

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 7, 2011 and is management's assessment of the Company's financial and operating results for the years ended December 31, 2010 and 2009. This MD&A should be read in conjunction with the audited financial statements of the Company for the years ended December 31, 2010 and December 31, 2009 with the notes related thereto.

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

READER ADVISORIES

Forward Looking Statements

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

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

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

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

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

The following table outlines Vero's updated forward-looking information included in, and as of the date of 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:

<i>Forward-looking information</i>	<i>Key Assumptions</i>	<i>Relevant Risk Factors</i>
<i>2011 funds flow from operations of \$80-85 million</i>	<i>Dependent on: Vero achieving average production of gas, liquids and oil of between 10,000 to 10,500 boe/d; natural gas price of \$4/mcf CDN and oil price of \$99/bbl CDN and an estimated US/Canadian exchange rate of \$0.95-\$0.98.</i>	<i>Natural gas supply levels; North American economic activity; liquid natural gas imports; Vero well performance, downtime and drilling success.</i>
<i>2011 exploration and development capital program of approximately \$100 million</i>	<i>Focus will be mainly on drilling 26-28 net wells and related tie-in costs. Acquisitions and/or dispositions, if any, are not factored into this program.</i>	<i>Achieving the projected funds flow from operations; at a minimum maintaining the existing banking credit facility.</i>
<i>Operating costs per boe revised downward to \$7.50-\$7.75 range, Transportation costs of \$1.60- \$1.75 per boe range</i>	<i>Fixed costs will be spread over anticipated increasing volumes; assumes no significant increase in operations beyond the current drilling program(e.g. an acquisition)</i>	<i>Projected production volumes not achieved; third party processing fee increases; inability to route gas through Vero operated facilities; operating cost increases due to inflation and/or improvement in industry conditions.</i>
<i>Interest costs</i>	<i>Bank prime rates remain in the 3-4% range. No changes to previous guidance.</i>	<i>Capital availability of the banks; Bank of Canada rate increases beyond small increments.</i>

<p><i>Income taxes – no current income tax is projected to be payable for 2011</i></p>	<p><i>Commodity prices do not increase significantly from forward numbers. No changes to previous guidance.</i></p>	<p><i>Should prices increase significantly, existing tax pools may not be enough to shield taxable income; if sufficient exploration projects are not generated, investors may not receive their anticipated tax benefits.</i></p>
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Dollar Amounts

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

Non-GAAP Terms

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

The Company considers funds flow from operations (also referred to as “funds flow”) a key measure as it demonstrates the Company’s ability to generate funds necessary to repay debt and to fund future growth through capital investment. Funds flow from operations should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with 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 loss 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 loss per share, which per share amount is calculated under GAAP and is more fully described in the notes to the financial statements.

The Company considers corporate netbacks as a key measure as it demonstrates its profitability relative to current commodity prices. Corporate netbacks are comprised of operating, funds flow and net loss netbacks. Operating netback is calculated as the average sales price of its commodities, 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, plus or minus gains/losses on realized risk management activities. To calculate the net loss netback, Vero takes the funds flow netback and deducts unrealized gains/losses on risk management activities, stock based compensation expense, depletion, depreciation and accretion charges and future income taxes. There is no GAAP measure that is reasonably comparable to netbacks. See the section below entitled “Operating Netbacks by Product” for calculations of operating netbacks for each commodity type.

Net debt and working capital deficiency, which terms represent current assets less current liabilities and bank debt is used to assess efficiency, liquidity and the general financial strength of

the Company. Mark-to-market financial contracts are excluded from the net debt calculation. There is no GAAP measure that is reasonably comparable to net debt and working capital.

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

	2010	2009
Cash provided by operating activities	61,083	2,144
<u>Add (deduct):</u>		
Change in non-cash working capital	(4,652)	24,835
Asset retirement costs incurred	341	571
Funds flow from operations	56,772	27,550

Barrel of Oil Equivalents

Where amounts are expressed in a barrel of oil equivalent (“boe”), or barrel of oil equivalent per day (“boe/d”), natural gas volumes have been converted to barrels of oil equivalent at 6 thousand cubic feet (“mcf”) to one barrel. Use of the term boe may be misleading particularly if used in isolation. The boe conversion ratio of 6 mcf to 1 barrel (“bbl”) of oil or natural gas liquids is based on an energy equivalency conversion methodology primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms to the Canadian Securities Regulators’ National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

HIGHLIGHTS FROM 2010

While the fourth quarter of 2010 was met with a continued low natural gas price environment, Vero managed to deliver a 23% increase in production levels from 2009 by averaging 8,341 boe/d in fourth quarter of 2010 versus 6,775 boe/d in 2009. For the year ended 2010, Vero achieved 8,522 boe/d representing a 23% increase in production from 2009. Funds flow from operations in 2010 was \$56,772 or \$1.28 per share compared with \$27,550 or \$0.69 per share in 2009. While average commodity prices increased 13% in 2010 as compared to 2009, Vero is transitioning to a larger weighting of oil production. During 2010 Vero doubled its oil production and increased oil reserves by 210%. Vero’s exploration and production capital spending in 2010 of \$124,445 was significantly higher than the \$53,507 in 2009 as the Company drilled 31 gross wells versus 16 gross well drilled in 2009. Vero’s net debt was \$123,814 at December 31, 2010 representing an increase of 38% from December 31, 2009. The active drilling program in 2010 and \$8,888 of producing property acquisitions accounted for much of the increase.

DETAILED FINANCIAL REVIEW

PRODUCTION REVENUE AND VOLUMES

Vero increased aggregate production volumes by 23% in 2010 to 3,110,487 boe as compared to 2,533,612 boe in 2009. Production growth in 2010 is attributable to the successful drilling programs executed during the year. Natural gas production contributed 78% to total volumes, natural gas liquids 14% and oil 8%. This compares to 80% for gas in 2009, liquids at 15% and oil at 5%.

