MANAGEMENT, DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Vero Energy Inc. ("Vero" or the "Company") was prepared, and is dated, on March 8, 2010 and is management's assessment of the Company's financial and operating results for the years ended December 31, 2009 and 2008. This MD&A should be read in conjunction with the audited, financial statements of the Company for the year ended December 31, 2009 and 2008 with the notes related thereto. The consolidated financial statements for the year ended December 31, 2009 and December 31, 2008 have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.

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, operations, drilling plans and timing thereof, other capital expenditures and timing thereof, methods of financing capital expenditures and the ability to fund financial liabilities, expected commodity prices and the impact on Vero, the expected impact of the Alberta Royalty Framework and Transitional Royalty program; expected changes 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, the flexibility of capital funding plans and the source of funding therefore; production, marketing and transportation, loss of markets, volatility of commodity prices, the effect of the Company's risk management program, including the impact of derivative financial instruments; 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. The Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

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

Forward-looking information	***Key Assumptions***	***Relevant Risk Factors***
2010 funds flow from operations of $65-70 million	*Dependent on: Vero achieving average production of gas, liquids and oil of between 8,300 to 8,500 boe/d; forward curve estimates for commodity prices and an estimated US/Canadian exchange rate of $0.90-$0.95.*	*Natural gas supply; North American economic activity; liquid natural gas imports; Vero well performance, downtime and drilling success.*
2010 capital spending program of $80-90 million, net of drilling incentives	*Focus will be mainly on drilling 30-40 gross wells and related tie-in costs. Acquisitions and/or dispositions, if any, are not factored into this program.*	*Achieving the projected funds flow from operations; at a minimum maintaining the existing banking credit facility.*
Operating, Transportation and G&A expenses	*Fixed costs will be spread over anticipated increasing volumes; assumes no significant increase in operations beyond current drilling program e.g. acquisition*	*Projected production volumes not achieved; third party processing fee increases; inability to route gas through Vero operated facilities; operating cost increases due to inflation and/or improvement in industry conditions*
Interest costs	*Bank prime rates remain in the 3.5-4% range; no increase in renewal fees from the 35-50 basis point range*	*Capital availability of the banks; Bank of Canada rate increases beyond small increments*
Income taxes	*Commodity prices do not increase significantly from forward numbers; also the Company has generated sufficient exploration projects to satisfy its flow-through share commitment*	*Should prices increase drastically, existing tax pools may not be enough to shield taxable income; if sufficient exploration projects are not generated, investors may not receive their anticipated tax benefits*

Numerical 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 "funds flow from operations", "netbacks" and "net debt", which are terms not recognized under Generally Accepted Accounting Principles ("GAAP"). The Company uses these measures to help evaluate its performance, leverage, and liquidity as well as to assess potential acquisitions.

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

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

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

The Company reconciles funds flow from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with GAAP as follows:

	2009	*2008*
Cash provided by operating activities	***2,144***	*76,038*
Add:		
Change in non-cash working capital	***24,835***	*(659)*
Asset retirement costs incurred	***571***	*222*
Funds flow from operations	***27,550***	*75,601*

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 liquids rich, natural gas but has recently expanded its efforts to explore for oil on its Cardium land inventory. The Company operates in one geographical area – West Central Alberta, Canada. Its main, core producing and exploration assets are located near Edson, Alberta. Vero has a low operating and finding cost structure. 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 into production in a timely manner. Vero has been very successful in keeping the elapsed time between when the well is completed to when it commences producing to a minimum. The Company therefore converts 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 key performance drivers are production and reserves growth per share. A company can increase production as well as reserves, but needs to ask itself at what cost and also 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. 2009 was a challenging year for the industry as it faced rapidly declining commodity prices and a historic credit crisis that curtailed expansion for much of the industry. Achieving any kind of meaningful growth in 2009 was a challenge. In fact, maintenance of existing production and reserves was considered a success for many in the industry.

FINANCIAL HIGHLIGHTS FROM 2009

2009 was a challenging year in many respects. The global credit crisis from late 2008 and extending into 2009 squeezed available capital for the industry. The resulting recession caused demand for natural gas and oil to decline which in turn caused a rapid descent in realized prices. The supply glut continued throughout the summer and fall and this curtailed a significant amount of capital spending for both the industry and Vero. Nevertheless, Vero delivered solid operational results throughout 2009. Vero drilled 16 (13.9 net) wells during the year with a 100% success rate. Aggregate and daily sales volumes grew by 10% wherein we averaged 6,941 boe/d compared to 6,295 boe/d in 2008. Funds flow per share was $0.69 per share (basic and diluted) representing a 70% decrease from $2.32 basic in 2008 ($2.31 diluted). Vero spent $53,514 in executing its own exploration and development program during the year. Some of the more significant components of this amount were: $2,054 on Crown land acquisitions; $37,869 (net of $5,224 in drilling incentive credits) in drilling and completing 13.9 net wells, 11.4 of which were

horizontal wells; and $10,747 equipping and tieing in wells. All of this activity culminated in net debt of $88,911 at the end of the year.

Below is the detailed discussion of the results from 2009 with comparative results to 2008.

DETAILED FINANCIAL REVIEW

PRODUCTION REVENUE AND VOLUMES

Due to lower commodity prices and the uncertain economy, Vero's drilling activity was significantly lower in 2009 compared to 2008. Despite the lower activity Vero was able to increase aggregate production volumes by 10% in 2009 to 2,533,612 boe as compared to 2,303,814 boe in 2008. Vero's primary product, natural gas, had an increase in produced volumes of 13% during the year. Associated natural gas liquids production increased by 26%. Oil production decreased by 42% from 2008 levels mainly as a result of declining production from existing wells. The production mix for 2009 had natural gas contributing 80% of total volumes while liquids came in at 15% and oil was at 5%. This compares to a 78% contribution from natural gas in 2008, while liquids was 13% and oil accounted for 9%. Starting in 2009 and moving into 2010 Vero has made a concerted effort to exploit its Cardium oil prospects and it is therefore expected that the oil contribution will increase in 2010.

Aggregate Sales Volumes

	2009	2008	%
Natural gas (mcf)	**12,220,968**	10,794,364	13
Light/medium oil (bbl)	**119,246**	204,304	(42)
Natural gas liquids (bbl)	**377,539**	300,449	26
Barrels of oil equivalent (boe)	**2,533,612**	2,303,814	10

Daily Sales Volumes

Daily sales volumes increased to 6,941 boe/d in 2009 from 6,295 boe/d in 2008. This represents a 10% increase year over year. While much of the drilling in 2009 was natural gas focused, Vero shifted its drilling efforts near the end of 2009 to its Cardium oil prospects. As a result Vero anticipates higher levels of oil production in 2010.

	2009	2008	%
Natural gas (mcf/d)	**33,482**	29,493	14
Light/medium oil (bbl/d)	**327**	558	(41)
Natural gas liquids (bbl/d)	**1,034**	821	26
Barrels of oil equivalent (boe/d)	**6,941**	6,295	10

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

	2009	2008	%
Edson	**5,042**	4,038	25
Whitecourt	**825**	847	(3)
Corbett	**432**	842	(49)
West Central Alberta	**453**	304	49
Other	**189**	264	(28)
Total	**6,941**	6,295	10

The Wilson Creek properties acquired in 2006 and contained within the West Central Alberta area were sold in the fourth quarter of 2009. The equivalent daily production sold amounted to approximately 280 boe/d.

Benchmark Indices

	2009	2008	%
Natural gas			
NYMEX (US $/mmbtu)	**4.03**	8.92	(55)
AECO- Daily (CDN $/mcf)	**3.96**	8.16	(51)
Crude Oil			
WTI (US $/bbl)	**61.80**	99.65	(38)
Edmonton light (CDN $/bbl)	**65.90**	102.16	(35)
Foreign Exchange			
Canadian to US dollar	**0.88**	0.94	(7)
US to Canadian dollar	**1.14**	1.07	7

United States natural gas prices are usually referenced to the New York Mercantile Exchange Henry Hub in Louisiana (NYMEX), while in Canada the generally recognized benchmark is the AECO hub in Alberta. Gas prices are influenced by a variety of factors such as: weather patterns; LNG imports; supplies in Western Alberta; demand in Eastern Canada and the United States, relative storage levels in North America and alternative fuel sources. AECO benchmark pricing was 51% lower in 2009 compared to 2008. A combination of factors caused the rapid descent in natural gas prices. Starting with high inventories coming out of the 2008-2009 winter, and then adding the effects of the recession that started in late 2008, which in turn caused a collapse in industrial demand, and then adding into the mix the increasing supply from shale gas drilling in the U.S., all combined to cause an over-supply situation in North America. Inventory of natural gas increased during 2009 and has now exceeded the previous five-year average. While last winter was relatively cold in North America, the effects of the cold weather were offset somewhat by the prime consuming regions in the U.S. and Canada experiencing cooler temperatures during the summer, thereby reducing cooling demand. The result during the summer of 2009 was a large storage overhang that did not dissipate. The end result was that natural gas price declines persisted from April through November. AECO gas prices started to rebound in December but the average for the fourth quarter of 2009 was $4.49 per mcf compared to $6.70 per mcf in the same quarter last year.

