
Share issuance, net of costs	16,759	17,935	(7)
Option exercises	4,378	43	10,081
Share repurchases	(2,597)	-	-
Loans to officers/director	(350)	-	-
Change in non-cash working capital	16,699	1,872	792
Net capital expenditures	128,685	71,453	80

The Company funded its \$128,685 in total capital expenditures for 2008 from a variety of resources. The most significant sources were as follows: Vero realized cash flow of \$75,601; increased its bank debt by \$18,417; closed a private placement which netted the Company \$16,759; exercise of options by certain employees realized \$4,378 and increased its non-cash working capital by \$16,699. Vero also used \$2,597 to repurchase 408 of its shares from July through December. All of this activity resulted in net debt at December 31, 2008 of \$103,911, which was 68% higher than December 31, 2007. The oil and gas industry, by its nature, requires significant amounts of capital to fund its capital programs with a view to expanding its production and reserves.

Available borrowings on the bank credit facility are limited by the borrowing base, which are established by the bank. The amount of available credit is based mainly upon the value of petroleum and natural gas assets, but more recently is also dictated by the capital available to the banks. The most recent formal evaluation by our external engineers determined these reserve values as at December 31, 2008. The most recent annual review by the bank was completed in February of 2009 and the next review, is scheduled for no later than October 31 of 2009. In the last round of borrowing base evaluations, Vero has gone to a banking syndicate to mitigate lending concentration and any capital constraints on any one bank. Two banks will now share in the credit facility as opposed to the single bank that has previously provided the source of funds. The bank facility is subject to semi-annual borrowing base reviews.

Corporate working-capital liquidity is maintained by drawing from the unutilized facility as needed and then repaying it periodically through production revenues. As new reserves are added and the financing needs of the company are expanded, Vero will apply to the bank for interim review of the borrowing base. The credit facility is currently authorized at \$100,000 and as a result of the most recent review in February of 2009 by the banking syndicate, we expect this amount to increase to \$115,000. This amount represents a 64% increase over the \$70,000 credit facility we had at the end of 2007. The current economic difficulty facing the world has impacted the Canadian energy sector. Banking fees and interest rate spreads have all increased. Overall, for 2009 Vero's effective rate of interest should be consistent with that experienced in the fourth quarter of 2008. Access to bank capital is of paramount importance to Vero. We believe that our strong reserve growth in 2008 and our proven ability to deliver operational results have been recognized by the banks in increasing our borrowing base.

Vero's stock has maintained a high level of liquidity throughout the year. For 2008, the stock has traded an average of over 163 shares per trading day in 2008 as compared to an average of 129 shares per day in 2007. Below is a summary of the trading history of the Company's shares for 2008 and 2007.

	2008					2007				
	YTD	Q4	Q3	Q2	Q1	YTD	Q4	Q3	Q2	Q1
High (\$)	11.34	7.84	10.90	11.34	8.25	8.09	6.23	7.50	8.09	6.25
Low (\$)	4.48	4.48	6.55	7.50	5.61	5.21	5.36	5.30	5.79	5.21
Close (\$)	5.44	5.44	7.40	9.48	7.65	5.80	5.80	5.68	7.50	5.77
Volume	41,008	8,313	7,048	15,024	10,624	32,408	8,807	6,671	7,514	9,417

CAPABILITY TO DELIVER RESULTS

Given the current economic and credit environment the capital structure of a business is on all investors minds. Maintaining our financial flexibility is of paramount importance to us as the benefits are twofold. First, we will be better prepared in case the current commodity and consumer markets deteriorate further. Second, it provides us with the flexibility and efficiency to pursue our own organic drilling program should commodity prices turn around.

Capital structure

We regularly review our capital plan to ensure that we have sufficient funding to meet our annual growth objectives. Our financial position at the end of 2008 included:

- Bank debt of \$75,419.
- Total net debt of \$103,911.
- A bank operating line of credit for \$100,000. The Company and its bank have completed the annual borrowing base review and Vero has a firm commitment from the banking syndicate to upgrade the line to \$115,000.
- Market capitalization of \$201,111.