Aggregate Sales Volumes

	2010	2009	%
Natural gas (mcf)	14,575,236	12,220,968	19
Natural gas liquids (bbl)	441,759	377,539	17
Light/medium oil (bbl)	239,522	119,246	101
Barrels of oil equivalent (boe)	3,110,487	2,533,612	23

Daily Sales Volumes

Daily sales volumes increased 23% to 8,522 boe/d in 2010 from 6,941 boe/d in 2009. The increase was mainly realized from the successful drilling program in 2010. Natural gas production increased by 19% in 2010 versus 2009. Daily production from natural gas liquids increased by 17% for the year. The most significant change came from oil production, which increased by 101% to 656 boe/d from 327 boe/d in 2009.

For 2011, the Company is expecting to drill approximately 26-28 net horizontal wells, of which approximately 70% are planned to be oil focused (18-20 net) wells. The remaining wells will be focused on high return liquids rich natural gas plays which, at current pricing, yield Vero a \$6.25/mcf average price.

	2010	2009	%
Natural gas (mcf/d)	39,932	33,482	19
Natural gas liquids (bbl/d)	1,210	1,034	17
Light/medium oil (bbl/d)	656	327	101
Barrels of oil equivalent (boe/d)	8,522	6,941	23

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

Area (boe/d)	2010	2009	%
Edson	6,775	5,042	34
Whitecourt	1,302	825	58
Corbett	196	432	(55)
AB Other	249	642	(61)
Total	8,522	6,941	23

Benchmark Indices

	2010	2009	%
Natural gas			
NYMEX (US \$/mmbtu)	4.39	4.03	9
AECO- Daily (CDN \$/mcf)	4.13	3.96	4
Crude Oil			
WTI (US \$/bbl)	79.40	61.80	28
Edmonton light (CDN \$/bbl)	77.83	65.90	18
Foreign Exchange			
Canadian to US dollar	0.97	0.88	10
US to Canadian dollar	1.03	1.14	(10)

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 4% higher in 2010 as compared to 2009. AECO prices averaged \$4.13 per mcf in 2010 as compared to \$3.96 in 2009.

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. Throughout 2010, WTI increased 28% to \$79.40/bbl from \$61.80/bbl in 2009. Coupled with the increase in WTI price, came a 10% appreciation in the Canadian dollar. Movements in the Canadian dollar and the price of oil are highly correlated.

Average commodity prices realized by the Company were as follows:

	2010	2009	%
Natural gas (\$/mcf)	4.39	4.33	1
Light / medium oil (\$/bbl)	75.00	59.15	27
Natural gas liquids (\$/bbl)	61.05	48.05	27
Barrels of oil equivalent (\$/boe)	35.00	30.84	13

The volatility in commodity prices continued into 2010 as Vero realized an average increase of 13% as compared to 2009. Realized natural gas prices increased by 1% in 2010 compared to 2009. However, because of the higher quality of Vero’s natural gas, the Company averaged a 6% premium to the AECO standard throughout the year. Vero’s realized oil prices increased by 27% in 2010 compared to 2009 and natural gas liquids prices also showed a 27% increase in 2010.

In the immediate future, the number of oil drilling rigs in the US is increasing, while those searching for gas continue to decline. Furthermore, a Henry Hub price of US \$4.00/MMBtu is not a price that is sustainable in North America. Even if producers can find, produce, and market natural gas for US \$4.00/MMBtu or under, the long-term marginal cost of maintaining production is between \$5.00/MMBtu and \$6.00/MMBtu, if not higher. When market forces such as the influx of foreign joint venture monies and land tenure issues subside, management believes natural gas prices will ultimately have to trend higher.

Production revenue

Vero realized a 48% increase in aggregate production revenues in 2010 as compared to 2009. Since natural gas comprised 78% of total production and gas prices increased by 1%, the result was that natural gas contributed 58% of production revenue. Liquids production was 14% of total volumes but contributed 25% of production revenue while oil production was 8% of total volumes and contributed 16% of production revenues. In addition, the Company realized a gain on financial contracts of \$523 for the year as compared to a loss of \$2,938 for 2009. During 2010, the increase in production revenue was 39% to \$108,874 as compared to \$78,144 in 2009.

<i>Production Revenue</i>	2010	2009	%
Natural gas	63,941	52,950	21
Light / medium oil	17,964	7,054	155
Natural gas liquids	26,969	18,140	49
Production revenue	108,874	78,144	39
Realized gain (loss) on financial contracts	523	(2,938)	118
Unrealized gain (loss) on financial contracts	(177)	(1,245)	86
Total revenue	109,220	73,961	48

ROYALTIES

Royalties were \$11,568 for 2010 as compared to \$11,127 for 2009 which was an increase of 4%. On a per boe basis the rate decreased to \$3.72 in 2010 from \$4.39 in 2009. As a percentage of revenue, the rate for 2010 decreased as royalty expense averaged 10.6% of production revenue as compared to 14.2% in 2009. While natural gas prices were relatively flat with 2009, favourable gas cost allowance and custom processing offsets, coupled with a 5% royalty on new production, resulted in a lower Crown royalty rate in 2010. Vero anticipates the aggregate royalty rate to average between 10-12% for 2011. However, the royalty rates are significantly dependent on realized prices and therefore these rates could rise dramatically should gas prices appreciate.

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

<i>Royalties</i>	2010	2009	%
Crown – gross	8,705	9,146	(5)
Freehold/gross over-riding	2,863	1,982	44
Total royalties	11,568	11,127	4
Royalties (\$/boe)	3.72	4.39	(15)
Royalties - % of production revenue	10.6	14.2	(25)

RISK MANAGEMENT ACTIVITIES

Vero enters into commodity contracts as part of its risk management program so as to manage commodity price and interest rate fluctuations. As at December 31, 2010, the Company had the following risk management contracts in place:

Type	Contract	Amount	Term	Price (\$/bbl) Or (%)	Type
Costless collar	Oil	500 bbl/day	Oct. 1, 2010 - Mar. 31, 2011	\$80-\$98	Financial
Costless collar	Oil	500 bbl/day	Jan. 1, 2011- Dec.31, 2011	\$80-\$100	Financial
Crude swap	Oil	500 bbl/day	Jan. 1, 2011- Dec. 31, 2011	\$89	Financial
Interest Rate	BA Swap	\$25,000/year	Jan. 4, 2010 – Jan. 3, 2012	2.05%	Financial

These contracts 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 \$523 in risk management gains in 2010 as compared to a loss of \$2,938 in 2009. The mark-to-market unrealized loss for the contracts in place was \$177 at December 31, 2010 as compared to a loss of \$1,245 at December 31, 2009.

