



First Quarter Report For the three months ended March 31, 2006

Verenex Energy Inc. (“Verenex” or the “Company”) (TSX – VNX) is pleased to report its unaudited interim operating and financial results for the three months ended March 31, 2006.

Verenex is a Canada-based international exploration and production company with a world-class exploration portfolio in the Ghadames Basin in Libya and in the Bay of Biscay offshore France.

Highlights

Financial

- Cash flow from operations in the first quarter of 2006 was \$0.9 million reflecting revenues from a full quarter of oil production in France.
- The Company’s working capital surplus at March 31, 2006 was \$28.8 million. This excludes restricted cash of \$6.8 million associated with financial instruments, entered into on behalf of Verenex and its partner Medco International Ventures Limited, to back-stop early termination provisions under drilling rig contracts for Libya.

Operations - Libya

- In April 2006, the Company executed contracts for two drilling rigs for its operations in Area 47 in Libya. Both contracts include an initial two-year term, with two one-year extension options exercisable by the Company. Maximum early termination exposure under the two contracts in aggregate is \$7.2 million (net Verenex).
- The first drilling rig is expected to arrive in Libya in the third quarter of 2006 and the second rig in the first quarter of 2007. The Company is targeting to spud its first well in Area 47 late in the third quarter of 2006.
- The initial 243 square kilometer 3-D seismic shoot in the southern part of Area 47 was completed in March 2006. Full interpretation of the results should be available in mid-May to support well approval applications to the Libyan National Oil Corporation (“NOC”) for the first two to three wells planned in 2006 and 2007 in this area.
- The first two shipments of casing and tubing were received in Libya in April 2006. Remaining deliveries of casing and tubing and other drilling supplies to equip four wells have been scheduled for May and June well in advance of drilling.
- Bids were received in late April 2006 for a service rig to carry out a planned re-entry, workover and production test on a suspended oil discovery well and to complete and test new drilled wells. The Company is targeting to award a term contract for a service rig in May to commence the re-entry and workover in the third quarter of 2006.

- A revised 2006 work program and budget for Libya is being developed for review by the Area 47 Management Committee in late May 2006. The Company is projecting 2006 expenditures in Libya of approximately Cdn \$26 million, down from Cdn \$29 million in the original budget, reflecting deferral of two of the four planned wells in 2006 partially offset by the potential addition of a second re-entry and workover (contingent on partner and NOC approvals), casing and tubing inventory and other anticipated cost increases based on contract bid costs.
- The Company has hired an additional four full-time staff for its Tripoli office which increases the complement to twelve.

France

- Oil production from two wells in France in the first quarter of 2006 averaged 130 barrels per day.
- The Company has withdrawn its application to the French government to extend the onshore Les Trois Lagunes exploration permit (95% Verenex participating interest) into a second term. The first term of the permit expired in July 2005. The Company was unable to identify sufficiently strong exploration leads to warrant a one well commitment to extend the permit term.
- Discussions are continuing with the French government to advance the application for exploration rights in the offshore Aquila permit (50% Verenex participating interest), which is adjacent to the Aquitaine Maritime exploration permit. A competing application was lodged for this permit which has extended the deliberations.
- Interpretation of the new 3-D and 2-D seismic on the Aquitaine Maritime exploration permit (50% Verenex participating interest) is nearing completion to support discussions in May 2006 with potential partners to take on the drilling portion of the exploration program. The target is to drill one or two wells in the second half of 2007 subject to an acceptable farm-out and drilling rig availability.

Highlights

(unaudited)	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Financial (thousands of Cdn \$, except share and per share amounts)		
Petroleum and natural gas revenues (net)	\$ 1,191	\$ 367
Cash flow from operations	935	184
Net loss	(278)	(1,788)
Capital expenditures	2,629	2,476
Working capital surplus	28,751	16,386
Common shares outstanding		
Basic	30,903,391	22,559,600
Diluted	32,255,891	26,353,350
Weighted average common shares outstanding		
Basic	30,834,140	22,559,600
Diluted	32,184,565	23,500,091
Share trading		
High	4.30	\$ 7.25
Low	3.00	\$ 3.30
Close	4.20	\$ 5.75
Operations		
Production		
Crude oil (bbls/d)	130	-
Natural gas liquids (bbls/d)	22	33
Natural gas (mcf/d)	356	518
Boe/d (6:1) *	211	120
Average reference price		
WTI (US per bbl)	\$ 63.47	\$ 49.85
Brent (US per bbl)	61.75	47.49
AECO (Cdn per mcf)	7.55	6.89
Average selling price		
Crude oil (Cdn per bbl)	\$ 75.13	\$ -
Natural gas liquids (Cdn per bbl)	46.14	35.96
Natural gas (Cdn per mcf)	7.13	5.56
Operating Netback (per BOE at 6:1)	\$ 54.75	\$ 48.80

The above table includes non-GAAP measures, which may not be comparable to other companies. See MD&A for further discussion.