The industry generally operates with a working capital deficiency. Vero's ability to meet its obligations as they come due is of paramount importance. Based on current forecasts of cash flow using 2009 forward strip pricing, Vero will have sufficient resources to meet its obligations.

Capital program for 2009

The capital program for 2009 is under constant evaluation due to the rapidly changing commodity prices. In the original capital budget set by the Board in October of 2008, Vero originally planned to spend \$90 million, which was equivalent to expected cash flows for the year. The rapidly declining natural gas prices in January and February of 2009 have caused us to re-visit the capital plan. Because of Vero's ability to quickly alter its spending, we have set a revised 2009 capital budget in the range of \$45 million to \$50 million. In addition, the new budget is designed to be flexible enough to take into account future changes in the world throughout the year. To fund its capital program for 2009, Vero will use its projected cash flow for 2009 as well as its bank line of credit. Due to the revolving nature of the bank line of credit there are no payments required on outstanding balances as long as Vero maintains its borrowing base in the semi-annual reviews.

It is Vero's short and long term strategy of maintaining a healthy balance sheet with the longer term goal of taking advantage of market turnarounds and strategic acquisitions. This plan continues to be under evaluation and will be updated for the public in the quarterly reporting dates.

OFF BALANCE SHEET TRANSACTIONS

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

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2008 the Corporation had the following related party transactions:

a) Two officers and one director of the Company subscribed for 16 flow-through common shares at a price of \$9.25 per share in the April 5, 2008 private placement. The prices at which the shares were issued were the same as those used in the subscription agreements entered into with non-related parties.

b) Three officers and one director of the corporation received demand loans totaling \$1,110 during the year. \$760 of this amount was repaid by the end of the year leaving \$350 outstanding. The loans bear interest at the company's rate of borrowing from its chartered bank plus 25 basis points. Included in the accounts receivable balances is \$1 of interest receivable from these related parties. Subsequent to the year end additional loans were made to these same individuals. The aggregate loans now stand at \$4,023.

CONTRACTUAL OBLIGATIONS

In the normal course of operations, the Company has entered into contracts and incurred obligations that will impact future liquidity. Based on current cash flow forecast and resources, Vero expects to fulfil the obligations summarized in the below table as they come due. As at December 31, 2008 Vero is obligated to make the following payments under the terms of long-term contracts or commitments it has entered into:

	Total	Payments Due by Period		
		Less than 1 year	1-3 Years	4-5 Years
Transportation obligations	1,390	387	744	259
Office leases	2,905	1,210	1,695	-
Farm-in obligations	10,788	10,788	-	-
Flow-through share - unspent obligations	3,759	3,759	-	-
Total contractual obligations	18,842	16,144	2,439	259

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) for the Company's head office space as well as certain of the furnishings contained therein. Vero entered into a four-year lease for its new head office space with the lease term commencing March 1, 2008. In addition and as at December 31, 2008 Vero was committed to drill or recomplete 8 (6.7 net) wells in Alberta. All of these projects have commencement dates in 2009. These commitments are pursuant to a farm-

in agreement with industry partners. The Company expects to satisfy the net portion of this drilling commitment mainly in the first quarter of 2009 at an estimated cost of \$10,788.

In addition to the above and pursuant to the flow-through share private placement, which closed in February of 2008 the Company entered into a commitment to renounce \$17,945 of exploration expenses to subscribers by December 31 of 2008. As at December 31, 2008, \$3,759 was still outstanding on this commitment. The Company will have until December 31, 2009 to incur the remaining eligible costs under the agreements.

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, the most recent year-end, and the preceding year-end:

(000's)	March 6, 2009	December 31, 2008	December 31, 2007
Common shares outstanding	36,952	36,969	28,915
Stock options outstanding	3,085	3,085	2,434
Fully diluted shares	40,037	40,054	31,349
Weighted average common shares			
Basic	N/A	32,623	28,129
Diluted	N/A	32,762	28,318

The decrease in shares outstanding from December 31, 2008 is attributable to the repurchase of 17 shares in January, 2009.