OPERATING

Vero continually directs significant efforts to maintaining or reducing its controllable costs. Operating costs were \$24,950 or \$8.02 per boe in 2010 as compared to \$23,254 and \$9.18 per boe in 2009. Net operating costs increased 7% in 2010 as compared to 2009 while production volumes increased by 23%. In conjunction with higher volumes produced in 2010 along with the decrease in aggregate costs, Vero achieved a decrease in the per boe costs by 13%. The per boe rate has decreased through a combination of a 142% increase in third party processing income as well as a reduction in compressor rentals and a reduction in the amount of workovers during the year. While well workovers are somewhat unpredictable, Vero does anticipate that for 2011, operating costs will be in the \$7.70 to \$8.00 range as the Company will continue to put a large proportion of its gas production through its owned and operated facilities.

<i>Operating</i>	2010	2009	%
Net expense per financial statements	24,950	23,254	7
Add: processing income	2,079	858	142
Gross expense	27,029	24,112	12
Net operating expense (\$ per boe)	8.02	9.18	(13)
Net operating expense (as a % revenue)	22.8	29.8	(23)

TRANSPORTATION

Transportation expenses were \$4,892 for 2010 and amounted to 4.5% of production revenue for the year as compared to \$3,235 and 4.1% for 2009. During 2010, the cost per boe averaged \$1.57, which is 23% higher than the rate for 2009. The increase in transportation costs are the result of higher natural gas pipeline tolls as well as additional trucking costs that parallel the increases in oil and natural gas liquids production. Transportation costs include: clean oil trucking, trucking of natural gas liquids, and transportation and fuel costs associated with the usage of natural gas pipelines. Transportation costs are dependent on a variety of factors such as: the type of production facilities; the method of transportation; the distances covered; the rates charged by the carriers; oil and NGL quantities shipped which can be affected by road restrictions and bans; cost of the carrier's fuel; the type of service offered (interruptible versus firm service) as well as ownership of the transportation facilities. The cost per boe for 2011 is expected to rise slightly to a range of \$1.60 to \$1.70 per boe as producer tolls are scheduled to increase in 2011.

<i>Transportation</i>	2010	2009	%
Expense per financial statements	4,892	3,235	51
Expense (\$ / boe)	1.57	1.28	23
Expense (% of revenue)	4.5	4.1	10

GENERAL AND ADMINISTRATIVE (G&A)

Aggregate G&A expense, before recoveries, increased 18% to \$9,681 in 2010 from \$8,224 in 2009. Additional staff to accommodate increased activity levels was the major expense that contributed to this increase. Net G&A increased 5% to \$6,171 in 2010 from \$5,851 in 2009. On a per boe basis, the rate decreased by 4% in 2010 to \$3.11 on a gross basis and 14% to \$1.98 on a net basis from 2009. Overhead recoveries increased by 55% in 2010 to \$2,244 from \$1,451 in 2009. Overhead recoveries are a function of field operating activity as well as the number of wells drilled during the year for which the Company is the operator. As a result of the increased activity, the recoveries were correspondingly higher. The Company capitalizes a portion of its G&A for the salaries of its technical staff, which are directly related to exploration and development activities. G&A capitalized for 2010 was \$1,266, representing a 37% increase from 2009. Vero anticipates that net G&A cost per boe for 2011 will be below \$2.00 per boe.

G&A	2010	2009	%
Gross expense	9,681	8,224	18
Less:			
Overhead recoveries	(2,244)	(1,451)	55
Capitalized G&A	(1,266)	(922)	37
Net expense	6,171	5,851	5
Average cost (\$ per boe)			
Gross expense	3.11	3.24	(4)
Net expense	1.98	2.31	(14)

INTEREST AND BANK CHARGES

Interest expense for 2010 increased 19% to \$5,241 from \$4,406 in 2009. The average, interest-bearing debt increased by 4% in 2010 compared to 2009. Higher debt levels are attributable to the capital expenditure program throughout 2010. The effective interest rate also increased by 12% in 2010 and this was primarily attributable to increases in bank prime interest rates. The per boe interest expense rate was \$1.68 for 2010 as compared to \$1.74 for 2009, representing a 3% decrease due to higher production volumes.

Interest and bank charges	2010	2009	%
Interest per financial statements	5,241	4,406	19
Deduct: Commitment & other fees	(556)	(435)	28
Debt bearing interest	4,685	3,971	18
Average debt outstanding	101,249	97,402	4
Average interest rate (%)	4.6	4.1	12
Average interest cost (\$ per boe)	1.68	1.74	(3)

STOCK BASED COMPENSATION

Stock based compensation expense was \$3,171 for 2010 as compared to \$4,851 for 2009. The 35% decrease from 2009 was attributable to the cancellation of options that occurred earlier in 2010 with the reduced amortization flowing through to 2010. The per boe rate decreased by 47% from 2009 levels to \$1.02 from \$1.91 as a result of higher production volumes. The fair value of all stock options is amortized over the options' vesting period, which is three years for all options granted.

<i>Stock Based Compensation</i>	2010	2009	%
Expense per financial statements	3,171	4,851	(35)
Expense (\$ / boe)	1.02	1.91	(47)

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

Aggregate DD&A increased 23% from \$47,961 in 2009 to \$58,799 in 2010. The costs of finding and developing proved reserves in 2010 resulted in a negligible decrease in the per boe rate in 2010 to \$18.90 from \$18.93 experienced in 2009. As a result of Vero's drilling success over the last two years and its ability to add reserves through acquisitions that are similar or better than its finding costs, the Company manages to maintain one of the better DD&A rates in its peer group.

For 2011 we anticipate the DD&A rate to be similar to 2010 as new reserve additions are balanced against the increased cost of finding & developing the resource.