Capital Expenditures (Cdn \$)

During the first quarter of 2006, the Company invested \$2.6 million. Libya accounted for the majority of the activity level with approximately \$1.3 million invested in casing, tubing and wellhead equipment, \$0.6 million in the initial 3-D seismic program completed in March, and \$0.3 in capitalized General and Administration ("G&A") and office set up costs. In France, \$0.2 million was invested in the Aquitaine Maritime offshore seismic program. In Canada, a further \$0.2 million was spent on office equipment and capitalized G&A related to New Ventures activities.

Outlook

Libya

The initial 243 square kilometer 3-D seismic shoot in the southern part of Area 47 was completed by the Arab Geophysical Exploration Services Company (“AGESCO”) in mid-March 2006 using their AG03 crew. This area encompasses two existing oil discoveries at the suspended B1-70 and A1-NC3A wells and at least two or three exploration wells planned in 2006 and 2007. The full interpretation of the 3-D survey is expected to be available in mid-May 2006. This program satisfies the 3-D component of the minimum commitment program under the Exploration and Production Sharing Agreement (“EPSA”) for Area 47.

An AGESCO crew is expected to start the acquisition of a 960 kilometre 2-D seismic survey in June 2006 in the southern part of Area 47. This survey area surrounds the 3-D survey area and includes an expansion to the east to include a number of new leads identified towards the eastern boundary of Area 47. This prospective area is on trend with and between the Area 47 discoveries at B1-70 and A1-NC3A and two recently reported oil and gas discoveries drilled on 3-D seismic by AGOCO (an NOC affiliate) near the Tlacsin field approximately 12 kilometres east and up-dip of Area 47. AGOCO is currently running another 3-D seismic survey in this area.

After completion of the southern 2-D survey in late August, the AG02 crew will carry out the planned 700 kilometre 2-D survey in the north and the 237 square kilometre 3-D survey in the central part of Area 47. The entire program is expected to be completed by late December 2006 and will fulfill all of the 3-D and 2-D seismic requirements under the EPSA for Area 47.

In April 2006, the Company’s wholly owned subsidiary Verenex Energy Area 47 Libya Limited executed contracts for two drilling rigs for its operations in Area 47 in Libya. The contract awards were approved by the Area 47 Management Committee (“Area 47 MC”), which includes representatives from Verenex, partner Medco International Ventures Limited and the Libyan National Oil Corporation (“NOC”).

The first rig, contracted with Oil Drilling & Exploration (Borneo) Pty Limited (“ODE”), a subsidiary of Ensign Energy Services Inc. based in Calgary, Alberta, is expected to be available to spud the Company’s first well late in the third quarter of 2006. ODE has been contract drilling in Libya for more than 28 years. The rig will be shipped from New Zealand where it recently completed drilling operations.

The second rig, contracted with KCA DEUTAG Drilling GmbH (“KCA DEUTAG”) based in Germany, is expected to be delivered in the first quarter of 2007. KCA DEUTAG has been drilling in Libya for more than 36 years. The rig is essentially a new-build and will be constructed in Dubai.

Under the contract terms for these drilling rigs, the Company retains the ability to assign the rigs to third parties, with the approval of the contractor, if circumstances warrant. In this regard, the Company will be monitoring the progress on deliveries of both rigs to Libya, the progress on well location approvals from the NOC and the results of the initial wells to be drilled by the ODE rig in order to determine the optimum spud date for the KCA DEUTAG rig in 2007 that enables the capture of learning curve benefits.

A contract was awarded in April 2006 for an initial four fresh water wells to support the drilling and workover program in Area 47. The first re-entry and workover of a suspended water well near the A1-NC3A oil discovery well commenced in April. This water well had previously been utilized in 1998 to support the drilling of the A1-NC3A well.