West Texas Intermediate at Cushing, Oklahoma ("WTI") is the benchmark reference price for North America crude oil prices. Canadian crude prices are based upon postings at Edmonton, Alberta and represent the WTI price adjusted for quality and transportation differentials and the US/Canadian dollar exchange rate. Through 2009, WTI declined 38% to $61.80 from $99.65 during 2008. Partially offsetting

the decline in WTI prices was a 7% depreciation of the Canadian dollar against the US dollar. Therefore Edmonton par prices experienced a slightly lower decline at 35% from last year.

Average commodity prices realized by Vero were as follows:

	2009	2008	%
Natural gas ($/mcf)	**4.33**	8.77	(51)
Light/medium oil ($/bbl)	**59.15**	96.46	(39)
Natural gas liquids ($/bbl)	**48.05**	81.80	(41)
Barrels of oil equivalent ($/boe)	**30.84**	60.32	(49)

Vero sells all of its gas at prices that reflect the AECO daily index pricing. The volatility in commodity prices throughout 2009 caused Vero to realize an overall average price that was 49% lower than 2008. Leading the decrease was realized natural gas prices, which decreased by 51% during the year. However, because of the higher heating quality of Vero's natural gas, we averaged a 9% premium to the AECO standard throughout 2009. Vero's realized oil prices decreased by 39% in 2009 compared to 2008. Correspondingly, natural gas liquids prices showed a 41% decrease in 2009. Although natural gas prices have recovered modestly in December from 2009 lows, concerns over the supply-demand imbalance continue to mute a price recovery in the near term. Vero anticipates that prices will average in the $5.50-$6.00 per mcf range for 2010.

Production revenue

Vero realized a 44% decrease in aggregate revenues in 2009 compared to 2008, which corresponds to the 51% decline in realized commodity prices. Since natural gas represented 80% of total production and gas prices declined by 51%, the result was that natural gas contributed 68% of total revenues. Liquids production was 15% of total volumes but contributed 23% of revenues while oil production was 5% of total volumes and contributed 9% of revenues.

	2009	2008	%
Natural gas	**52,950**	94,678	(44)
Light/medium oil	**7,054**	19,708	(64)
Natural gas liquids	**18,140**	24,576	(26)
Production revenue	**78,144**	138,962	(44)

RISK MANAGEMENT ACTIVITIES

Vero enters into commodity contracts as part of its risk management program so as to manage commodity price fluctuations. This ensures that Vero has sufficient cash to fund its capital program. During 2009 the Company entered into the following financial, commodity-based hedges:

Contract	Amount	Term	Price	Type
Costless collar	1,500 bbl/day	May 1 – December 31, 2009	$62.50 - $68.25/bbl	Financial
Costless collar	1,000 bbl/day	January 1 – March 31, 2010	$60.00 - $80.30/bbl	Financial
Costless collar	500 bbl/day	April 1 – December 31, 2010	$75.00 - $100.00/bbl	Financial
Swap	5,000 gj/day	November 30-December 31, 2009	$4.96/gj	Financial

These hedges are considered to be financial derivatives wherein the fair value of the contract will be recognized on the balance sheet with changes in fair value recorded in income. Vero realized $2,938 in hedging losses during 2009 compared to $1,107 in 2008. The mark-to-market unrealized loss for the hedges in place was $1,245 at December 31, 2009. There was no unrealized loss at December 31, 2008.

For 2010 it is likely that additional hedging contracts will be put into place. Historically, Vero has not been aggressive in using hedging contracts, which has resulted in Vero being exposed to significant positive and negative price fluctuations throughout 2008 and 2009.

ROYALTIES

Royalties were $11,127 for 2009 compared to $35,601 for 2008. One of the major factors that caused the decrease of 69% for the year was the implementation of the New Royalty Framework which came into effect on January 1, 2009. Under this new regime, natural gas liquids have a higher effective royalty rate than in 2008, however the largest portion of our crown royalties relate to gas production. Gas royalties are now very sensitive to gas prices and due to the significant decrease in gas prices during the year, the corresponding crown royalty related thereto has decreased accordingly to rates lower than those in 2008 and prior years. On a per boe basis the royalty rate decreased to $4.39 in 2009 as compared to $15.45 from last year. As a percentage of revenue, the rate for 2009 was lower as royalty expense averaged 14.2% of production revenue in 2009 compared to 25.6% in 2008. In addition to price sensitivity on existing production, the Government of Alberta instituted a new incentive program in response to the downturn in drilling activity. This program created a 5% flat royalty on the first 50,000 boe from wells brought on production after March 31, 2009 and runs until March 31, 2011. The Company anticipates the aggregate royalty rate to average between 15-20% for 2010 based on internal forecasted commodity prices of between $5.50 and $6.00 per mcf. However, this could change significantly as the rates will be dependent on a combination of realized commodity prices, wells depths and how quickly new wells reach their cumulative maximum production for the 5% Crown royalty incentive.

	$			$/boe		
	2009	2008	%	**2009**	2008	%
Crown – gross	**9,146**	31,563	(71)	**3.61**	13.70	(74)
Freehold/gross over-riding	**1,982**	3,966	(50)	**0.78**	1.72	(55)
Total royalties	**11,127**	35,529	(69)	**4.39**	15.42	(72)
ARTC	**-**	72	(100)	**-**	0.03	(100)
Royalty expense, net of ARTC	**11,127**	35,601	(69)	**4.39**	15.45	(72)
Royalties - % of production revenue	**14.2**	25.6	(45)			

OPERATING

Operating costs were $23,254, after processing recoveries or $9.18 per boe for 2009 as compared to $16,704 and $7.25 per boe in 2008. While aggregate operating costs increased 39% year over year, the increase on a per boe basis was less significant at 27%. As a percentage of revenue the rate increased by 148% from 12.0% in 2008 to 29.8% in 2009. The 44% decrease in revenues attributable to lower commodity prices caused this percentage to be much higher than the Company traditionally experiences. 30% of Vero's operating costs relate to processing fees charged by third parties on gas flowing through non-operated facilities. During the portion of the year that Vero was not drilling new wells; significant efforts were placed on optimizing current operations. Higher cost wells were shut-in during the summer and the combination of declining production and static fixed costs caused the per boe rate to increase over 2008 levels. Later in the year, the Company increased its volumes processed through its Edson gas plant by 80% due to its successful drilling program. With its increased production from the fourth quarter of 2009 and first quarter of 2010 drilling programs, Vero expects the per boe rate to decrease in 2010 to between $8.40 to $8.60 as the fixed costs from the gas plant are spread over greater volumes. Also contributing to the expected decrease in 2010 is the effects of the sale of higher operating cost production,

which occured in December. Another operator in the Edson area has experienced a reduction to its operating costs of $0.60/boe as a result of increased throughput. It is expected that these cost savings will be passed on to Vero for production flowing through that plant.

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. Processing income increased by 78% in 2009 mainly as a result of more third party gas being processed through the Vero operated Edson gas plant. There are no long-term fixed contracts in respect of this through-put.

	2009	2008	%
Expense per financial statements	**23,254**	16,704	39
Add: processing income	**858**	480	78
Gross expense	**24,112**	17,184	40
Net expense ($ per boe)	**9.18**	7.25	27
Net expense (% of revenue)	**29.8**	12.0	148

TRANSPORTATION

Transportation expenses were $3,235 for the current year and amounted to 4.1% of production revenue as compared to $2,942 and 2.1% for 2008. The increase in aggregate transportation expense in 2009 was mainly attributable to the increase in natural gas volumes produced during the year. On a per boe basis, the rate was flat with 2008 at $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 2010 is currently expected to be consistent with that of 2009 as the majority of these costs are variable in nature and there are currently no unutilized firm service contracts.

	2009	2008	%
Expense per financial statements	**3,235**	2,942	10
Expense ($ per boe)	**1.28**	1.28	-
Expense (% of revenue)	**4.1**	2.1	95

GENERAL AND ADMINISTRATIVE (G&A)

Aggregate G&A expense, before recoveries, increased 19% during 2009 to $8,224 from $6,901 in 2008. Net G&A increased 31% to $5,851 in 2009 from $4,461 in 2008. The main cause of the increase in G&A was the hiring of additional staff late in 2008 to accommodate additional activity resulting from the acquisitions made in that year. On a per boe basis, the rate increased by 8% on a gross basis to $3.24 and increased by 19% on a net basis to $2.31. Additional per unit G&A costs were mitigated somewhat by the increase in production for the year. Overhead recoveries decreased by 17% in 2009 to $1,451 from $1,752 in 2008. Overhead recoveries are a function of field operating activity as well as the number of wells drilled during the year for which the Company is the operator. As a result of the reduced field activity levels in 2009, the recoveries were correspondingly lower. The Company capitalizes a portion of its G&A

for the salaries of its technical staff, which are directly related to exploration and development activities. G&A capitalized for 2009 was $922, representing a 34% increase from 2008.