<i>DD&A</i>	2010	2009	%
Depletion and depreciation	58,387	47,509	23
Accretion on asset retirement obligations	412	452	(9)
Total DD&A	58,799	47,961	23
DD&A (\$ / boe)	18.90	18.93	-

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 development costs. When the carrying amount of a cost centre is not recoverable under this test, the second stage of the process will determine the amount of the impairment whereby the cost centre 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 unproved 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, 2010 there was no impairment based on the independent, third party engineering consultant's report.

INCOME TAXES

The income tax provision for 2010 was a recovery of \$1,586. The tax provision represents a 75% decrease from the tax recovery of \$6,451 for 2009. The recovery was primarily the result of the loss generated during 2010 but also included a favourable adjustment related to the phase in of lower tax rates and the associated timing of temporary timing differences.

Pursuant to the flow-through share private placement financing, which closed in November of 2010, Vero was committed to renounce \$25,004 of Canadian exploration expenses to subscribers effective December 31, 2010. The tax effects of the renunciations are recorded when the documents relating to the renunciation are filed with the tax authorities. 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 2011.

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

<i>Income Taxes</i>	2010	2009	%
Future income tax recovery	(1,586)	(6,451)	(75)
Tax expense (\$ / boe)	(0.51)	(2.55)	(80)
Effective tax rate	29.5%	24.3%	9

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

<i>Tax Pools</i>	Rate %	2010	2009
Canadian exploration expenses	100	36,133	19,781
Canadian development expenses	30	125,376	92,237
Canadian oil and gas property expenses	10	55,997	49,323
Undepreciated capital costs	10 - 30	60,972	55,673
Financing costs	20% S.L.	4,563	3,665
Attributed Canadian Royalty Income	100 (Alberta)	38	38
Non-capital losses	100	1,928	2,227
Total		285,007	222,944

NETBACKS

Operating netbacks of \$21.69 per boe for 2010 were higher by 36% as compared to the \$15.99 realized in 2009. The 13% increase in average commodity prices, 15% decrease in royalties and a 13% decrease in operating costs in 2010 were the major contributors to the increased operating netbacks. Continuing below the operating netback, general and administrative expense was lower by 14% while interest costs were lower than those experienced in 2009 by 3%. The resulting funds flow netback was \$18.26 and was 68% higher than in 2009. The unrealized loss on hedging contracts was lower by 88% in 2010 at a loss of \$0.06 as compared to a loss of \$0.49 in 2009. These amounts represent the mark-to-market loss on these contracts and may or may not be reflective of the ultimate cash settlements under the contracts. Stock based compensation expense decreased as a result of the 23% increase in overall corporate production. DD&A charges were relatively flat with 2009 as the increase in reserves offset the increase in capital spending and

future development capital. In line with the net loss generated in 2010, Vero realized an income tax recovery of \$0.51 per boe. The net loss for 2010 was \$1.21 per boe as compared to a net loss of \$7.91 in 2009. It is anticipated that the earnings netback for 2011 will improve somewhat as gas prices are expected to firm up in the latter half of 2011 and Vero shifts to more oil production.

Netbacks (\$ per boe)

	2010	2009	%
Production revenue	35.00	30.84	13
Royalties	(3.72)	(4.39)	(15)
Operating expenses	(8.02)	(9.18)	(13)
Transportation expenses	(1.57)	(1.28)	23
Operating netback	21.69	15.99	36
Realized gain (loss) on hedges	0.17	(1.16)	(115)
G&A	(1.98)	(2.31)	(14)
Interest expense	(1.68)	(1.74)	(3)
Interest and other income	0.06	0.09	(33)
Funds flow netback	18.26	10.87	68
Unrealized gain (loss) on hedges	(0.06)	(0.49)	(88)
Stock based compensation	(1.02)	(1.91)	(47)
D,D&A	(18.90)	(18.93)	-
Future income taxes	0.51	2.55	(80)
Net loss	(1.21)	(7.91)	(85)

Operating Netback by Commodity Type

Natural gas (\$/mcf)

	2010	2009	%
Production revenue	4.39	4.33	1
Royalties	(0.16)	(0.36)	(56)
Operating expenses	(1.10)	(1.13)	(3)
Transportation costs	(0.20)	(0.18)	11
Operating netback	2.93	2.66	10

Crude oil (\$/bbl)

	2010	2009	%
Production revenue	75.01	59.15	27
Royalties	(5.31)	(4.61)	15
Operating expenses	(6.02)	(9.90)	(39)
Transportation costs	(2.37)	(2.01)	18
Operating netback	61.31	42.63	44

Natural gas liquids (\$/bbl)

	2010	2009	%
Production revenue	61.05	48.05	27
Royalties	(18.17)	(16.29)	12
Operating expenses	(15.70)	(21.78)	(28)
Transportation costs	(3.07)	(2.11)	45
Operating netback	24.11	7.87	206

FUNDS FLOW AND NET LOSS

Funds flow from operations in 2010 was \$56,722, representing an increase of 106% from \$27,550 realized in 2009. The increase was largely attributable to the 13% increase in corporate average commodity prices in addition to a 23% increase in average daily production. The net loss decreased from \$20,056 in 2009 to \$3,789 in 2010. Higher interest costs from elevated debt levels and an increase in DD&A were offset by a substantial increase in revenues resulting from price increases and production growth. Funds flow from operations was calculated as follows:

	2010	2009	%
Net loss	(3,789)	(20,056)	(81)
<i>Adjustments for:</i>			
Unrealized (gain) loss on risk management contracts	177	1,245	(86)
Stock based compensation expense	3,171	4,851	(35)
Depletion, depreciation and accretion	58,799	47,961	23
Future income taxes	(1,586)	(6,451)	(75)
Funds flow from operations	56,772	27,550	106

On a per share basis, Vero realized a loss of \$0.09 for both basic and diluted earnings per share for 2010 versus the \$0.50 of loss per basic and fully diluted share realized in 2009. Funds flow per share in 2010 was \$1.28 for basic and diluted, representing a 156% increase from \$0.69 (basic and diluted) realized in 2009.