FOURTH QUARTER 2008

A 35% increase in production volumes highlighted the fourth quarter of 2008 as compared to the same quarter last year. A portion of the increase in the fourth quarter came with the added production from the corporate acquisition on November 10. Therefore approximately seven weeks of production from that acquisition was incorporated into Vero's results. Natural gas prices were 24% higher than the comparable quarter in 2007, however, the oil and liquids prices were significantly lower in 2008 as the global recession started to take its toll on world commodity demand. Vero achieved an increase to cash flow of 23% in 2008 and was the result of a combination of production increases and higher natural gas prices. On a per share basis Vero realized cash flow of \$0.40 per share (basic and diluted) which was the same as the fourth quarter of 2007. Vero spent \$44,152 on its capital program for the fourth quarter of 2008. The majority of the capital spending was drilling 12 (11.5 net) wells in the quarter and also included the start-up work for an expansion of the Edson gas processing facility. Operating netbacks averaged \$25.14 in the fourth quarter of 2008 as compared to \$26.77 in the fourth quarter of 2007. Cash flow netbacks were 9% lower in 2008 at \$22.06 compared to \$24.20 in 2007. The largest contributor to the decline in 2008 was the increase in operating expenses by 37%. Vero embarked on numerous optimization and workover projects on its recently acquired properties as well as on its existing properties (including cleaning out completion sand from its new horizontal wells). The result was an increase to operating expenses in the quarter. The other major factor for operating cost increases was a significant increase in third party processing fees attributable to the acquisitions. In addition, Vero's newly drilled wells in the quarter were farther away from company operated facilities and consequently had to incur third party fees for both gathering and processing. Even in the face of rising exploration and development costs in 2008 brought on by early year demand for services, Vero was able to keep the increase in its DD&A rate to a modest amount of 3% or \$18.94 per boe. The growth in proved reserve additions in the quarter contributed to this number being fairly consistent with last year. Specific highlights of the fourth quarter are as follows:

	Three months ended,		
	December 31, 2008	December 31, 2007	%
<i>Financial (\$000's)</i>			
Production revenue	32,419	23,218	40
Cash flow from operations	14,370	11,662	23
Basic - per share (\$/share)	0.40	0.40	-
Diluted - per share (\$/share)	0.40	0.40	-
Net (loss) earnings	(1,075)	2,842	(138)
Basic - per share (\$/share)	(0.03)	0.09	(133)
Diluted - per share (\$/share)	(0.03)	0.09	(133)
Capital expenditures (net)	44,152	20,412	116
Net debt	103,911	61,774	68
<i>Share Capital (000's)</i>			
Basic, weighted average	35,431	28,914	23
Basic, end of period	36,969	28,915	28
Diluted	35,431	29,034	22
Fully diluted	40,054	31,349	28
<i>Daily Sales Volumes</i>			
Natural gas volumes (mcf/d)	33,429	24,663	36
Light/medium oil (\$/bbl)	486	524	(7)
Liquids (boe/d)	1,018	606	68
Corporate (boe/d)	7,076	5,241	35
<i>Average Prices Realized</i>			
Natural gas (\$/mcf)	8.43	6.78	24
Light Oil (\$/bbl)	56.20	73.81	(24)
Liquids (\$/bbl)	42.34	76.49	(45)
Corporate (\$/boe)	49.80	48.16	3
<i>Netbacks (\$/boe)</i>			
Production revenue	49.80	48.16	3
Royalties	(13.03)	(12.42)	5
Operating	(10.31)	(7.53)	37
Transportation	(1.32)	(1.44)	(8)
Operating netback	25.14	26.77	(6)
General and administrative	(1.90)	(1.25)	52
Interest expense	(1.20)	(1.32)	(9)
Interest and other income	0.02	-	-
Cash flow netback	22.06	24.20	(9)
Unrealized loss on hedging contracts	(2.48)	-	-
Stock-based compensation	(1.93)	(0.66)	192
DD&A	(18.94)	(18.33)	3
Future taxes	(0.38)	0.70	154
Net earnings	(1.67)	5.91	(128)

SELECTED QUARTERLY INFORMATION

Below is summarized quarterly information for the previous eight quarters.