Vero anticipates that net G&A cost per boe for 2010 will be in the $2 per boe range as production volumes increase with the associated ongoing current drilling activity. Aggregate G&A costs are expected to remain stable for 2010.

	2009	2008	%
Gross expense	**8,224**	6,901	19
Less:			
Overhead recoveries	**(1,451)**	(1,752)	(17)
Capitalized G&A	**(922)**	(688)	34
Net expense	**5,851**	4,461	31
Average cost ($ per boe)			
Gross expense	**3.24**	3.00	8
Net expense	**2.31**	1.94	19

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 was $4,851 for 2009 compared to $2,575 for 2008. The 88% increase in the current year's expense was due in part to the $1,116 recognition of the unamortized expense associated with cancelling options for non-officer, non-director employees during the second quarter of 2009. In addition, 1,840 new stock options were granted during the year at an average exercise price of $3.83 and average fair value of $1.69 per share for purposes of the expense amortization. The per boe rate increased by 71% to $1.91 in 2009 from $1.12 in 2008.

	2009	2008	%
Expense per financial statements	**4,851**	2,575	88
Expense ($ per boe)	**1.91**	1.12	71

INTEREST AND BANK CHARGES

Interest expense for the third quarter of 2009 increased 72% to $4,406 from $2,559 in 2008. While average, interest-bearing debt increased by 101% in 2009 compared to 2008, the effective interest rate on interest-bearing debt declined by 16% to help offset this. Higher debt levels are attributable to the capital expenditure program throughout the last quarter of 2008 and first quarter of 2009. In addition, the bank debt assumed on the corporate acquisition in November of 2008 contributed to the increase in debt levels coming into 2009. The per boe interest expense rate was $1.74 for 2009 representing a 57% increase from 2008. Bank commitment fees in 2009 became more significant as banks were paid more fees to renew existing bank lines. However, these costs were offset by lower interest rates. It is currently anticipated that the aggregate interest cost will increase in 2010 as Vero's early-year weighted capital program will make more use of the existing bank lines. However, with the anticipated increase in production rates for 2010, Vero anticipates the per boe cost will be in the high $1 to low $2 range.

	2009	2008	%
Interest per financial statements	**4,406**	2,559	72
Deduct: Commitment & other fees	**(435)**	(153)	184
Debt bearing interest	**3,971**	2,406	65
Average bank debt outstanding	**97,402**	48,535	101
Average interest rate	**4.1%**	4.9%	(16)
Average interest cost ($ per boe)	**1.74**	1.11	57

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 $40,917 in 2008 to $47,961 in 2009. The 17% increase was primarily due to the increased depletion base from Vero's 2008 capital spending program. In addition, the 10% increase in production volumes in 2009 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 disposition of some non-core assets assisted in keeping the depletion rate for 2009 consistent with that of 2008. The per boe rate increased by 7% to $18.93 per boe from $17.76 in 2008. 2008 had four accretive acquisitions which in turn kept the rate low during that year. Accretion expense for 2009 increased 47% from 2008 due mainly to new wells being drilled as wells acquired late in 2008 that will now have a full year of accretion. Undeveloped land costs and salvage value totalling $20,157 (2008 - $24,428) been excluded from the depletion and depreciation calculation while $42,169 (2008 - $59,931) of future development costs have been added into the depletion base.

For 2010 we anticipate the DD&A rate to be similar to the rate realized in 2009 as new reserve additions are balanced against the increased cost of finding and developing the reserves.

	$			$/boe		
	2009	2008	%	**2009**	2008	%
Depletion and depreciation	**47,509**	40,609	17	**18.76**	17.63	6
Accretion on asset retirement obligations	**452**	308	47	**0.18**	0.13	38
Total DD&A	**47,961**	40,917	17	**18.93**	17.76	7

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, and future capital development costs. When the carrying amount of a cost center is not recoverable under this test, 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, 2009 there was no impairment based on the independent, third party engineering consultant's report.

INCOME TAXES

Vero had an income tax recovery for 2009 of $6,451 and was comprised entirely of future income taxes. This amount represented a 163% decrease from the tax provision booked in 2008. The tax recovery was mainly the result of the loss incurred in 2009. The rapid decline in commodity prices from 2008 levels was the primary cause of the loss incurred during the year. This in turn yielded a recovery of the future income tax liability.

Pursuant to the Flow-Through share private placement financing, which closed in February of 2008 Vero was committed to renounce $17,945 of Canadian exploration expenses to subscribers by December 31, 2009. As of December 31, 2009, all required amounts had been expended on qualifying expenditures. The tax effects of the renunciations are recorded when the documents relating to the renunciation are filed with the tax authorities. Therefore, the tax effect of the February 2008 flow-through financing was recognized in the first quarter of 2009. At the time the renunciation was made the estimated tax effect of the foregone tax benefits was charged to share capital with a corresponding increase to the future income tax liability. In the first quarter of 2009, $4,844 was recorded as a future tax liability in respect of this renunciation. In addition, Vero entered into another flow-through share private placement in November of 2009 wherein it is required to renounce $12,609 in eligible exploration expenses before December 31, 2010. It is currently anticipated that the tax benefits associated with this renunciation will be recorded as an increase to the future tax liability in the first quarter of 2010.

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

	$			$/boe		
	2009	2008	%	**2009**	2008	%
Future income tax (recovery) expense	**(6,451)**	10,240	(163)	**(2.55)**	4.44	(157)
Effective tax rate (%)	**24.3**	31.9	(24)			

The estimated income tax pools available for deduction into future years are as follows:

Tax Pools	**Rate %**	**2009**	2008
Canadian exploration expenses	100	**19,781**	28,235
Canadian development expenses	30	**92,237**	73,755
Canadian oil and gas property expenses	10	**49,323**	58,346
Undepreciated capital costs	10 - 30	**55,673**	61,177
Financing costs	20% S.L.	**3,665**	3,023
Attributed Canadian Royalty Income	100 (Alberta)	**38**	38
Non-capital losses	100%	**2,227**	3,877
Total		**222,944**	228,451

NETBACKS

Operating netbacks of $15.99 per boe for 2009 were lower by 56% as compared to the $36.34 per boe realized in 2008. The 51% decrease in average commodity prices in 2009 was the largest single contributor to the decline in operating netbacks. While a 72% reduction in royalty expense per boe helped mitigate the decrease in prices, operating costs were 27% higher. Increased production volumes were not enough to offset the increased general and administrative and interest costs during the year. Consequently the per boe rate for these two expense items increased. Increased salary and wage costs increased the G&A rate by 19%. Higher debt levels coming from an active first quarter drilling program coupled with increased bank fees contributed to a 57% increase in interest expense. Realized losses on hedging were $1.16 per boe during 2009. This loss was primarily attributable to Vero's oil hedges. The unrealized loss on hedging contracts was $0.49 per boe in 2009. This loss represents the mark-to-market change in these contracts and may or may not be reflective of the ultimate cash settlements under the contracts. Stock based compensation expense increased significantly as a result of the combination of the acceleration of expense related to certain stock options being cancelled as well as the issuance of new stock options in the latter half of the year. DD&A charges were higher by 7% at $18.93 per boe as the cost of the acquisition throughout 2008 brought a higher rate forward for the full year in 2009. In line with the net loss sustained during 2009, Vero realized an income tax recovery of $2.55 per boe. The end result was net loss for 2009 of $7.91 per boe as compared to net earnings of $9.50 per boe in 2008.