<i>Per share data (\$)</i>	2010	2009	%
Net loss	(3,789)	(20,056)	(81)
Basic	(0.09)	(0.50)	(82)
Diluted	(0.09)	(0.50)	(82)
Funds flow	56,772	27,550	106
Basic	1.28	0.69	86
Diluted	1.28	0.69	86

CAPITAL EXPENDITURES

Vero spent \$129,751 (net of dispositions) in executing its capital program during 2010 representing an increase of 246% from the \$37,529 spent in 2009. The bulk of the capital spent was in respect of the 31 (24.5 net) wells drilled during the year. Seventeen of the wells drilled during the year were Cardium oil wells as Vero started executing on its plan of drilling more oil wells in 2010. A breakdown of the costs incurred for each year is as follows:

<i>Capital expenditures</i>	2010	2009	%
Exploration and development			
Land acquisitions and lease rentals	8,694	2,054	323
Geological and geophysical	2,123	2,837	(25)
Drilling and completions	93,210	37,869	146
Well equipment and facilities	20,418	10,747	90
Exploration and development expenditures	124,445	53,507	133
Other expenditures	27	7	286
Total capital expenditures	124,472	53,514	133
Property acquisition in exchange for shares	900	-	-
Producing property acquisitions	7,988	350	2,182
Disposals	(3,609)	(16,335)	(78)
Net capital expenditures before ARO	129,751	37,529	246
Capitalized asset retirement obligations	185	(72)	357
Total capital additions	129,936	37,457	244

	2010		2009	
<i>Wells drilled</i>	Gross	Net	Gross	Net
Exploration	10	8.4	2.0	2.0
Development	21	16.1	14.0	11.9
Total wells	31	24.5	16.0	13.9
Success rate	100%	100%	100%	100%

Given the current economic environment, Vero's goal is to keep its capital budget flexible. Vero will continue to monitor commodity prices and redirect capital spending as necessary but does anticipate drilling 26-28 net horizontal wells in 2011 of which 70% are planned to be oil focused (18-20 net) wells.

LAND HOLDINGS

The undeveloped land holdings at December 31, 2010 are as follows:

Area	Gross Acres	Net Acres	Average WI %
Edson	62,880	51,779	82
Whitecourt	28,480	22,103	78
Other Alberta	25,240	15,576	62
Corbett	18,560	16,218	87
Saskatchewan	10,926	10,869	99
British Columbia	6,144	3,129	51
Total	152,230	119,674	79

LIQUIDITY AND CAPITAL RESOURCES

Debt and working capital	2010	2009	%
Bank debt	94,164	77,719	21
Working capital deficiency (excluding unrealized risk management losses)	29,650	11,192	165
Net debt	123,814	88,911	39

Capital Program Funding	2010	2009	%
Funds flow from operations	56,772	27,550	106
Asset retirement costs	(341)	(571)	(40)
Increase (decrease) in bank debt	16,445	2,300	615
Share issuance, net of costs	32,660	25,636	27
Shares issued for asset purchase	900	-	-
Exercise of stock options	4,857	-	-
Repurchase of shares	-	(86)	-
Loans to officers/director	2,289	(1,939)	(218)
Change in non-cash working capital	16,169	(15,361)	(205)
Net capital expenditures	129,751	37,529	246

Vero's funds flow for 2010 of \$56,772, funded approximately 44% of the capital program, with the remainder being financed mainly with bank debt and equity issued late in the year. The \$88,911 of net debt brought forward from December 31, 2009 plus the financial activity for the year culminated in net debt at December 31, 2010 of \$123,814 or 39% higher than at the end of 2009. Using annualized funds flow for the fourth quarter of 2010, the net debt to funds flow ratio was 2.2 times. Based on Vero's current forecast for 2011, we anticipate the net debt to funds flow ratio to be approximately 1.4 -1.6 times by the end of 2011. While the year-end working capital deficiency is negative, Vero believes that its current funds flow projections for 2011, plus its available credit facilities, will be more than sufficient to fund its operations for the upcoming year.

Vero continually revisits its capital program as continued commodity price volatility dictates good management of the net debt position. The Company has tentatively set a \$100 million exploration and development capital budget for 2011. Vero will keep its capital spending under continual review during the year as the Company finds it prudent to maintain as much financial flexibility as possible. The bulk of the capital program for 2011 will be financed through expected funds flows for the year and the available credit facility with our banks. These resources give Vero the flexibility to execute its currently planned capital program, which provides superior growth in production and cash flow for the year. The key driver for Vero is to remain flexible and prepare for the expected upward movement in commodity prices.

The bank facility at December 31, 2010 is a \$140 million extendible revolving credit facility. This facility is available until April 30, 2011. Upon request by the Company the facility may be extended for an additional 364 days beyond this date subject to acceptance by the syndicate of lenders. Available borrowings on the bank credit facility are limited by the borrowing base, which is established by the bank. The amount of available credit is based mainly upon the value of petroleum and natural gas assets. The bank facility is subject to a semi-annual borrowing base review. The most recent annual review by the bank was completed in March of 2010. Corporate

working-capital liquidity is maintained by drawing from the unutilized facility as needed and then repaying it periodically through production revenues, disposition of non-core assets and equity financings.

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

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

	2010					2009				
	YTD	Q4	Q3	Q2	Q1	YTD	Q4	Q3	Q2	Q1
High \$	8.00	6.80	6.93	7.24	8.00	5.94	5.00	4.43	4.29	5.94
Low \$	4.63	5.56	5.93	5.07	4.63	2.70	3.37	2.74	3.18	2.70
Close \$	5.73	5.73	6.68	6.17	5.81	4.43	4.43	4.06	3.24	3.28
Volume	92,425	18,291	10,534	23,141	40,459	70,898	22,072	19,792	16,617	10,562

OFF BALANCE SHEET TRANSACTIONS

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

RELATED PARTY TRANSACTIONS

Two officers and three directors of the Company subscribed for an aggregate of 36 Flow-Through common shares at a price of \$8.15 per share in the November 5, 2010 private placement. The prices at which the shares were issued were the same as those in the subscription agreements entered into with non-related parties.

One officer and one director of the Company subscribed for an aggregate of 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 in the subscription agreements entered into with non-related parties.