<i>(000's except as noted)</i>	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Production (boe/d)	7,076	6,236	6,087	5,771
Average prices realized (\$/boe)	49.80	55.78	76.30	59.35
Production revenue	32,419	32,005	42,264	31,167
Net earnings (loss)	(1,075)	10,421	8,740	3,783
Basic - per share (\$/share)	(0.03)	0.31	0.26	0.13
Diluted - per share (\$/share)	(0.03)	0.31	0.26	0.13
Cash flow	14,370	16,584	26,805	17,842
Basic - per share (\$/share)	0.40	0.50	0.82	0.60
Diluted - per share (\$/share)	0.40	0.50	0.82	0.59
Total assets	352,472	291,733	254,078	220,682
Net capital expenditures	44,152	48,234	16,411	19,888
Long term financial liabilities	-	-	-	-
Net debt	103,911	67,725	38,428	50,527
Dividends paid	-	-	-	-

<i>(000's except as noted)</i>	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Production (boe/d)	5,241	4,865	4,290	4,430
Average prices realized (\$/boe)	48.16	44.08	51.36	51.19
Production revenue	23,218	19,731	20,051	20,407
Net earnings	2,842	(902)	502	722
Basic - per share (\$/share)	0.09	(0.03)	0.02	0.03
Diluted - per share (\$/share)	0.09	(0.03)	0.02	0.03
Cash flow	11,662	9,425	9,693	10,504
Basic - per share (\$/share)	0.40	0.33	0.33	0.41
Diluted - per share (\$/share)	0.40	0.32	0.32	0.41
Total assets	207,051	187,706	178,377	182,470
Net capital expenditures	20,412	18,522	5,621	26,898
Long term financial liabilities	-	-	-	-
Net debt (surplus)	61,774	53,002	43,172	65,934
Dividends paid	-	-	-	-

SELECTED ANNUAL INFORMATION

	2008	2007	2006	2005
Production (boe/d)	6,295	4,709	2,453	980
Petroleum and natural gas sales	137,855	83,407	43,948	4,212
Cash flow from operations	75,601	41,284	24,103	1,896
Per share – basic	2.32	1.47	0.98	0.20
Per share – diluted	2.31	1.46	0.98	0.20
Net earnings	21,869	3,164	1,035	665
Per share – basic	0.67	0.11	0.04	0.07
Per share – diluted	0.67	0.11	0.04	0.07
Total assets	352,472	207,051	166,858	53,131
Net capital expenditures	128,684	71,453	75,754	35,021
Long term financial liabilities	-	-	-	-
Net debt (surplus)	103,911	61,774	49,540	(8,411)
Dividends paid	-	-	-	-

The Company has been operating since November 2, 2005. Therefore the results for 2005 are for sixty days of operations only. The bulk of the 2005 capital spending was associated with the transfer of assets from the Plan of Arrangement between True Energy Inc., TKE Energy Trust and Vero Energy Inc. 2006 was the first full year of operations for Vero. Vero's objective was to grow primarily by drilling on its core properties, but to also make any strategic acquisitions if management was able to locate quality assets that came available. On February 24, 2006 Vero acquired all of the shares of a private company. This acquisition added approximately 850 boe/d; 2,521 mboe of proved and probable reserves; and 9,385 net undeveloped acres of land. Vero generated \$24,103 in cash flow for 2006 or \$0.31 per share (basic and diluted). In addition to the acquisition, Vero drilled 35 (21.0 net) wells in its core areas with a 91% success rate. Production volumes rose throughout 2006 to exit the year at approximately 3,900 boe/d.

In 2007, Vero, as well as the whole industry, experienced a stagnation of natural gas prices. Vero was still able to grow in all respects. Vero was able to increase its average production by 92% over the prior year. Cash flow was \$41,284 or \$1.47 per basic share and \$1.46 per diluted share. Virtually all of the production increases were attributable to Vero's drilling of 36 (24.1 net) wells and an 87% success rate. Vero exited the year producing approximately 5,700 boe/d.