The first two shipments of casing and tubing from the Netherlands and Dubai were received in Libya in April 2006. The remaining shipments of casing, tubing, wellheads and other supplies from Houston, Edmonton and the Netherlands are scheduled for May and June 2006 to equip the initial four wells in the planned drilling program.

A contract was awarded for drilling cementing services in April 2006. A contract award proposal for drilling fluids is currently being reviewed by the Area 47 MC.

Work was completed in April 2006 on the mechanical design of the well completions and the full suite of well tests for the planned re-entry and workover on the suspended A1-NC3A well and for new exploration wells. Bids were also received in late April from three contractors for a service rig to carry out this program. The Company is targeting to award the service rig contract in May 2006 to commence the re-entry and workover in the third quarter of 2006.

A revised 2006 work program and budget for Libya is being developed for review by the Area 47 Management Committee in late May 2006. The Company is projecting 2006 expenditures in Libya of approximately Cdn \$26 million, down from Cdn \$29 million in the original budget, reflecting deferral of two of the four planned wells in 2006 partially offset by the potential addition of a re-entry and workover on the G1-NC02 oil discovery well (contingent on partner and NOC approvals), casing and tubing inventory and other anticipated cost increases based on contract bid costs.

The Company has hired an additional four full-time staff for its Tripoli office which increases the complement to twelve. The new hires include a secondee from Medco for the position of Geology and Geophysics Operations Manager and an experienced expatriate for the position of Procurement and Logistics Coordinator. The Company is targeting to double the size of full-time in-country organization by the third quarter of 2006 and to supplement this with additional drilling and completions contract staff in advance of drilling.

France

Discussions are continuing with the French government to advance the application submitted by Vermilion REP SAS in December 2004 for exploration rights in the offshore Aquila permit (50% Verenex participating interest). This permit area is adjacent to the Aquitaine Maritime exploration permit. A competing application was lodged for this permit which has extended the deliberations.

Interpretation of the new 3-D and 2-D seismic on the Aquitaine Maritime exploration permit (50% Verenex participating interest) is nearing completion to support discussions in May 2006 with potential partners to take on the drilling portion of the exploration program. The target is to drill one or two wells in the second half of 2007 subject to an acceptable farm-out and drilling rig availability.

Verenex's annual and special meeting of shareholders is scheduled to be held at 10 am this morning in the Strand Tivoli Room of the Metropolitan Centre at 333 - 4th Avenue S.W., Calgary. A copy of the presentation to be delivered to shareholders will be posted on the Company's website at www.verenexenergy.com on May 3, 2006.

This press release contains forward-looking statements, including but not limited to operational information including earnings, cash flow, production and capital investment projections. These projections are based on current expectations and are subject to a number of risks and uncertainties that could materially affect the results. These risks include, but are not limited to, risks associated with the oil and gas industry (e.g. operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of estimates and projections in relation to production, costs and expenses and health, safety and environmental risks), drilling equipment availability, the ability to attract and retain key personnel, the risk of commodity price and foreign exchange rate fluctuations, the uncertainty associated with negotiating with foreign governments and risk associated with international activity. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in the company's securities should not place undue reliance on these forward-looking statements.



Jim McFarland, P.Eng.
President & Chief Executive Officer

May 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis (MD&A), dated May 3, 2006, of the Company's operating and financial results for the three months ended March 31, 2006. The financial data has been prepared in Canadian dollars in accordance with Canadian Generally Accepted Accounting Principles applied consistently with prior periods. This discussion should be read in conjunction with the Company's interim unaudited consolidated financial statements for the periods ended March 31, 2006 and 2005 and the audited consolidated financial statements for the period ended December 31, 2005, together with the accompanying notes as contained in the Company's 2005 Annual Report.

Additional information relating to the Company, including its Annual Information Return, NI 51-101 disclosure and details of outstanding share data and the Company's Stock Option Plan, is available on SEDAR at www.sedar.com.