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

CONTRACTUAL OBLIGATIONS

The Company was obligated, at December 31, 2010 to make the following payments under the terms of long-term contracts it has entered into:

	Payments Due by Period			
	Total	Less than 1 year	1-3 Years	4-5 Years
Transportation obligations	5,140	1,557	2,396	1,187
Head Office Lease	660	660	-	-
Farm-in obligations	6,825	6,825	-	-
Total contractual obligations	12,625	9,042	2,396	1,187

The transportation obligations are comprised of firm service natural gas commitments with a gas transmission company. In the event of a shortfall in gas deliveries to the pipeline, the Company must pay the carrier the difference between volumes delivered and the contracted volumes in cash at the contracted rate. The head office lease obligations are comprised of the lease (including parking and an estimate of occupancy costs) of the Company's head office space, certain of the furnishings contained therein as well as leased space assumed on a corporate acquisition in 2008. In addition, and as at December 31, 2010, Vero was committed to drill 4 gross (2.8 net) wells in Alberta. These projects have a commencement date later in 2011. The commitments are pursuant to farm-in agreements with industry partners. The Company expects to satisfy the net portion of this drilling commitment in 2011 at an estimated cost of \$6,825.

SHARE CAPITAL

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

	March 7, 2011	December 31, 2010	December 31, 2009
000's			
Common shares outstanding	48,966	48,920	43,183
Stock options outstanding	4,256	4,276	4,203
Fully diluted shares	53,222	53,196	47,387
Weighted average common shares			
Basic	N/A	44,257	39,762
Diluted	N/A	44,257	39,762

FOURTH QUARTER 2010

Operationally, Vero had a very active fourth quarter, in which the Company participated in the drilling of 10 (6.7) net horizontal wells at a 100% success rate, including 7 (4.1net) wells targeting light oil. Drilling activities consisted of 6 Cardium oil, 1 Viking oil, 2 Bluesky gas and 1 Rock Creek well. The quarter had a continued focus on evaluating the Company's Cardium light oil play, with a total of 6 (3.1 net) horizontal oil wells drilled. The Company has made substantial progress in delineating the Cardium opportunity. Vero has now drilled 7 wells using monobore technology. Four Cardium wells have been completed using foamed water fracs and 1 using a slick water frac. Excellent results from these completions combined with monobore drilling has resulted in drill and completion cost reductions of over 25% to approximately \$2.6 million per well. The Company continues to add to its land position and now has 177 gross (111 net) sections of Cardium rights. Approximately 135 locations have been identified, with the potential to double with ongoing delineation, continued strong commodity price and improving cost structures.

	Three months ended,		
	Dec. 31, 2010	Dec. 31, 2009	%
<i>Financial (\$000's)</i>			
Production revenue	27,624	22,500	23
Funds flow from operations	15,294	9,538	60
Basic –per share (\$/share)	0.33	0.23	43
Diluted-per share (\$/share)	0.33	0.23	43
Net loss	(3,359)	(931)	261
Basic –per share (\$/share)	(0.07)	(0.01)	600
Diluted-per share (\$/share)	(0.07)	(0.01)	600
Capital expenditures (net)	43,559	2,662	1,536
Net debt	123,814	88,911	39
<i>Share Capital (000's)</i>			
Basic, weighted average	46,773	42,359	10
Basic, end of period	48,920	43,183	13
Diluted	46,773	42,359	10
Fully Diluted	53,196	47,387	12
<i>Daily Sales Volumes</i>			
Natural gas volumes (mcf/d)	37,704	32,206	17
Light/medium oil (\$/bbl)	949	280	239
Liquids (boe/d)	1,109	1,127	(2)
Corporate (boe/d)	8,341	6,775	23
<i>Average Prices Realized</i>			
Natural gas (\$/mcf)	4.08	4.94	(17)
Light oil (\$/bbl)	79.06	74.19	7
Liquids (\$/bbl)	64.30	57.36	12
Corporate (\$/boe)	36.00	36.10	-

Netbacks (\$/boe)

Production revenue	36.00	36.10	-
Royalties	(3.57)	(3.35)	7
Operating	(7.75)	(9.57)	(19)
Transportation	(1.67)	(1.24)	35
Operating netback	23.01	21.94	5
Realized gain (loss) on risk management contracts	0.15	(2.51)	(106)
General and administrative	(1.52)	(2.30)	(34)
Interest Expense	(1.72)	(2.08)	(17)
Interest and other income	0.01	0.25	(96)
Funds flow netback	19.93	15.30	30
Unrealized gain (loss) on hedging contracts	(2.33)	1.33	(275)
Stock-based compensation	(1.06)	(1.01)	5
DD&A	(21.94)	(17.47)	26
Future tax recovery	1.01	0.35	189
Net loss	(4.39)	(1.50)	193

SELECTED QUARTERLY INFORMATION

Below is summarized quarterly information for the previous eight quarters.

<i>(000's except as noted)</i>	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Production (boe/d)	8,341	8,335	9,010	8,404
Average prices realized (\$/boe)	36.00	31.68	33.51	38.98
Production revenue	27,624	24,295	27,472	29,483
Net earnings (loss)	(3,359)	(3,316)	574	2,312
Basic - per share (\$/share)	(0.07)	(0.08)	0.01	0.05
Diluted - per share (\$/share)	(0.07)	(0.08)	0.01	0.05
Funds flow from operations	15,294	12,001	13,879	15,598
Basic - per share (\$/share)	0.33	0.27	0.32	0.36
Diluted - per share (\$/share)	0.33	0.27	0.32	0.36
Total assets	409,807	383,842	371,541	371,371
Net capital expenditures	43,559	32,135	14,020	40,037
Long term financial liabilities	-	-	-	-
Net debt	123,814	131,978	111,875	112,294
Dividends paid	-	-	-	-

<i>(000's except as noted)</i>	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 from operations	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 (surplus)	88,911	106,936	106,000	123,973
Dividends paid	-	-	-	-