Corporate Netbacks

Corporate operating netbacks ($ per boe)	**2009**	2008	%
Realized price (excluding hedges)	**30.84**	60.32	(49)
Royalties (net of ARTC)	**(4.39)**	(15.45)	(72)
Operating expenses	**(9.18)**	(7.25)	27
Transportation expenses	**(1.28)**	(1.28)	-
Operating netback	**15.99**	36.34	(56)
Realized loss risk management contracts	**(1.16)**	(0.48)	142
G&A	**(2.31)**	(1.94)	19
Interest and bank charges	**(1.74)**	(1.11)	57
Interest income	**0.09**	0.01	800
Funds flow netback	**10.87**	32.82	(67)
Unrealized loss on risk management contracts	**(0.49)**	-	-
Stock based compensation	**(1.91)**	(1.12)	71
D,D&A	**(18.93)**	(17.76)	7
Future income taxes	**2.55**	(4.44)	(157)
Net (loss) earnings	**(7.91)**	9.50	(183)

Operating Netback by Commodity Type

Operating netback – Natural gas ($/mcf)	**2009**	2008	%
Realized price	**4.33**	8.77	(51)
Royalties	**(0.36)**	(2.26)	(84)
Operating expenses	**(1.13)**	(1.10)	3
Transportation costs	**(0.18)**	(0.19)	(5)
Operating netback	**2.66**	5.12	(48)

Operating netback – Crude oil ($/bbl)	2009	2008	%
Realized price	**59.15**	96.46	(39)
Royalties	**(4.61)**	(13.34)	(65)
Operating expenses	**(9.90)**	(8.55)	16
Transportation costs	**(2.01)**	(2.79)	(28)
Operating netback	**42.63**	71.78	(41)

Operating netback - Natural gas liquids ($/bbl)	2009	2008	%
Realized price	**48.05**	81.80	(41)
Royalties	**(16.29)**	(28.33)	(43)
Operating expenses	**(21.78)**	(10.33)	111
Transportation costs	**(2.11)**	(1.22)	73
Operating netback	**7.87**	41.92	(81)

Operating expenses with respect to liquids production are attributable to third party processing fees plus gas plant operating costs, as these represent the incremental charges to extract, collect and transport natural gas liquids.

CASH FLOW AND NET EARNINGS

Funds flow from operations in 2009 was $27,550, representing a decrease of 64% from $75,601 realized in 2008. The decline was largely attributable to the 49% decline is corporate average commodity prices. Likewise, Vero had a net loss for 2009 of $20,056 as compared to earnings of $21,869 in 2008. The combination of: higher operating costs from new wells and workovers; general and administrative costs from increased staff levels; higher interest costs associated with increased bank debt and an increase in the DD&A expense from increased production levels, were only partially offset by the income tax recovery in the period.

	2009	2008	%
Net (loss) earnings	**(20,056)**	21,869	(192)
Adjustments for:			
Unrealized loss on risk management activities	**1,245**	-	-
Stock based compensation expense	**4,851**	2,575	88
Depletion, depreciation and accretion	**47,961**	40,917	17
Future income tax	**(6,451)**	10,240	(163)
Funds flow from operations	**27,550**	75,601	(64)

On a per share basis, Vero had a net loss of $0.50 for both basic and diluted earnings per share for 2009 as compared to $0.67 basic and diluted earnings per share for 2008. Funds flow per share in 2009 was $0.69 for basic and diluted, representing a 70% decrease for both the $2.32 basic and $2.31 diluted per share results from 2008.

Per share data ($)	2009	2008	%
Net (loss) earnings per share			
Basic	**(0.50)**	0.67	(175)
Diluted	**(0.50)**	0.67	(175)
Funds flow per share			
Basic	**0.69**	2.32	(70)
Diluted	**0.69**	2.31	(70)

CAPITAL EXPENDITURES

Vero spent $53,514 in total capital expenditures during 2009. This represents a 50% reduction from $106,347 spent in 2008. During 2009 Vero disposed of some non-core assets for aggregate proceeds of $16,335 and also made a small producing property acquisition of $350. This brought net capital expenditures for the year-to-date in 2009 to $37,529 as compared to $128,685 in 2008, representing a 71% reduction year over year. Vero felt that it was prudent, in this uncertain pricing environment to restrict its spending to maintenance projects after the first quarter of 2009 due to the significantly lower natural gas prices experienced from March onward. From April through August, the Company spent its time and money optimizing its current operations. Limited capital was spent during this time as the commodity pricing and capital market environments were still very much uncertain. However, Vero did commence its drilling operations again in August. From August to December, Vero drilled 9 (7.4 net) wells. Included in the drilling costs is $5,224 in respect of drilling credits from the new Alberta Government drilling incentive program which commenced on April 1, 2009. These credits are eligible as a cash payment to the Company based on Vero's Crown royalty obligations. Vero also spent $2,054 on Crown land acquisitions, adding almost 17,000 net undeveloped acres of land to its inventory mainly in its core areas. Other significant expenditures during the year included: $37,869 in drilling and completing 16 (13.9 net) wells, 13 of which were horizontal wells; and $10,747 equipping and tie-ing in these wells. A breakdown of the costs incurred for each year is as follows:

	2009	2008	%
Exploration and development			
Land acquisitions and lease rentals	**2,054**	5,228	(61)
Geological and geophysical	**2,837**	7,206	(61)
Drilling and completions (net of drilling credits)	**37,869**	68,460	(45)
Well equipment and facilities	**10,747**	25,414	(58)
Total exploration and development	**53,507**	106,308	(50)
Other expenditures	**7**	39	(82)
Total capital expenditures	**53,514**	106,347	(50)
Corporate acquisition (cash outlay)	**-**	2,816	-
Disposals	**(16,335)**	(15)	1,078
Property acquisition	**350**	19,537	(99)
Net capital expenditures before ARO	**37,529**	128,685	(71)
Capitalized asset retirement obligations	**(72)**	1,681	(104)
Total capital additions	**37,457**	130,366	(71)

	2009		2008	
Wells drilled	**Gross**	**Net**	Gross	Net
Exploration	**2**	**2.0**	6	5.1
Development	**14**	**11.9**	27	21.1
Dry holes	**-**	**-**	1	0.5
Total wells	**16**	**13.9**	34	26.7
Success rate (%)	**100%**	**100%**	97%	98%

LAND HOLDINGS

The undeveloped land holdings at December 31, 2009 are as follows:

Area	Gross Acres	Net Acres	Average WI %
Edson	67,840	55,661	82
Whitecourt	39,520	31,700	80
Corbett	19,840	17,498	88
Other Alberta	29,503	18,111	61
Saskatchewan and BC	10,926	10,869	99
Total	167,629	133,839	80

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Funds flow from operations was $27,550 for 2009 compared to $75,601 in 2008. The significant decline in commodity prices was the primary cause for this decrease since production volumes had actually increased by 10% for the year. In addition all cash expenses increased with the exception of royalties which experienced a 69% decrease to $11,127. The decrease in royalties were primarily the result of the commencement of the Alberta Royalty Framework on January 1, 2009, which is sensitive to commodity price changes.

Financing activities

Bank debt increased by $2,300 in 2009 to $77,719. The Company has a $115,000, syndicated, credit facility and is comprised of a combination of: letters of credit, banker's acceptances and a revolving line of credit. The authorized limit is subject to both annual and semi-annual, borrowing base reviews by the syndicate. The facility is available to the Company at their discretion until March 31, 2010. At that date Vero may request a renewal of the facility for a period of up to 364 days. The facility is secured by a $300,000 floating charge debenture over all the assets of the Company.

Advances under the facility are available by way of prime rate loans with interest rates of between 1.75 percent and 3.25 percent over the bank's prime lending rate. In addition to these advances, the Company has access to banker's acceptances and LIBOR loans, which are subject to stamping fees and margins ranging from 2.75 percent to 4.25 percent depending on the debt to cash flow ratio as calculated at the Company's immediately preceding quarters' end. Standby fees are charged on the undrawn facility at rates ranging from 0.6875 percent to 1.0625 percent depending on the debt to cash flow ratio at the Company's previous quarter end. For the year ended December 31, 2009 the effective interest rate of the Company was 4.1%.

Available borrowings on the bank credit facility are limited by the borrowing base, which is established by the bank. The amount of available credit is based mainly upon the value of petroleum and natural gas assets. The most recent formal evaluation by our external engineers determined these reserve values as at December 31, 2008. As of this date the banking syndicate is still reviewing the reserve data as at December 31, 2009. The bank facility is subject to a semi-annual borrowing base review. The semi-annual review was completed in October and no changes made to our existing borrowing base. Corporate working-capital liquidity is maintained by drawing from the unutilized facility as needed and then

repaying it periodically through the receipt of net production related cash flows. The only financial covenant Vero has with respect to its credit facility is that total net debt must not exceed $130,000. Vero was in compliance with this covenant at December 31, 2009.

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. On May 21, 2009 the Company closed a short form prospectus offering for the issuance of 4,000 common shares at a price of $3.75 per share. The net proceeds of issuance of $13,916 were comprised of gross proceeds of $15,000 less expenses of the issue of $1,084. A comparison of the intended use of the proceeds from this equity offering versus the actual use of proceeds is as follows:

Intended use of proceeds	Actual Use of Proceeds	Variance
Initially, to reduce its bank debt outstanding	Proceeds were used to reduce outstanding bank indebtedness	No variances from intended to actual use of funds.