Forward-Looking Information

This report contains forward-looking financial and operational information, including but not limited to operational information including earnings, cash flow, production and capital investment projections. These projections are based on current expectations and are subject to a number of risks and uncertainties that could materially affect the results. These risks include, but are not limited to, risks associated with the oil and gas industry (e.g. operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of estimates and projections in relation to production, costs and expenses and health, safety and environmental risks), drilling equipment availability, the ability to attract and retain key personnel, the risk of commodity price and foreign exchange rate fluctuations, the uncertainty associated with negotiating with foreign governments and risk associated with international activity. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in the company's securities should not place undue reliance on these forward-looking statements.

Non-GAAP Measures

Included in this report are references to terms commonly used in the oil and gas industry, such as cash flow and cash flow per share which is expressed before changes in non-cash working capital and are used by the Company to analyze operating performance, leverage and liquidity. These terms are not defined by Generally Accepted Accounting Principles ("GAAP"). Consequently, these are referred to as non-GAAP measures.

Operating Results

Asset Valuation

The Company performs a review for asset impairment as required by the Full Cost Accounting Guideline, AcG-16. Any impairment in value is dependent upon an independent reservoir engineer's assessment of the deliverability and reserves associated with certain wells and the outlook for world prices for oil and natural gas.

Revenues

Oil and gas production increased by 176% to 211 barrels of oil equivalent per day ("boepd") in the first quarter of 2006 resulting in oil and gas revenues of \$1.2 million, net of royalties, compared to 120 boepd and revenues of \$0.4 million in the first quarter of 2005 and 195 boepd and \$1.2 million in revenues for the fourth quarter ended December 31, 2005. This increase in the first quarter of 2006 is primarily a result of an additional 130 barrels of oil per day of production from the France wells. In the first quarter of 2005, test oil production from France of approximately 12 barrels per day was excluded from operating results, the proceeds of which had been offset against cumulative well costs. During the fourth quarter of 2005,

the Company determined that both the St. Lazare 2H and the Parentis 222H wells were commercial on a go forward basis and the associated revenues and expenses were therefore included in the Company's operating results.

During the first quarter of 2006 the Bottrel GORR provided production of approximately 81 boepd and revenues of \$0.3 million versus 120 boepd and \$0.4 million for the same period in 2005 and 67 boepd and \$0.4 million of royalty income during the fourth quarter of 2005. The results three months ended March 31, 2006 and March 31, 2005 were impacted by production allocation volume adjustment increases of approximately 5 boepd and 26 boepd, respectively, from the gross overriding royalty at Bottrel, Alberta (the "Bottrel GORR"). There were no other unusual cyclical or seasonal factors impacting the Company's production.

Average realized prices for the first quarter of 2006 were: oil \$75.13 per bbl (2005 – n/a); natural gas \$7.13 per mcf (2005 - \$5.56); and NGL \$46.14 per bbl (2005 - \$35.96). These compare to prices of \$64.97 per bbl for oil, \$12.98 per mcf for natural gas and \$79.40 per bbl for NGL during the fourth quarter ended December 31, 2005.

Interest of \$0.3 million was earned in the first quarter of 2006 (2005 - \$0.2 million) and \$0.1 million for the fourth quarter of 2005 on cash balances invested in excess of expenditure requirements. The increase is due to the increased cash balance resulting from the December 2005 financing of approximately \$24.7 million (net of issue costs).

Stock Compensation

For the quarter ended March 31, 2006, non-cash stock compensation expense related to stock options, Stock Appreciation Rights ("SAR's") and performance warrants was \$0.6 million (2005 - \$2.0 million) compared to \$0.4 million in the fourth quarter of 2005. The increase in costs compared to the fourth quarter of 2005 relates to the fact that the number of stock options and performance warrants outstanding has increased and recognition of the cost of the SAR's during the first quarter of 2006 when the stock price closed above the exercise price of \$3.24.

The Company has adopted the fair value method of accounting for stock options and performance warrants. With respect to the performance warrants, the vesting conditions relating to the weighted average trading price of \$3.75 and \$4.25 were satisfied during the first quarter of 2005. As a result, the vesting period over which the costs were amortized was shortened to reflect the fact that only the timing conditions remain and a non-cash charge in the amount of \$1.8 million was taken in the first quarter of 2005 to reflect the acceleration of the vesting period.

General and Administration ("G&A")

G&A costs, net of amounts capitalized to ongoing investment programs, of \$0.4 million were incurred during the first quarter of 2006 compared to \$0.4 million in the fourth quarter of 2005 and \$0.3 million in the first quarter of 2005. The net amounts represent salaries, employee benefits, office costs, legal and related party services not directly attributable to ongoing exploration and development capital projects.