2008 was a volatile year for commodity prices. The year started with relatively flat gas and oil prices and escalated to double digit prices for gas and an all time high for oil prices. In the fourth quarter a dramatic slide in oil prices resulting from a global credit crisis and a U.S. recession wreaked havoc on the industry who was geared up for significant growth. Nevertheless, Vero had a productive year, both in drilling and in acquiring. Four acquisitions were made during the year totally approximately 1,700 boe/d of production as well as over 85,000 of net undeveloped acres of land. Cash flow was an all-time high of \$75,601 resulting in \$2.32 (basic) per share. Vero drilled 34 (26.7 net) wells during the year with a 98% success rate.

RISK MANAGEMENT

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

Commodity price and exchange rate volatility

Revenues and consequently cash flows fluctuate with commodity prices and the US/Canadian dollar exchange rate. Commodity prices are determined on a global basis and circumstances that occur in various parts of the world are outside of the control of the Company. The Company protects itself from fluctuations in prices by maintaining an appropriate hedging strategy, diversifying its asset mix and strengthening its balance sheet in order to take advantage of low price environments by making strategic acquisitions. We enter into commodity price contracts to actively manage the risks associated with price volatility and thereby protect our cash flows used to fund our capital program. We have used costless collars and swap contracts to manage these risks and to take advantage of market conditions. Net earnings for the year ended December 31, 2008 included \$1,107 of realized losses on these transactions. There were no contracts outstanding as at December 31, 2008.

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 that results in our realized prices being influenced mainly by the Canadian/U.S. currency exchange rates. The decline in the price of both oil and natural gas during the latter half of the year precipitated a decline in the Canadian dollar relative to the US dollar and one has tended to, at least partially, offset the effects of the other.

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 25th day of the month following delivery. The Company did experience a credit loss on one of its natural gas sales receivables during 2008. However, it was related to a counter-party that was inherited from one of the corporate acquisitions. Steps were immediately taken by the Company to terminate this contract upon its default and move the marketing to one of its mainstream marketers.

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

Access to Capital 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. The Company has made a decided effort to not lock in interest rates at current levels as we view the risk of rates increasing significantly to be minimal. The economy in the United States continues to slow and this will certainly have an impact in Canada. Inflation rates were running at around 2% for 2008. In addition the credit problems in the U.S. did impact the stock market in Canada and both the Canadian and U.S. governments moved to reduce interest rates to mitigate this. There being no perceived upward pressure on interest rates, Vero will maintain its exposure to the spot rates for the near term.

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 of most of the projects we participate in;
- Identifying drilling opportunities with multi-zone prospects; and
- Making prudent use of seismic data to identify prospects – either by purchasing trade data or by shooting it ourselves.

Administrative risks

The increased transparency required by the securities regulators and constantly evolving accounting guidelines dictate significant resources be devoted to these areas. Vero maintains processes designed to comply with the required disclosures; has a strong Board of Directors and engages technical advisors to assist in meeting securities guidelines. In addition the industry is experiencing increased 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.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward. Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

New Alberta Royalty Regime

On February 16, 2007, the Alberta Government announced that a review of the province's royalty and tax regime (including income tax and freehold mineral rights tax) pertaining to oil and gas resources, including oil sands, conventional oil and gas and coal bed methane, would be conducted by a panel of experts with the assistance of individual Albertans and key stakeholders. The review panel produced its report and recommendations on September 18, 2007. The Government of Alberta considered these recommendations and obtained input from the public and the oil and gas sector on the recommendations and on October 25, 2008 issued its decision on the direction of royalties in the province. A summary of the Alberta Governments framework, which will impact Vero is as follows:

Conventional Oil

Price-sensitive and volume-sensitive conventional oil royalty rates will become separate elements within a single sliding rate formula. New royalty rates will range from 0% to 50%, up from the current maximums of 30% and 35% for new and old vintages. Royalties will be calculated on a monthly production rate as is done currently and as collected, reported and used by industry.