The strengthened balance sheet allowed the Company to withstand the falling gas prices throughout the summer and gave it the opportunity to commence drilling again in August. On November 3, 2009 the Company closed a private placement offering for the issuance of 2,231 Flow-Through common shares at a price of $5.65 per share. The net proceeds of issuance of $11,720 were comprised of gross proceeds of $12,609 less estimated expenses of the issue of $889. A comparison of the intended use of the proceeds from this equity offering versus the actual use of proceeds is as follows:

Intended use of proceeds	Actual Use of Proceeds	Variance
To fund exploration expenses in 2009 and 2010	$884 was expended on qualifying exploration expenses in 2009	The remainder of $11,725 will be spent on qualifying exploration expenses in 2010.

Vero’s stock achieved an increasing level of liquidity throughout the year. For 2009, the stock has traded an average of over 281 shares per trading day in 2009 as compared to an average of 163 shares per day in 2008. Below is a summary of the trading history of the Company’s shares for 2009 and 2008.

	2009					2008				
	YTD	**Q4**	**Q3**	**Q2**	**Q1**	YTD	Q4	Q3	Q2	Q1
High ($)	**5.94**	**5.00**	**4.43**	**4.29**	**5.94**	11.34	7.84	10.90	11.34	8.25
Low ($)	**2.70**	**3.37**	**2.74**	**3.18**	**2.70**	4.48	4.48	6.55	7.50	5.61
Close ($)	**4.43**	**4.43**	**4.06**	**3.24**	**3.28**	5.44	5.44	7.40	9.48	7.65
Volume	**70,898**	**22,072**	**19,792**	**16,617**	**10,562**	41,008	8,313	7,048	15,024	10,624

Net debt of the Company as at December 31, was as follows:

Debt and working capital	**2009**	2008	%
Bank debt	**77,719**	75,419	3
Working capital deficiency	**11,192**	28,492	(61)
Net debt	**88,911**	103,911	(14)
Net debt to funds flow ratios:			
Net debt to trailing annual funds flow	**3.2X**	1.4X	129
Net debt to annualized fourth quarter funds flow	**2.3X**	1.8X	28

Investing Activities

Net capital invested in 2009 decreased by 71% to $37,529 in 2009 as compared to $128,685 invested in 2008. The below table illustrates the sources from which Vero funded its capital program in 2009:

Capital Program Funding	**2009**	2008	%
Cash, beginning of period	**-**	-	-
Funds provided by operations	**27,550**	75,601	(63)
Asset retirement costs	**(571)**	(222)	157
Increase in bank debt	**2,300**	18,417	(88)
Share issuance, net of costs	**25,636**	16,759	53
Option exercises	**-**	4,378	-
Share repurchases	**(86)**	(2,597)	(97)
Loans to officers/director	**(1,939)**	(350)	454
Change in non-cash working capital	**(15,361)**	16,699	(192)
Net capital expenditures	**37,529**	128,685	(71)

Vero continually revisits its capital program as these volatile times dictate good management of the net debt position. The Board approved a capital budget for 2009 of $50 million, before dispositions and not to exceed 10% of this level. The capital program was under constant review during the year as Vero found it prudent to be flexible in this capital budget due to the uncertain commodity price and capital environments. Vero spent slightly more than this budget level coming in at $53.5 million but less than the 10% overage approved by the Board. The capital program was partially funded by the disposition of non-core assets for aggregate proceeds of $16,335. In addition, the equity issuance in November strengthened the balance sheet by the end of the year. The key driver for Vero is to remain flexible in its capital budgeting process and thereby be prepared for the expected upward movement in commodity prices. Vero currently has over 245 identified; drilling locations that can be accessed to take advantage of the commodity price and general economic recovery.

CAPABILITY TO DELIVER RESULTS

Given the current economic and credit environment the capital structure of all businesses is of paramount importance. Maintaining financial flexibility is of critical 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 appreciate significantly.

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 2009 included:

- Bank debt of $77,719.
- Total net debt of $88,911.
- A bank operating line of credit for $115,000.
- Market capitalization of $234,918.

The junior oil and gas segment generally operates with a working capital deficiency. Vero's ability to meets its obligations as they come due are of paramount importance to the Company. Based on current

forecasts of cash flow using 2010 forward strip pricing, Vero will have sufficient resources with its existing capital structure to meet its obligations as they come due during the year.

Capital program for 2010

The capital program for 2010 is under constant evaluation due to the rapidly changing commodity prices. To remain completely flexible, Vero initially set only a first quarter capital budget. The intent of doing this was to let results of that drilling program dictate whether to expand the capital program for the rest of the year or take a less aggressive approach to spending. Consequently, Vero initially set a first quarter, 2010 capital budget of $30 million in November of 2008. Because of Vero's success in late 2009 and early 2010, this budget has now been revised to between $35 and $38 million for just the first quarter of 2010. Vero is currently projecting to spend between $80-90 million (net of drilling incentive credits) on its capital program for the entire 2010 year. Vero's capital budget is designed to be flexible enough to take into account future economic changes throughout the year. To fund its capital program for 2010, Vero will primarily use its projected cash flow for the year of between $65-70 million. In addition, the Company will utilize its bank line of credit for the remainder of the program. As of the end of 2009 the unutilized bank line of credit was approximately $37.3 million. Vero expects that the bank facility will increase from the current level of $115,000 as a result of the annual review which is currently ongoing. 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 Vero's quarterly reporting.

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, 2009 the Corporation had the following related party transactions:

a) One officer and one director of the Company subscribed for 14 Flow-Through common shares at a price of $5.65 per share in the November 3, 2009 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 had $350 of loans outstanding with the Company at the end of 2008. The loans outstanding at the end of 2009 were an aggregate of $2,289. These loans bear interest at the company's rate of borrowing from its banking syndicate plus 25 basis points. Included in accounts receivable balances is $1 of interest receivable from these related parties. $164 of interest was paid on these loans during the year. Subsequent to the year end all of these loans plus accrued interest were repaid to the Company. The business purpose of the loans was to satisfy margin calls in respect of the four individuals who had purchased shares of Vero in 2008. This enabled the individuals to maintain their holdings in Vero during a depressed equity market and thereby support insider ownership of Vero stock. All amounts for principal and interest were repaid in the first quarter of 2010.

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, 2009 Vero is obligated to make the following payments under the terms of long-term contracts or commitments it has entered into:

		Payments Due by Period		
	Total	**Less than 1 year**	**1-3 Years**	**4-5 Years**
Transportation obligations	**1,099**	410	674	15
Office leases	**1,696**	1,045	651	-
Farm-in obligations	**10,100**	10,100	-	-
Flow-through share obligations	**11,725**	11,725	-	-
Total contractual obligations	**24,620**	23,280	1,325	15

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 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 head office space with the lease term commencing March 1, 2008. In addition and as at December 31, 2009 Vero was committed to drill or recomplete 5 (5.0 net) wells in Alberta. All of these projects have commencement dates in 2010. These commitments are pursuant to farm-in agreements with industry partners. The Company expects to satisfy the net portion of this drilling commitment mainly in the first quarter of 2010 at an estimated cost of $10,100.

In addition to the above and pursuant to the flow-through share private placement, which closed in November of 2009 the Company entered into a commitment to renounce $12,609 of exploration expenses to subscribers by December 31 of 2009. The Company has until December 31, 2010 to expend this money on qualifying exploration expenses. As at December 31, 2009, $11,725 was still outstanding on this commitment.

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 8, 2010**	**December 31, 2009**	December 31, 2008
Common shares outstanding	**43,314**	**43,183**	36,969
Stock options outstanding	**4,263**	**4,203**	3,085
Fully diluted shares	**47,577**	**47,387**	40,054
Weighted average common shares			
Basic	**N/A**	**39,762**	32,623
Diluted	**N/A**	**39,762**	32,762

The increase in shares outstanding from December 31, 2009 is attributable to the issuance of 131 thousand shares in February, 2010 in consideration for the acquisition of producing wells along with undeveloped land from an industry partner.