Effects of Exchange Rate Fluctuations

The Company's operations are conducted primarily in jurisdictions where the United States dollar (US\$) and the European Euro (€) are the business currencies. A large proportion of the Company's costs, assets and liabilities during the quarter ended March 31, 2006 were denominated in US\$. As the Canadian dollar fluctuates during the period, foreign exchange gains and losses are reflected in both the earnings and cash flow amounts.

Depletion and Depreciation

Depletion and depreciation for the three months ended March 31, 2006 was \$0.7 million (2005 - \$0.2 million), which relates to the depletion of the France and Canadian assets. This compares to \$1.1 million for the fourth quarter of 2005, excluding the \$7.5 million impairment provision at December 31, 2005. Depletion of the France producing properties commenced effective October 1, 2005 and in December 2005 an impairment provision of \$7.5 million was made against the France properties, which reduced the depletion rate on a prospective basis.

Due to Related Party

Amounts due to related parties at March 31, 2006 are comprised of an amount due to Vermilion REP SAS ("VREP") of \$0.8 million Canadian equivalent (€0.5 million), relating to amounts incurred on the Company's behalf in France, net of \$0.2 million due to Verenex relating to Bottrel GORR income not yet received. All intercompany amounts relate to current activities and will be repaid in the normal course of business. The balance has declined from \$1.9 million Canadian equivalent (€0.9 million) at December 31, 2005 as a result of payments made to date.

Verenex entered into a Technical and Administrative Services Agreement with Vermilion Resources Limited ("Vermilion") on June 28, 2004, whereby Vermilion provides certain financial and administrative services at a cost of twenty thousand dollars per month and certain technical, marketing and other services at cost plus 5%, for a period of eighteen months ending December 31, 2005. The Agreement is automatically renewed for one-year periods, unless one party provides three months notice not to renew. Effective January 1, 2006, the monthly charge was amended to eliminate the services provided for the Canadian financial and administrative services, reducing the monthly charge to ten thousand dollars per month in support of the France operations. During the three months ending March 31, 2006 Verenex was billed thirty thousand dollars (2005 – sixty thousand) for services provided under this Agreement.

Liquidity and Capital Resources

Verenex will continue to rely primarily on equity to fund future working capital requirements and capital obligations.

The Company has issued two letters of credit ("LC's") relating to the signing of two long-term drilling contracts that back-stop early termination provisions. The terms of the contract call for the LC's to vary over the period of the contract. The first LC expires on November 13, 2008 and is exercisable by Oil Drilling & Exploration (Borneo) Pty Limited ("ODE"), a subsidiary of Ensign Energy Services Inc. based in Calgary, Alberta. The ODE contract required that cash collateral of US \$2.5 million (gross) to be put in place initially. The second LC in favour of KCA DEUTAG Drilling GmbH based in Germany ("KCA DEUTAG"), expires on April 30, 2009 and is supported by initial cash collateral of US \$3.3 million (gross). The LC's have provisions to increase these amounts to a maximum of US\$ 12.0 million (gross) in aggregate at the projected spud dates, after which the LC amounts decline as the rigs are worked. The Company has received funds from its partner, Medco International Ventures Limited, for its 50% share of the cash collateral and all cash provided as support for the LC's have been reflected as restricted cash on the balance sheet.

The Company had a working capital surplus of \$28.8 million at March 31, 2006 compared to \$33.7 million as at December 31, 2005, including cash and term deposits amounting to \$34.7 million (December 31, 2005 - \$35.5 million) net of restricted cash amounting to \$6.8 million (December 31, 2005 – nil). The decrease in working capital is due to the increasing activities in the Company's Libya operations including the funding of cash balance required to support the LC's.

The majority of the trade receivables relate to amounts associated with the joint venture operations in France and Libya and an accrual for revenues associated with the Bottrel GORR. All trade receivables have been assessed for credit risk and no allowance for doubtful accounts is necessary at this time.

Accounts payable and accrued liabilities have increased since December 31, 2005 due to the increased activity levels in Libya as the Company commenced its seismic operations and entered into contracts to purchase casing, tubing and well head equipment.

The Company has sufficient resources to fulfill its short-term work program commitments.