The following royalty programs will be eliminated:

- Third Tier Exploratory Well Royalty Exemption
- Re-activated Well Royalty Reduction
- Low Productivity Well Royalty Reduction
- Horizontal Re-entry Well Royalty Program
- Experimental Project Petroleum Royalty

Oil project royalty programs like Enhanced Oil Recovery and the Innovative Energy Technology Program will be retained to encourage research and additional oil recovery. The tiers in conventional oil that distinguish vintages based on the discovery date will be eliminated. Rate caps on price will be raised for conventional oil to \$120 per barrel. Currently, maximum rates are reached at around \$30 per barrel for conventional oil.

Natural Gas

New royalty rates will range from 5% to 50%, up from ranges of 5% to 30% for new and 5% to 35% for old vintages.

The government plans to revamp the Deep Gas Drilling Program. The Government announced that royalty reductions will be available for deep gas wells. Deep gas wells included those over 2,000 meters of drilling length. Included in the deep well regime will be entire length of horizontal wells. The government will raise rate caps on the price of natural gas to \$16.59/GJ. The cap will ensure the royalty system is sensitive over a broad range of prices. Previously maximum royalty rates were reached at around \$3.70/GJ for natural gas.

Royalties for natural gas liquids will now be set at 40% for pentanes, a change from 22-50% for old tiers and 22-35% for new. The new royalties for butanes and propane will be 30%, up from 15-30%. The government will eliminate the option to use the Corporate Average Price to determine natural gas royalties.

For gas processing facilities, the government will move from using corporate effective royalty rates to calculate costs of the Crown's share of capital to establishing facility effective royalty rates. This will improve the link of capital costs for natural gas to a particular facility. The Alberta Royalty Review Panel had recommended going to deemed or set fees, an approach tried before in Alberta, but it does not recognize significant actual cost differences in processing plants. For gathering and compression, the government will continue to use set fees which recognize actual costs. The government will eliminate the tiers in conventional natural gas that distinguish vintages based on the discovery date to simplify the system. The Government views that under current economic conditions the difference between tiers is minimal. The government will retain the Otherwise Flared Solution Gas Royalty (OFSG) Waiver Program and extend it to bitumen wells. This program encourages solution gas conservation, rather than venting the gas, resulting in improved air quality.

In response to the significant reduction in activity and the global economic crisis, on November 19, 2008 the Alberta Government announced that for wells that commenced drilling after this date companies can elect, on a well by well basis to either have the NRF apply to the production from that well or have the old, pre-NRF rates apply for new wells between 1,000 and 3,500 metres in depth. This five-year transitional royalty system is designed to help stimulate drilling in Alberta. Vero will make a determination on each well to see which method is most advantageous.

On March 3, 2009 The Alberta Government released a three-point incentive program aimed at stimulating new and continued economic activity for conventional producers. A summary of the plan is as follows:

The highlights of the province's three-point plan include the following.

- A drilling royalty credit for new, conventional, oil and natural gas wells drilled between April 1, 2009 and March 31, 2010. This one-year program will provide a \$200-per-metre-drilled royalty credit to companies on a sliding scale based on their production levels from the prior year. Based on last years production, Vero will qualify for the maximum credit under this plan.
- A new well incentive program, which offers a maximum five-per-cent royalty rate for the first year of production from new oil or gas wells. This program also commences on April 1, 2009 and runs for one year.
- To encourage the clean-up of inactive oil and gas wells, the province will invest \$30 million in a fund committed to abandoning and reclaiming old well sites.

It is envisaged for 2009 that both the NRF, in combination with low natural gas prices plus the new initiative announced on March 3, 2009 will have a positive impact on Vero's Crown royalty rates.

CRITICAL ACCOUNTING POLICIES AND 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.

Full cost accounting

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells, well equipment, flow-line and facility costs, geological and geophysical expenses and overhead expenses directly related to exploration and development activities. Gains or losses on sales of properties are recognized only when crediting the proceeds to the recorded costs would result in a change of 20% or more in the depletion and depreciation rate. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs are amortized using the unit-of-production method based on estimated proved reserves of petroleum and natural gas before royalties as determined by independent petroleum engineers. Changes in estimated proven reserves or future development costs have a direct impact on depletion and depreciation expense.

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned to them. If proved reserves are assigned to the properties, the costs are included in the depletion calculation.