FOURTH QUARTER 2009

Attributable to a lack of drilling new wells during the summer of 2009 and the disposition of 350 boe/d of non-core producing assets, Vero experienced a 4% decrease in production volumes during the fourth quarter of 2009 as compared to the same quarter of 2008. In addition, realized corporate natural gas prices were 41% lower in 2009 compared to 2008 as the North American recession took its toll on continental natural gas demand. Somewhat offsetting the effect of lower gas prices were increases in oil and liquids prices by 32% and 35% respectively. Royalty expense was lower by 74% as the new royalty regime made Crown royalties price sensitive in 2009. The lower gas prices took their toll on the results and in the end Vero achieved funds flow of $15.30 per boe in 2009, which was 31% lower than the $22.06 raelized in fourth quarter of 2008. On a per share basis Vero realized funds flow of $0.23 per share (basic and diluted) which was 43% lower than the fourth quarter of 2008. Vero spent $2,662, net of dispositions, on its capital program for the fourth quarter of 2009. This amount was comprised of: $22,192 spent on its exploration and development program, less drilling credits of $3,691; a producing property acquisition of $350 and dispositions of assets of $16,190. The majority of the capital spending was incurred drilling 8 (6.4 net) wells in the quarter. Operating netbacks averaged $21.94 in the fourth quarter of 2009 as compared to $25.14 in the fourth quarter of 2008. The largest contributor to the decline in funds flow from operations in 2009 was the 27% decline in revenues. The major reason for operating cost increases was a significant increase in third party processing fees attributable to processing gas through non-operated facilities as wells as declining production throughout the year against fixed operating costs. The DD&A rate for the fourth quarter of 2009 was 8% lower than 2008 due to the disposition in the fourth quarter as well as the addition of new proved reserves from the quarters' drilling program. Specific highlights of the fourth quarter are as follows:

	Three months ended,		
	December 31, 2009	December 31, 2008	%
Financial ($000's)			
Production revenue	**22,500**	30,859	(27)
Funds flow from operations	**9,538**	14,370	(34)
Basic - per share ($/share)	**0.23**	0.40	(43)
Diluted - per share ($/share)	**0.23**	0.40	(43)
Net loss	**(931)**	(1,075)	(13)
Basic - per share ($/share)	**(0.01)**	(0.03)	67
Diluted - per share ($/share)	**(0.01)**	(0.03)	67
Capital expenditures (net)	**2,662**	44,152	(94)
Net debt	**88,911**	103,911	(14)
Share Capital (000's)			
Basic, weighted average	**42,359**	35,431	20
Basic, end of period	**43,183**	36,969	17
Diluted	**42,359**	35,431	20
Fully diluted	**47,387**	40,054	18
Daily Sales Volumes			
Natural gas volumes (mcf/d)	**32,206**	33,429	(4)
Light/medium oil ($/bbl)	**280**	486	(42)
Liquids (boe/d)	**1,127**	1,018	11
Corporate (boe/d)	**6,775**	7,076	(4)
Average Prices Realized			
Natural gas ($/mcf)	**4.94**	8.43	(41)
Light Oil ($/bbl)	**74.19**	56.20	32
Liquids ($/bbl)	**57.36**	42.34	35
Corporate ($/boe)	**36.10**	49.80	(28)
Netbacks ($/boe)			
Production revenue	**36.10**	49.80	(28)
Royalties	**(3.35)**	(13.03)	(74)
Operating	**(9.57)**	(10.31)	(7)
Transportation	**(1.24)**	(1.32)	(6)
Operating netback	**21.94**	25.14	(13)
Realized loss on risk management contracts	**(2.51)**	-	-
General and administrative	**(2.30)**	(1.90)	21
Interest expense	**(2.08)**	(1.20)	73
Interest and other income	**0.25**	0.02	1,150
Funds flow netback	**15.30**	22.06	(31)
Unrealized gain (loss) on hedging contracts	**1.33**	(2.48)	(154)
Stock-based compensation	**(1.01)**	(1.93)	(48)
DD&A	**(17.47)**	(18.94)	(8)
Future tax recovery (expense)	**0.35**	(0.38)	(192)
Net loss	**(1.50)**	(1.67)	(10)

SELECTED QUARTERLY INFORMATION

Below is summarized quarterly information for the previous eight quarters.

(000's except as noted)	**December 31, 2009**	September 30, 2009	June 30, 2009	March 31, 2009
Production (boe/d)	**6,775**	6,610	7,040	7,352
Average prices realized ($/boe)	**36.10**	24.64	27.49	33.45
Production revenue	**22,500**	15,897	17,612	22,135
Net earnings (loss)	**(931)**	(3,682)	(10,748)	(4,695)
Basic - per share ($/share)	**(0.01)**	(0.08)	(0.28)	(0.13)
Diluted - per share ($/share)	**(0.01)**	(0.08)	(0.28)	(0.13)
Funds flow	**9,538**	4,044	5,767	8,201
Basic - per share ($/share)	**0.23**	0.09	0.15	0.22
Diluted - per share ($/share)	**0.23**	0.09	0.15	0.22
Total assets	**343,954**	342,106	349,482	364,612
Net capital expenditures	**2,662**	4,973	1,717	28,177
Long term financial liabilities	**-**	-	-	-
Net debt	**88,911**	106,936	106,000	123,973
Dividends paid	**-**	-	-	-

(000's except as noted)	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 ($/boe)	**49.80**	55.78	76.30	59.35
Production revenue	**30,859**	33,495	43,440	31,168
Net earnings	**(1,075)**	10,421	8,740	3,783
Basic - per share ($/share)	**(0.03)**	0.31	0.26	0.13
Diluted - per share ($/share)	**(0.03)**	0.31	0.26	0.13
Funds flow from operations	**14,370**	16,584	26,805	17,842
Basic - per share ($/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 (surplus)	**103,911**	67,725	38,428	50,527
Dividends paid	**-**	-	-	-

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

- Petroleum and natural gas sales are impacted by production levels and volatile commodity pricing. Production levels are impacted by decline rates and the Company's capital program. Commodity prices are affected by both domestic and international factors that are beyond the control of the Company. In addition, royalties are impacted by the underlying commodity prices.
- Commencing with the third quarter of 2008 and continuing into the third quarter of 2009, revenue has been negatively impacted by the decreases in both oil and natural gas prices. Vero is predominantly a

natural gas producer and commencing with the first quarter of 2009, the rapid decline in natural gas prices has exacerbated the decline in revenues.

- Production in the fourth quarter of 2008 increased significantly as a result of a corporate acquisition which added approximately 850 boe/d. However, as the severe decline in natural gas prices continued into the second and third quarter of 2009, the Company chose not to spend its capital drilling wells and produce new volumes into what Vero believes were unprofitable gas prices. With no new wells drilled, declines took their toll on corporate production.
- Production in the second quarter of 2008 increased significantly due to a corporate acquisition of approximately 500 boe/d. The assets acquired were exclusively natural gas and liquids production as well as undeveloped lands.
- Throughout the first two quarters of 2008 while commodity prices were rapidly increasing, so was the cost of doing business. Operating expenses, general and administrative costs and capital costs were all subject to significant inflationary pressures that the demand for scarcer services brought on. By the fourth quarter of 2008, the global economic crisis took full effect and while these inflationary pressures subsided, the demand for commodities was curtailed, thereby increasing supply and compounding what was to become a significant downturn in prices.
- During the second quarter of 2009, the Company's net loss was increased by a large mark-to-market unrealized loss on its oil hedge. Almost half of the loss for the quarter was attributable to this loss.
- In the third quarter of 2009 the Company was faced with decade low natural gas prices. It conserved capital and spent only on optimization projects at the beginning of the quarter. At the end of August the Company spudded a horizontal well and another in September. The drilling initiatives had two purposes. The first was to take advantage of the new Alberta Government Drilling Incentive Credits and then second was to start taking advantage of the early signs that gas prices were turning upward.
- In the fourth quarter of 2009 the Company embarked on two initiatives to prepare itself financially for the 2009/2010 drilling season. First the Company completed a Flow-Through share private placement which brought in net proceeds of $11,720. On December 1, the Company disposed of $16,190 of non-core producing assets. Both of these initiatives significantly reduced the net debt outstanding in order that the Company would be able to complete its winter drilling season and also prepare itself for any sustained low commodity prices. Vero drilled 8 (6.4 net) wells in the fourth quarter and generated funds flow from operations of $9,538.

SELECTED ANNUAL INFORMATION

	2009	2008	2007	2006
Production (boe/d)	**6,941**	6,295	4,709	2,453
Petroleum and natural gas sales	**78,144**	138,962	82,063	43,948
Funds flow from operations	**27,550**	75,601	41,284	24,103
Per share – basic	**0.69**	2.32	1.47	0.98
Per share – diluted	**0.69**	2.31	1.46	0.98
Net (loss) earnings	**(20,056)**	21,869	3,164	1,035
Per share – basic	**(0.50)**	0.67	0.11	0.04
Per share – diluted	**(0.50)**	0.67	0.11	0.04
Total assets	**343,954**	352,472	207,051	166,858
Net capital expenditures	**37,529**	128,685	71,453	75,754
Long term financial liabilities	**-**	-	-	-
Net debt	**88,911**	103,911	61,774	49,540
Dividends paid	**-**	-	-	-

The Company has been operating since November 2, 2005. 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. Funds 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. A successful drilling program coupled with the four acquisitions during the year culminated in the exit rate of production of 7,800 boe/d.