Verenex is listed on the Toronto Stock Exchange under the stock symbol VNX. In December, 2005 the Company successfully completed an equity financing issuing 8,162,500 common shares for gross proceeds of \$26.1 million, net \$24.7 million after issue costs.

Critical Accounting Estimates

The amounts recorded for depletion and depreciation of property, plant and equipment are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements from changes in such estimates in future years could be significant.

The Company performs a review for asset impairment as required by the Full Cost Accounting Guideline, AcG-16. Any impairment in value is dependent upon an independent reservoir engineer's assessment of the deliverability and reserves associated with certain wells and the outlook for world prices for oil and natural gas.

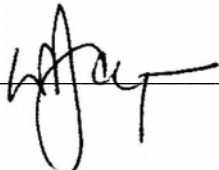
Verenex Energy Inc.
Consolidated Balance Sheets
(thousands of Cdn \$)
unaudited

	March 31, 2006	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	\$ 34,749	\$ 35,546
Accounts receivable	269	711
Inventory	103	74
Prepaid expenses and other	65	13
	<u>35,186</u>	<u>36,344</u>
Restricted cash (Note 10)	6,774	-
Capital assets (Note 2)	20,254	18,277
	<u>\$ 62,214</u>	<u>\$ 54,621</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,755	\$ 946
Joint venture payables	2,095	
Due to related party (Note 3)	579	1,660
Taxes payable	6	73
	<u>6,435</u>	<u>2,679</u>
Joint venture payables related to restricted cash (Note 10)	3,387	-
Asset retirement obligations	34	37
	<u>9,856</u>	<u>2,716</u>
Commitments and Contingencies (Note 9)		
Shareholders' equity		
Share capital (Note 4)	60,831	60,560
Contributed surplus (Note 4)	4,052	3,592
Deficit	(12,525)	(12,247)
	<u>52,358</u>	<u>51,905</u>
	<u>\$ 62,214</u>	<u>\$ 54,621</u>

See accompanying notes to the Consolidated Financial Statements

Approved by the Board of Directors





Verenex Energy Inc.
Consolidated Statements of Loss and Deficit
(thousands of Cdn \$, except share and per share amounts)
unaudited

	Three months ended March 31, 2006	Three months ended March 31, 2005
Revenue		
Petroleum & natural gas, net	\$ 1,191	\$ 367
Interest income	270	161
	<u>1,461</u>	<u>528</u>
Expenses		
Production	85	-
Transportation	31	-
General and administration	391	332
Stock based compensation (Note 5)	555	2,024
Depletion and depreciation (Note 2)	652	191
Foreign exchange (gain)/loss	6	(243)
	<u>1,720</u>	<u>867</u>
Loss before taxes	(259)	(1,776)
Capital taxes	19	12
Net loss	<u>(278)</u>	<u>(1,788)</u>
Deficit, beginning of period	<u>(12,247)</u>	<u>(1,110)</u>
Deficit, end of period	<u>\$ (12,525)</u>	<u>\$ (2,898)</u>
Net loss per share basic and diluted (Note 6)	<u>\$ (0.01)</u>	<u>\$ (0.08)</u>
Weighted average number of shares outstanding (Note 6):		
Basic	<u>30,834,140</u>	<u>22,559,600</u>
Diluted	<u>32,184,565</u>	<u>23,500,091</u>

See accompanying notes to the Consolidated Financial Statements

Verenex Energy Inc.
Consolidated Statements of Cash Flows
(thousands of Cdn \$)
unaudited

	Three months ended March 31, 2006	Three months ended March 31, 2005
Cash and cash equivalents provided by (used in):		
Operating activities:		
Net loss	\$ (278)	\$ (1,788)
Items not affecting cash:		
Stock based compensation	555	2,024
Depletion and depreciation	652	191
Unrealized foreign exchange (gain)/loss	6	(243)
Cash flow from operations before changes in non-cash working capital	935	184
Changes in non-cash operating working capital	270	(235)
	<u>1,205</u>	<u>(51)</u>
Investing activities:		
Acquisition and expenditures on petroleum and natural gas properties	(2,629)	(2,476)
Changes in non-cash investing working capital	5,004	38
	<u>2,375</u>	<u>(2,438)</u>
Financing activities:		
Issue of common shares for cash, net of share issue costs	176	153
Restricted cash movements	(6,774)	
Joint venture payables related to restricted cash movements	3,387	
Payments to related party (Notes 3)	(1,047)	(853)
	<u>(4,258)</u>	<u>(700)</u>
Foreign exchange gain on cash held in a foreign currency	(119)	(62)
Net change in cash and cash equivalents	(797)	(3,251)
Cash and cash equivalents, beginning of period	35,546	27,237
Cash and cash equivalents, end of period	<u>\$ 34,749</u>	<u>\$ 23,986</u>
Cash taxes paid	84	-
Cash interest received	<u>270</u>	<u>161</u>