Oil and natural gas reserves

Estimates of oil and natural gas reserves are projections based on geological and engineering data. There are uncertainties inherent in these projections including the interpretation of data and the projection of future rates or production and the timing of developmental expenditures. Reserve engineering is an analytical process of estimating below ground accumulations of oil and natural gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. The Company's proved oil and gas reserves are evaluated and reported on annually by an independent, qualified, petroleum-engineering consultant. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to a number of uncertainties and various interpretations. The Company expects that over time its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels. Reserve estimates can have a significant impact on net earnings, as they are a key component in the calculation of depletion. A revision to the reserves estimate could result in a higher or lower D,D&A charge to net earnings.

Downward revisions to reserve estimates could also result in a write-down of oil and natural gas property, plant and equipment under the ceiling test described below.

Ceiling test

Under full cost accounting, a ceiling test is performed to ensure that unamortized capitalized costs in each cost center do not exceed their fair value. The carrying value of property, plant and equipment is reviewed annually for impairment. Impairment will occur when the carrying amount of the property, plant and equipment minus the sum of the undiscounted cash flows expected to result from the Company's proved reserves yields a negative result. The cash flows are calculated based on third party quoted forward prices and adjusted for the Company's quality differentials. If there were impairment, the magnitude of it would be calculated by comparing the carrying amount of property, plant and equipment to the estimated net present value of future cash flows from proved plus risked probable reserves. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying value above the net present value of future cash flows would be recorded as a permanent impairment and charged as additional depletion expense in the Statement of Operations and Comprehensive Income. No write-down was required at December 31, 2008.

Goodwill

Goodwill of \$19,913 represents the excess purchase price over the fair value of identifiable assets and liabilities acquired in two private company acquisitions. \$15,034 relates to the corporate acquisition from February 24, 2007 and \$4,879 relates to the acquisition on April 15, 2008. Goodwill is not amortized. However, as per accounting standards, goodwill impairment is assessed annually at December 31, or more frequently as economic events dictate. Impairment is determined by comparing the fair value of the reporting unit to its carrying value, including goodwill. If it is determined that the fair value of the reporting units assets and liabilities is less than its carrying value, an impairment amount is determined by deducting the fair value of the reporting unit from its book value and applying it against the book balance of goodwill. The offset is charged to the Statement of Operations and Comprehensive Income as additional DD&A. As at December 31, 2008 no write-down of goodwill was required.

Asset retirement obligations

The Company recognizes the fair value of an asset retirement obligation ("ARO") in the period in which it is incurred when a reasonable estimate of fair value can be made. The obligations recognized are estimates of statutory, contractual or legal obligations that the Company will reasonably be expected to incur and then discounted to its present value using the Company's credit adjusted risk-free interest rate. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of this accretion is charged to earnings in the period through charges to accretion expense. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded. Revisions to the estimated timing of cash flows or to the

original estimated undiscounted cost would also result in an increase or decrease to the ARO. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in the Company's earnings in the period in which the settlement occurs. Determination of the original undiscounted costs is based on engineering estimates using current costs in accordance with existing legislation and industry practice. The estimation of these costs can be affected by factors such as the number of wells drilled, well depth, estimated future salvage values, location of the well and current environmental legislation. Actual payments to settle the obligations may differ from the estimated amounts.

Future income tax

The Company follows the liability method of accounting for income taxes. Under this method the Company records future income tax assets and liabilities based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) and are measured using the substantively enacted tax rates and laws expected to apply when these differences reverse. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly affect the amount of the future income tax liability calculated at a point in time. These differences could materially impact earnings. The effect of a change in substantively enacted income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

The determination of the Company's income tax liability requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment. The actual income tax liability may differ significantly from the liability estimated or recorded.

Stock-based compensation

The Company has a stock based compensation plan enabling officers, directors and employees to purchase common shares at exercise prices equal to the market price on the date the option is granted. The Company uses the fair value method for valuing stock option grants. Compensation costs attributable to share options granted are measured at their fair value at the grant date and expensed over the expected exercise time period with a corresponding increase to contributed surplus. Upon exercise of the stock options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is credited to share capital. The assumptions used in calculating its stock based compensation expense are: the volatility of the stock price, risk-free rates of return and the expected lives of the options given that some will be forfeited upon termination of employment.