In 2009 the year started with a reasonable gas price but quickly proceeded to decline as the global recession took hold. Credit markets tightened significantly and the Company and indeed the industry were faced with restrictions on borrowing bases as well as higher fees to renew its credit facilities. The gas prices worsened throughout the year and in August the price sunk to a to a seven year low. While oil prices declined early in the year, they rebounded by mid-year. Since Vero has 80% of its production as natural gas the negative impact of prices caused funds flow and earnings to decline rapidly. Vero conserved its available capital and spent money only where needed in the second and third quarters to optimize existing production. Funds flow for the year was $27,550 or $0.69 per share (basic and diluted) representing a 64% decrease from 2008. The Company strengthened its balance sheet in the fourth quarter with an asset dispositions and a private placement. Vero commenced drilling again in August and ended 2009 drilling 16 (13.9 net) wells. Net debt at year end was $88,911.

RISK MANAGEMENT

The risks in the oil and gas industry are varied and wide-ranging. One of the major risks the industry faces is the volatility of commodity prices. This volatility can cause entities to make drastic changes to their plans and forecasts, especially if prices decline rapidly. The Company enters into derivative risk management contracts from time to time in order to reduce volatility in its financial results and to ensure a certain level of funds flow to fund planned capital expenditures. All of the Company's financial derivative trading activities are conducted in accordance with the Company's risk management policies, which are approved by the Board of Directors.

The primary risks and how the Company mitigates them are as follows:

Commodity price risk

Vero's strategy focuses on the use of puts, swaps, costless collars and fixed price contracts to limit exposure to downturns in commodity prices while allowing, to the maximum extent possible, participation in commodity price increases. Revenues and the resulting funds flows fluctuate with commodity prices, which are tied directly to the US/Canadian dollar exchange rate. Commodity prices are determined on a global basis and circumstances that occur in various parts of the world are outside of the control of the Company. The Company protects itself from fluctuations in prices by maintaining an appropriate hedging strategy, diversifying its asset mix and strengthening its balance sheet in order to take advantage of low price environments by making strategic acquisitions. We enter into commodity price contracts to actively manage the risks associated with price volatility and thereby protect our funds flows, which are used to fund our capital program. The following contracts were outstanding throughout 2009:

Commodity	Notional Quantity	Term	Price (CDN $)	Option Traded	Realized loss (1)	Fair Value	Change in Fair Value (1)
Oil	1,500 bbl/day	May 1 – December 31, 2009	$62.50-$68.25 /bbl	Collar	(3,053)	(486)	(486)
Natural Gas	5,000 gj/day	November 1 – December 31, 2009	$4.96 /gj	Swap	115	-	-
Oil	1,000 bbl/day	January 1 – March 31, 2010	$60.00-$80.30 /bbl	Collar	-	(503)	(503)
Oil	500 bbl/day	April 1 – December 31, 2010	$75.00-$100.00 /bbl	Collar	-	11	11
Total					(2,938)	(978)	(978)

(1) The realized loss and change in fair value is for the year ended December 31, 2009.

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

Foreign Exchange risk

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

Interest rate risk

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

contracts to mitigate its exposure to interest rate risk. The Company had the following interest rate swap in place at December 31, 2009.

Contract	Notional Quantity	Term	Reference	Type	Realized gain (loss)	Fair Value	Change in Fair Value (1)
BA Rate	$25,000/year	January 4, 2010– January 3, 2012	CAD-BA - CDOR	2.05%	-	(267)	(267)

(1) The change in fair value is for the year ended December 31, 2009.

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

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.

Loans receivable have credit risk associated with them as they are only secured with personal guarantees of the borrower. Since all of the recipients of the loans were senior officers, plus one director of the Company and the prospects for their continued association with the Company were excellent, no additional security was requested. All of these loans were repaid to the Company in February of 2010.

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. Vero mitigates this risk by using a syndicate of banks for its debt facilities; issuing flow-though shares to fund its exploration program; issuing equity to reduce debt, fund acquisitions or expand its development program; or disposing of non-core assets.

The maturing Western Canadian Sedimentary Basin

Land and producing assets are becoming increasingly scarce and more expensive. In the middle of 2009 land sales prices were lower than previous years due the state of the economy. Towards the end of 2009 land sale activity increased and prices rose accordingly as the economy and commodity prices rose. The Company mitigates these risks by developing its core areas to gain efficiencies. In addition, the Company participates in 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 several years. There was a softening of service costs in the mid to latter part of the year as activity levels were reducing alongside the commodity price declines. Vero's capital program strives to replace reserves through its organic capital program. Significant capital is required to counteract the declines from existing wells. Vero primarily directs its capital to its core areas, thereby allowing it to leverage its knowledge and experience. The Company mitigates risks by bidding out work to the extent possible, and where warranted entering into strategic joint ventures or farm-outs to reduce exposure to projects that are deemed to have unacceptably high risk associated with them. The Company employs experienced and motivated staff to evaluate and generate high quality, but lower risk 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.

Adverse Well or Reservoir Performance

While Vero's experience within the areas it operates in is reasonably predictable, predicting changes in the performance of wells is not a perfect science. Performance changes for wells in any number of producing reservoirs could result in the limitation or termination of production, or the acceleration of decline rates. This could lead to reduced corporate production volumes and the resulting revenues. Furthermore, new wells, particularly new horizontal wells tend to produce at high initial rates followed by rapid declines until production levels flatten out. While Vero strives to bring its newly drilled wells onto production in an expedient manner, the timing of the tie-in of new wells could affect production levels from quarter to quarter.

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, directors and certain key consultants 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. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation 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. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it will be in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". 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. Recently, representatives from approximately 170 countries met in Copenhagen, Denmark to attempt to negotiate a successor to the Kyoto Protocol. The result of such meeting was the Copenhagen Accord, a non-binding political consensus rather than a binding international treaty such as the Kyoto Protocol. The Corporation's exploration and production facilities and other operations and activities emit greenhouse gases and require the Corporation to comply with Alberta's greenhouse gas emissions legislation contained in the Climate Change and Emissions Management Act and the Specified Gas Emitters Regulation. The Corporation will also be required comply with the regulatory scheme for greenhouse gas emissions ultimately adopted by the federal government, which are now expected to be consistent with the regulatory scheme for greenhouse gas emissions adopted by the United States. The direct or indirect

costs of these regulations may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. The future implementation or modification of greenhouse gases regulations, whether to meet the limits required by the Kyoto Protocol, the Copenhagen Accord or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Corporation. 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 on the Corporation and its operations and financial condition.

Alberta enacted the *Climate Change and Emissions Management Act* (the "CCEMA") on July 1, 2007, amending it through the *Climate Change and Emissions Management Amendment Act* which received royal asset on November 4, 2008. The CCEMA is based on an emissions intensity approach similar to the Updated Action Plan and aims for a 50% reduction from 1990 emissions relative to GDP by 2020.

Alberta facilities emitting more than 100,000 tonnes of greenhouse gases a year are subject to comply with the CCEMA. Similarly to the Updated Action Plan, the CCEMA and the associated *Specified Gas Emitters Regulation* make a distinction between "Existing Facilities" and "New Facilities". Existing Facilities are defined as facilities that completed their first year of commercial operation prior to January 1, 2008 or that have completed 8 or more years of commercial operation. Existing Facilities were required to reduce their emissions intensity by March 31, 2008 by 12% from a baseline established by their average emissions intensity between 2003 and 2005. New Facilities are defined as facilities that completed their first year of commercial operation subsequent to December 31, 2008, have completed less than 8 years of commercial operation, or are designated as New Facilities in accordance with the *Specified Gas Emitters Regulation*. New Facilities are also required to reduce their emissions intensity by 12% but this target is based on the emissions intensity of the facility in its third year of commercial operation and does not apply during the first 3 years of operation of the New Facility. Unlike the Updated Action Plan, the CCEMA does not contain any provision for continuous annual improvements beyond the 12% emissions intensity required.

The CCEMA contains similar compliance mechanisms as the Updated Action Plan. Regulated emitters can meet their emissions intensity targets by contributing to the Climate Change and Emissions Management Fund (the "Fund") at a rate of $15 per tonne of CO_2 equivalent. Unlike the Updated Action Plan, CCEMA contains no provisions for an increase to this contribution rate. Emissions credits can be purchased from regulated emitters that have reduced their emissions below the 100,000 tonne threshold or non-regulated emitters that have generated emissions offsets through activities that result in emissions reduction in accordance with established protocols published by the Government of Alberta. Unlike the Updated Action Plan, the CCEMA does not contemplate a linkage to external compliance mechanisms such as the Kyoto Protocol's Clean Development Mechanism.

Global Financial Crisis

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 throughout the year. These conditions worsened in early 2009; however improvements were realized in the third and fourth quarters of 2009. While there were positive signs in the Canadian economy, the US has been sluggish. This is still causing confidence in the broader U.S. and global credit and financial markets to be tentative. Global government intervention in major banks, financial institutions and insurers has assisted the situation but many of these programs have now terminated. It is yet to be seen how long the recession will last. In the interim, banks have remained cautious and the oil and gas industry still comes to terms with a large natural gas storage overhang. 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.