See accompanying notes to the Consolidated Financial Statements

Verenex Energy Inc.
Notes to the Consolidated Financial Statements
For the three months ended March 31, 2006
(thousands of Cdn \$, except as noted)
unaudited

1. Summary of Significant Accounting Policies and Basis of Presentation

The interim consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles on a consistent basis with the audited consolidated financial statements for the period ended December 31, 2005. Certain disclosures in the interim financial statements may not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements as at and for the period ended December 31, 2005.

2. Capital Assets

	March 31, 2006		
	Cost	Accumulated Depletion, Depreciation & Amortization	Net Book Value
Petroleum and natural gas properties and equipment	\$29,802	\$9,866	\$19,936
Furniture and equipment	401	83	318
	\$30,203	\$9,949	\$20,254

	December 31, 2005		
	Cost	Accumulated Depletion, Depreciation & Amortization	Net Book Value
Petroleum and natural gas properties and equipment	\$27,242	\$9,244	\$17,998
Furniture and equipment	332	53	279
	\$27,574	\$9,297	\$18,277

The Company capitalized \$0.4 million of general and administrative costs relating to exploration and development activities for the three months ended March 31, 2006 (March 31, 2005 - \$0.2 million).

The Company has included \$1.3 million in pre-drilling costs in Libya during the first quarter 2006 (2005 - \$nil) relating to casing, tubing and wellhead equipment.

In France for 2005, the net proceeds from test oil production from the Parentis 222H and St. Lazare 2H wells totaling \$0.03 million for the three months ended March 31, 2005 were offset against the cumulative well costs. During the fourth quarter of 2005, the Company determined that both the St. Lazare 2H and the Parentis 222H wells were commercial on a go forward basis and the associated revenues and expenses were included in the Company's operating results effective from October 1, 2005.

Depletion and depreciation of \$0.7 million for the three months ended March 31, 2006 (2005 - \$0.2 million) relates to the depletion of the France and Canadian assets. The 2005 depletion expense related entirely to the Bottrel GORR production. Approximately, \$6.0 million in undeveloped land (2005 - \$16.0 million) in France and \$3.1 million in Libya (2005 - \$nil) was excluded from the depletion calculation.

3. Related Party Transactions

Vermilion REP SAS (“VREP”) is a 100% owned subsidiary of Vermilion Energy Trust, which is a significant shareholder in Verenex. VREP, as contract operator in France, paid for various expenditures on behalf of Verenex. These transactions were measured at the exchange amount being the consideration established and agreed to by the related parties. These transactions were undertaken under the same terms and conditions as transactions with non-related parties. Amounts due to related parties are comprised of an amount due to VREP of \$0.8 million Canadian equivalent (€0.5 million), (December 31, 2005 – Canadian equivalent \$1.9 million (€1.4 million)) relating to amounts incurred on the Company’s behalf in France, net of \$0.2 million (December 31, 2005 - \$0.5 million) due to Verenex relating to Bottrel royalty income not yet received.

The Bottrel GORR provided \$0.3 million of royalty income during the three months ended March 31, 2006 (2005 – \$0.4 million).

Verenex entered into a Technical and Administrative Services Agreement with Vermilion Resources Limited (“Vermilion”) on June 28, 2004, whereby Vermilion provides certain financial and administrative services at a cost of twenty thousand dollars per month and certain technical, marketing and other services at cost plus 5%, for a period of eighteen months ending December 31, 2005. The Agreement is automatically renewed for one-year periods, unless one party provides three months notice not to renew. Effective January 1, 2006, the monthly charge was amended to eliminate the services provided for the Canadian financial and administrative services, reducing the monthly charge to ten thousand dollars per month in support of the France operations. During the three months ending March 31, 2006 Verenex was billed thirty thousand dollars (2005 – sixty thousand dollars) for services provided under this Agreement.