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

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

- 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. No drilling occurred in Q2 as gas prices plummeted and capital became restricted.
- In the third quarter of 2009, the Company was faced with decade low natural gas prices. It conserved capital and spent only on optimization projects at the beginning of the quarter. At the end of August the Company spudded a horizontal well and another in September. The drilling initiatives had two purposes. The first was to take advantage of the new Alberta Government Drilling Incentive Credits and the second was to start taking advantage of the early signs that gas prices were turning upward.
- In the fourth quarter of 2009, the Company embarked on two initiatives to prepare itself financially for the 2009/2010 drilling season. First the Company completed a flow-through share private placement which brought in net proceeds of \$11,720. On December 1, the Company disposed of \$16,190 of non-core producing assets. Both of these initiatives significantly reduced the net debt outstanding in order that the Company would be able to complete its winter drilling season and also prepare itself for any sustained low commodity prices. Vero drilled 8 (6.4 net) wells in the fourth quarter and generated funds flow from operations of \$9,538.
- In the first quarter of 2010, the Company returned to profitability as production increased from new drilling, royalties decreased as a result of lower natural gas prices and operating expenses were decreased from efficiencies gained from the additional production. In the end, Vero produced net earnings of \$2,312. In addition to the above positive factors, DD&A decreased as new reserve additions brought this rate down by 7%.
- During the second quarter of 2010, Vero realized the benefits of the drilling program in Q4, 2009 and the first two quarters of 2010. Year over year daily production increased 28% to

9,010 boe/d. Commodity revenues including realized hedging losses increased approximately 45% in conjunction with average realized price increases of 22%. The company was able to achieve a profit of \$574 in light of a continued weak natural gas price environment. Net capital spending was \$14,020 including the drilling of 2 (2.0 net) horizontal wells and the entry of Vero into the N.E. B.C. shale gas play with a \$4.0 million purchase of 2,597 acres of undeveloped land.

- During the third quarter of 2010, Vero executed a successful drilling program with the drilling of 8 (6.8 net) horizontal and 1 (0.4 net) vertical well for a 100% success rate. The Cardium oil play continues to exhibit successful results with 6 (5.1 net) successful horizontal wells drilled within the quarter resulting in two wells initially producing between 450-600 boe/d.
- During the fourth quarter of 2010, Vero participated in the drilling of 10 (6.7 net) horizontal wells at a 100% success rate, including 7 (4.1 net) wells targeting light oil. Drilling consisted of 6 Cardium oil, 1 Viking oil, 2 Bluesky gas and 1 Rock Creek gas well. Vero has made significant progress in delineating the Cardium opportunity. In November, Vero completed a \$35,000 common/Flow-Through equity financing to assist in its winter development program.

RISK MANAGEMENT

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

Commodity price

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

Type	Commodity	Notional Quantity	Term	CDN \$/bbl	Type
Costless collar	Oil	500 bbl/d	Oct. 1, 2010-Mar. 31, 2011	\$80 - \$98	Financial
Costless collar	Oil	500 bbl/d	Jan. 1, 2011-Dec. 31, 2011	\$80 - \$100	Financial
Crude swap	Oil	500 bbl/d	Jan. 1, 2011-Dec. 31, 2011	\$89.00	Financial
Costless collar	Oil	500 bbl/d	Apr. 1, 2011-Mar. 31, 2012	\$85 - \$104	Financial
Costless collar	Oil	500 bbl/d	Jan. 1, 2012-Dec. 31, 2012	\$85 - \$109.25	Financial

Below is a summary of the activity of the contracts that were in place throughout 2010:

Commodity	Notional Quantity	Term	Price (CDN \$)	Option Traded	Realized Gain (loss)	Fair Value	Change in Fair Value Gain (Loss) (1)
Oil	500 bbl/day	Apr. 1–Dec. 31, 2010	\$75-\$100 /bbl	Collar	(89)	-	(11)
Oil	1000 bbl/day	Jan. 1-Mar. 31,2010	\$60.00-\$80.30/bbl	Collar	-	-	502
Natural Gas	7,500MMBtu /day	Apr. 1–Oct. 31, 2010	\$0.35 /MMBtu/day	Basis Swap	316	-	-
Oil	500 bbl/day	Apr. 1–Dec. 31, 2010	\$86 /bbl	Swap	574	(61)	(61)
Oil	500 bbl/day	Oct 1, 2010–Mar. 31, 2011	\$80-\$98 /bbl	Collar	-	(27)	(27)
Oil	1,500 bbl/day	May 1–Dec. 31, 2009	\$62.50-\$68.25/bbl	Collar	-	-	486
Oil	500 bbl/day	Jan 1, 2011–Dec. 31, 2011	\$80-\$100 /bbl	Collar	-	(309)	(309)
Oil	500 bbl/day	Jan. 1–Dec. 31, 2011	\$89.00/bbl	Swap	-	(858)	(858)
Total gain (loss)					801	(1,255)	(278)

(1) The realized gain and the change in fair value above is for the year ended December 31, 2010.

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

Foreign Exchange risk

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

Credit risk

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

Poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner. Substantially all of the accounts receivable are with customers and joint

venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. In many cases, the Company has offsetting receivables and payables with its partners and makes use of these offsets to mitigate any payment risk. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence.

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

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

Financing Risk

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

Interest rate risk

Vero is exposed to interest rate fluctuations. Interest rate risk arises from changes in market interest rates that may affect the future funds flows from the Company's financial assets or liabilities. The Company's revolving demand loan facility is subject to floating rates and is therefore exposed to fluctuations in the market rates of interest. From time to time, the Company will enter into a variety of risk management contracts to mitigate its exposure to interest rate risk. The Company had the following interest rate swap in place at December 31, 2010.

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%	(278)	(167)	100

(1) The realized loss and the change in fair value above is for the year ended December 31, 2010.

The fair value of this financial instrument was derived at the reporting date by using the forward strip prices for the interest rates over the term of the contract. The forward rates are established by an actively traded market for interest rate swaps and the market expectations as to where the rates are expected to be. The risk associated with this type of contract is that interest rates will remain at a low level and thereby cause the Company to have a funds cost upon settlement. In addition,

there is potential for a credit risk associated with the counterparty's inability to pay any positive settlements as they come due. Vero mitigates these risks by analyzing economic indicators as to future interest rate movements and by dealing with its chartered bank as the primary counterparty.