THE ALBERTA ROYALTY FRAMEWORK AND NEW GOVERNMENT INCENTIVES

On October 25, 2007 the Alberta Government issued its final report on the direction of royalties in the province, which was entitled "The New Royalty Framework" ("NRF"). The *Mines and Minerals (New Royalty Framework) Amendment Act, 2008* which contained the new NRF legislation was given royal assent on December 2, 2008. The NRF and its applicable legislation became effective on January 1, 2009. The NRF establishes new royalty rates for conventional oil, natural gas and oil sands.

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 new transitional royalty rates apply for new wells with depths between 1,000 and 3,500 metres. 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, 2011. This two-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 up to 500 mmcf of natural gas or 50,000 bbl of oil whichever comes first**.** This program also commences on April 1, 2009 and runs for two years.
- 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.

For 2009, both the NRF, in combination with low natural gas prices plus the new initiative announced on March 3, 2009, has already has a positive impact on Vero's Crown royalty rates. It is envisioned that these benefits will continue into 2010 given the current environment. In addition the new drilling incentive credit is providing Vero with an opportunity to maximize its rates of return on its horizontal wells. With the credits being earned on measured depths, Vero has already commenced the utilization of this benefit in the third quarter of 2009 with two new horizontal wells.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management is 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. The following outlines the accounting policies and practices involving the use of estimates that are critical in determining Vero's financial results:

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 commodity prices which are the average of the four largest engineering evaluation firm's 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. Vero uses a 5% 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, 2009.

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, then a second test is performed to determine the amount of the impairment. The impairment amount is determined by deducting the fair value of the reporting unit's assets and liabilities from the fair value of the reporting unit to determine the implied fair value of the goodwill and comparing that value to the carrying amount of the goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impairment amount. The impairment amount is charged to the Statement of Operations and Comprehensive Income as additional DD&A. The fair value used in the impairment test is based on estimates of discounted future cash flows which involve assumptions on commodity prices, oil and gas reserves, future expenses and discount rates. Given the economic conditions experienced in 2009, impairment was tested at each of the reporting periods as well as at December 31, 2009. No write-down of goodwill was required in 2009.

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 to retire producing well sites and natural gas processing facilities. These estimates are then discounted to their present value using the Company's credit adjusted risk-free interest rate (Vero used 8% for 2009). 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 and the related asset retirement cost. 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. As such, income taxes are subject to measurement uncertainty and the interpretations can impact net earnings through the income tax expense and the future income tax assets and liabilities. 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 the 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. Derivative instruments that do not qualify or are not designated as hedges are recorded at fair value. Financial assets and financial liabilities would, with certain exceptions, be initially measured at fair value and any changes in fair value recognized in net earnings. Realized gains or losses related to natural gas, oil and interest rate derivatives are recognized in net earnings as they are settled. Unrealized gains or losses are recognized in net earnings at the end of each reporting period. The estimate of fair value of all derivative instruments is based on quoted market prices. The estimated fair value of financial assets and liabilities is subject to measurement uncertainty.

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

Accounting Standard Changes

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

Future Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

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

IFRS Changeover Plan

The CICA's Accounting Standards Board confirmed in February of 2008 that IFRS will replace Canadian GAAP in 2011 for Canadian publicly accountable enterprises. Vero will therefore be required to report its results in accordance with IFRS commencing in 2011. The Company has developed a changeover plan to compete the transition to IFRS by January 1, 2011 including the preparation of 2010 comparative information. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure. Vero has undertaken to assess the potential impacts of the transition to IFRS. The key elements of Vero's changeover plan are as follows:

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

Vero has completed phase one and is well entrenched in phase two. Some work has been done in phase three as well. Vero has analyzed its accounting policy alternatives and come up with its preliminary draft of accounting policies. These accounting policies are expected to be finalized by the middle of 2010.

Impact of IFRS on Accounting Policy Changes

The areas that will have the most significant impact on Vero's financial statements and which are affected by the IFRS changeover are: property, plant and equipment, asset retirement obligations; asset impairment testing; and income taxes. Following is an overview of these areas.

Property, Plant and Equipment
Under Canadian GAAP Vero currently follows the CICA's guideline of full cost accounting under which all costs directly associated with the acquisition of, exploration for and development of oil and gas reserves are capitalized on a country by country cost centre basis. Costs accumulated within each cost centre are depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs.

The International Accounting Standards Board (IASB) has issued an exposure draft relating to certain amendments to IFRS 1 which addresses first time adoption of IFRS. The IASB is proposing additional optional exemptions, one of which relates to full cost oil and gas accounting, resulting in a reduced administrative transition from the current Canadian full cost accounting for oil and gas activities to IFRS. The exemption would permit the Company to measure exploration and evaluation assets under IFRS at the carrying amount determined under GAAP at the date of transition to IFRS. In addition, the carrying amount under GAAP of production or development assets could be allocated on a pro rata basis to the underlying assets using either reserve volumes or reserve values at the date of transition. The assets to which this exemption is applied would be required to be tested for impairment at the date of transition under IFRS standards. Vero intends to adopt the IFRS 1 exemption. On January 1, 2010 the IFRS exploration and evaluation costs will be equal to the Canadian GAAP unproved properties balance and the IFRS development costs will be equal to the full cost pool balance. Vero will allocate the full cost pool over reserves to establish the area level depletion units.

Under IFRS pre-exploration costs which are those costs incurred prior to obtaining the legal right to explore must be expensed. Development costs include those expenditures where technical and commercial viability have been determined. Under IFRS Vero will capitalize these costs and the costs will be depleted on a unit-of-production basis over an area level as opposed to the country cost centre level that is used under Canadian GAAP. Vero has finalized the areas to be utilized in the unit-of-production depletion calculation. Furthermore, under IFRS, divestitures will generally result in a gain or loss which will be recognized in net earnings. Under Canadian GAAP, proceeds from divestitures are normally deducted from the full cost pool and no gain or los would result unless the deduction would result in a change to the depletion rate of 20 percent or greater.

Asset Retirement Obligations ("ARO")
Currently under Canadian GAAP, ARO is measured as the estimated fair value of the retirement expenditures expected to be incurred in the future. A credit-adjusted risk-free rate is used to present-value the future estimated costs. In addition, existing liabilities are not re-measured at reporting dates using current discount rates. Under IFRS, ARO is measured as the best estimate of the expenditure to be incurred and will require the use of current discount rates at each measurement date. As a result of the IFRS 1 exemption, Vero will be required to revalue its January 1, 2010 ARO balance and recognize this adjustment into retained earnings.

Asset Impairment Tests
Under Canadian GAAP, Vero is required to recognize an impairment loss if the carrying amount exceeds the undiscounted cash flows from proved reserves for the country cost centre. If an impairment loss is recognized, the loss is measured as the amount by which the carrying value exceeds the sum of the fair value of the proved and probable reserves plus the costs of unproved properties. Under IFRS, Vero will

be required to recognize an impairment loss if the carrying value exceeds the recoverable amount for a cash-generating unit. Under IFRS, the recoverable amount is the higher of the fair value less the cost to sell and the value in use. Impairment losses are reversed when there is an increase in the recoverable amount. Vero has ascertained its cash-generating units based on the independence of cash flows from other assets or other groups of assets.

Income Taxes

Vero's future income tax liability will be impacted by the restatements and the adoption of the IFRS changes noted above. The requirements under IFRS for future income taxes are similar to those required under Canadian GAAP and should not have a significant impact on the Company's financial statements.

The differences described above are those existing based on Canadian GAAP and IFRS pronouncements that currently exist. These differences should not be regarded as being complete as the intention is to highlight those areas believed to be the most significant to Vero. Furthermore, the IASB has significant on-going projects that could affect the Company's financial statements in future years.

Other Recent Accounting Pronouncements

Vero will be required to adopt the following CICA Handbook sections as of January 1, 2011:

- The CICA issued Handbook Section 1582 *Business Combinations*, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2011. The new standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the acquisition date. The adoption of the revised standard is expected to impact Vero's financial statements only to the extent that business combinations are entered into after the effective date.

- "Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replaces the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. It is not anticipated that the adoption of this standard will have a material impact on Vero's Consolidated Financial Statements.

- "Non-controlling Interests", Section 1602. The standard establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. It is not anticipated that the adoption of this standard will have a material impact on Vero's Consolidated Financial Statements.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

Vero’s Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company’s financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting at the financial year end of the Company. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2009, the Company’s internal controls and procedures over financial reporting are effective at the financial year end of the Corporation for the foregoing purpose.

Vero's Chief Executive Officer and Chief Financial Officer are required to cause the Company to disclose herein any change in Vero’s internal controls over financial reporting that occurred during the period beginning October 1, 2009 and ending on December 31, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in Vero's internal controls over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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