Financial Instruments

Handbook Section 3855 sets out comprehensive requirements for recognition and measurement of financial instruments. Under this standard, an entity would recognize a financial asset or liability only when the entity becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities would, with certain exceptions, be initially measured at fair value. This section became effective from January 1, 2008 onward.

Other estimates

The accrual method of accounting will require management to incorporate certain estimates of revenues, royalties, and production costs as at a specific reporting date but for which actual revenue, royalties and other costs have not yet been received. In addition, the Company must estimate capital expenditures on capital projects that are in progress or recently completed where actual costs have not been received as of the reporting date.

ACCOUNTING STANDARDS CHANGES

Financial Instruments

Vero adopted the following new CICA Handbook Sections effective January 1, 2008:

- Section 1535, “Capital Disclosures”. This section establishes standards for disclosing information about an entity’s objectives, policies and processes for how it manages its capital. A company must also disclose qualitative data about what the entity regards as capital; and whether the company has complied with any capital requirements and if not, the consequences of such non-compliance.
- Section 3862, “Financial Instruments – Disclosures”. This section describes the required disclosures to evaluate the significance of financial instruments for the entity’s financial position and performance as well as the nature and extent of risks arising from both recognized and unrecognized financial instruments to which the entity is exposed and how the entity manages those risks.
- Section 3863, “Financial Instruments – Presentation”. This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of the standards described in Section 3861, “Financial Instruments – Disclosure and Presentation”.

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

Derivatives embedded in other financial instruments or contracts, are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract. The Company has never had any contracts or financial instruments with embedded derivatives that require bifurcation.

Comprehensive income is the change in shareholder’s equity, which results from transactions and events from sources other than the Company’s shareholders. These transactions and events include changes in the currency translation adjustment relating to self-sustaining foreign operations and unrealized gains and losses resulting from changes in the fair value of certain financial instruments. The Company did not have any items to record as transitional adjustments with respect to comprehensive income. Upon adoption of Section 1530, the Company revised the heading on its financial statements from “Statements of Operations” to include the newly

required Statement of Comprehensive Income by creating a combined “Statement of Operations, Comprehensive Income and Retained Earnings”.

Future Accounting Pronouncements

In January 2006, the CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. Effective January 1, 2011, Canadian public companies are required to adopt International Financial Reporting Standards (IFRS). In the time leading up to the conversion date, some existing Canadian standards will change to converge with IFRS. Company's financial statements up to and including the December 31, 2010 financial statements will continue to be reported in accordance with Canadian GAAP as it exists on each reporting date. Financial statements for the quarter ended March 31, 2011, including comparative amounts, will be prepared on an IFRS basis.

In order to transition to IFRS, Management has established a project team. A transition plan has been developed to convert the financial statements to IFRS. Training has been provided to key employees and the Company is monitoring the effect of the transition on information systems, internal controls over financial reporting and disclosure controls and procedures. An analysis of the difference between IFRS and Company's current accounting policies is underway, and the impact of various alternatives is being assessed. Changes in accounting policy are likely and may materially impact the financial statements. Due to anticipated changes in IFRS prior to the conversion date, the final impact of the conversion on Company's financial statements cannot be measured.

In February 2008, 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, 2008 and early adoption is permitted. Vero is currently evaluating the impact this section will have on our results of operations and financial position.

DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES

Disclosure controls

The Company'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 the Company'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 the financial year end of the Company for the foregoing purposes.

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. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2008, the Company's disclosure controls and procedures are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and includes those policies and procedures that:

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

Internal Controls

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal control over financial reporting. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting at the financial year end of the Company and have concluded that such internal control over financial reporting is effective, at the financial year end of the Company, to provide reasonable assurance regarding the reliability of the Company's financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP.

The Company is required to disclose herein any change in the Company's internal control over financial reporting that occurred during the period beginning on October 1, 2008 and ended on December 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. No material changes in the Company's internal control over financial reporting were identified during such period, which has materially affected, or are reasonably likely to materially affect, the Company's internal control 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.