The maturing Western Canadian Sedimentary Basin

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

Operating and finding and development costs are increasing each year

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

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

Administrative risks

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

Environmental Regulations

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and

enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to specified levels. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Protocol or as otherwise determined could have a material impact on the nature of oil and natural gas operations, including those of the Company.

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

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

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

UPDATE ON THE ALBERTA ROYALTY REGIME

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

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

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

The most significant changes impacting Vero’s operations are:

A- Horizontal Gas New Well Royalty Rate

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

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

B- Horizontal Oil New Well Royalty Rate

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

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

- Benefits will run concurrent with royalty rates for new wells.

C- Natural Gas Deep Drilling Program

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

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

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

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

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

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

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

Natural Gas Deep Development Drilling Program (NGDDP)

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

- The overall estimated combined benefits are expected to be 20-40% NPV per well

Horizontal Oil Program

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

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 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, 2010.

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 Ledge Resources Ltd. acquisition from February 24, 2006 and \$4,879 relates to the Dorian Energy Inc. 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. 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. No write-down of goodwill was required in 2010.

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 7.5% for 2010). 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

Future Accounting Pronouncements

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

The Corporation has completed its initial phase of the implementation which included conceptual application of the new rules, diagnostic analysis of Vero’s accounting data and a high-level assessment of key areas that may be impacted by the adoption of IFRS. The analysis of accounting policy alternatives available under IFRS as well as the determination of changes required to existing information systems and business processes has been completed. Preliminary work has been conducted on the opening balance sheet as at January 1, 2010. Vero continues to assess the impact of the conversion on internal controls over financial reporting and disclosure controls and procedures and will continue to invest in training and resources throughout the transition period.

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 did not have a material impact on Vero's Financial Statements.

IFRS Changeover Plan - Update

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

- 1) Preliminary study and diagnostics. This phase included performing high level assessments which identified key areas that would be impacted by the adoption of IFRS. This analysis is complete and resulted in prioritization of areas to be evaluated in the next phase. During this phase, an assessment was made of Vero's existing information technology system which is used to collect and report financial data. It was established that Vero required a more sophisticated system and this was implemented in the summer of 2009.
- 2) Detailed Component Evaluation. In this phase a more detailed analysis of accounting and disclosure differences between Canadian GAAP and IFRS was evaluated. This analysis facilitated 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 now completed phase one and phase two and is well entrenched in phase three. Vero has analyzed its accounting policy alternatives and determined its new accounting policies. The Company expects to be in a position to finalize the restated first quarter results for 2010 as per IFRS reporting standards in accordance with filing deadlines.

Highlights of the impact on the restated opening balance sheet as at January 1, 2010 are as follows:

Exploration and Evaluation Assets

Vero had unproved land in the amount of \$15,818 at December 31, 2009. This amount will be segregated from oil and gas property, plant and equipment and will appear as a separate line item on the IFRS restated opening 2010 balance sheet.

Asset Retirement Obligation

The asset retirement obligation balance of \$5,379 as at December 31, 2009 was future valued using an inflation factor of 1.8% and then discounted using a risk free rate of 4%. Previously under Canadian GAAP a credit adjusted risk-free rate was used, which was approximately twice what the risk free rate is under IFRS. This yielded an increase to the liability of \$2,357. As a result of this adjustment, a charge was taken to retained earnings for \$1,768 net of future income reduction of \$589.

Flow Through Shares

Under IFRS accounting regulations, a different model has been adopted to account for flow through shares. The proceeds from the offering must be allocated between the sale of the shares and the sale of the tax benefit. The allocation is made based on the difference between the quoted market price of the existing shares and the amount an investor pays for the flow through shares. A liability is established for this difference that is reversed upon renunciation of the tax benefit and as capital expenditures are incurred. The difference between this liability and the deferred tax liability, created for the book/tax difference in the basis of the properties, is recorded as income tax expense.

Since Vero's inception, there have been three separate flow-through share offerings that will impact the opening, January 1, 2010 balance sheet as follows:

November, 2009

A \$1,986 charge will be taken against share capital with a corresponding credit to other liabilities as a result of the difference between the market value and the value the shares were offered at, as this issuance was not renounced at the date of the balance sheet.

February, 2008

A \$965 charge will be taken against retained earnings with a corresponding credit to share capital. This is the income statement impact regarding the future income tax expense associated with this issue.

April, 2007

A \$358 charge will be taken against retained earnings with a corresponding credit to share capital. This is the income statement impact regarding the future income tax expense associated with this issue.

Share Issue Costs-Backward Tracing

Backward tracing is essentially booking tax rate changes to share capital if the original deferred tax entry was booked to equity or other comprehensive income (regardless of the period in question). Canadian GAAP does not have this concept and therefore, any rate changes or the like that occurred in any year subsequent to the year in which the original future income tax entry was recorded would be booked to the income statement.

The application of this accounting treatment resulted in a \$63 charge to share capital with a corresponding credit to retained earnings.

The following table outlines the specific balance sheet accounts impacted by the above adjustments and the resulting IFRS adjusted balances as at January 1, 2010:

Acct. Description	CDN. GAAP Balance Dec. 31\2009	Adjustments	IFRS Adjusted Balance Jan. 1\2010
Exploration\ Evaluation Assets- intangible	-	15,818	15,818
Property\Plant & Equipment	287,645	(15,818)	271,827
Accounts Payable & Accrued Liabilities	47,588	1,986	49,574
Future Income Taxes	15,286	(589)	14,697
Asset retirement provisions	5,379	2,357	7,736
Share Capital	181,343	(726)	180,617
Retained Earnings	5,784	(3,028)	2,756

DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Vero's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of Vero's disclosure controls and procedures at the financial year end of the Company and have concluded that the Company's disclosure controls and procedures are effective at December 31, 2010 for the foregoing purposes.

Internal Controls

Vero's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting at December 31, 2010.

Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2010, the Company's internal controls and procedures are effective regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP and includes those policies and procedures that:

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

The Company is required to disclose herein any change in the design of the Company's internal control over financial reporting that occurred during the quarter ended on December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. No material changes in Vero's internal controls over financial reporting were identified during the three months ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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