4. Share Capital

Authorized

Unlimited number of common shares
Unlimited number of preferred shares

Issued	Number of Shares	Amount
Opening balance as at January 1, 2006	30,830,433	\$60,560
Issued for cash on warrant and option exercise	72,958	186
Share issue costs		(10)
Transferred from contributed surplus on warrant and option exercise		95
Balance as at March 31, 2006	30,903,391	\$60,831

4. Share Capital (continued)

Contributed Surplus

	March 31, 2006	December 31, 2005
Opening balance	\$ 3,592	\$ 471
Stock compensation expense	618	3,264
Reversed on cancellation of unvested options	(37)	-
Reversed on cancellation of warrants	(26)	-
Transferred to share capital on warrant and option exercise	(95)	(143)
Ending balance	<u>\$ 4,052</u>	<u>\$3,592</u>

5. Stock Compensation Plan

- a) The Company has a stock option plan that allows the directors, officers and employees of the Company to be granted rights to acquire common shares of the Company. Shareholders approved an amendment to the Company's Stock Option Plan (the "Plan") at the Company's Annual General Meeting on May 4, 2005. Under the amendment, the Company adopted a "rolling" stock option plan that reserves a maximum of 10% of the aggregate number of issued and outstanding common shares. The Plan previously in place reserved a fixed number of common shares. The terms of the amended Plan are otherwise unchanged.

Stock option exercise prices are equal to the market price for the common shares on the date immediately prior to the date the stock option is granted.

Stock options granted in any period vest over three years and expire five years after the grant date. There were 90,000 options granted during the first quarter of 2006 at an average exercise price of \$3.80. The fair value per option of \$1.852 was determined using the Black-Scholes option-pricing model based on the assumptions noted below.

The following table summarizes information about the stock option plan:

	For the three months Ended March 31, 2006	
	Number of Stock Options	Weighted Average Exercise Price
Opening balance, January 1, 2006	2,587,000	\$2.99
Granted	90,000	3.80
Exercised	(53,333)	2.55
Cancelled	(178,667)	2.95
Closing balance, March 31, 2006	<u>2,445,000</u>	<u>\$3.04</u>

- b) The Company has also issued performance warrants. One-half of the performance warrants become exercisable if the holder continues in their capacity with the Company until April 15, 2005 and if at any time during the term, the one-month weighted average trading price of the shares is equal to or greater than \$3.75 per share. One-half will also be exercisable if the one-month weighted average trading price of the shares is equal to or greater than \$4.25 per

5. Stock Compensation Plan (continued)

share and the holder continues in their capacity until April 15, 2006. The performance warrants expire at the close of business on June 28, 2011.

The performance warrant vesting conditions relating to the weighted average trading price of \$3.75 and \$4.25 were satisfied in the first quarter of 2005. As a result, the vesting period over which the compensation costs were amortized was reduced and a non-cash expense in the amount of \$1.8 million was recognized in the first quarter of 2005 to reflect the acceleration in the vesting period.

The following table summarizes information about the performance warrants:

	For the three months Ended March 31, 2006	
	Number of Performance Warrants	Weighted Average Exercise Price
Opening balance, January 1, 2006	1,946,750	\$2.55
Exercised	(19,625)	2.55
Cancelled	(19,625)	2.55
Closing balance, March 31, 2006	1,907,500	\$2.55

For the three months ended March 31, 2006, non-cash stock compensation expense related to stock options and performance warrants was \$0.5 million (March 31, 2005 – \$2.0 million).

The fair value of the options and performance warrants is determined using the Black-Scholes option-pricing model that takes into account, as of the grant date: exercise price, expected life, current price, expected volatility, expected dividends, and risk-free interest rates.

The assumptions used in the computation of the fair value of the stock options and performance warrants for 2006, 2005 and 2004 are as follows:

	Stock Options	Performance Warrants
Risk free interest rate	4.5%	4.5%
Expected dividends	nil	nil
Expected life	5 years	7 years
Volatility	50%	50%

The remaining weighted average contractual life of the stock options and performance warrants is 3.7 years and 5.3 years respectively.

- c) During the fourth quarter of 2005 410,000 share appreciation rights were granted to employees at an exercise price of \$3.24. Each right entitles the participant to receive from the Company an amount equal to the positive difference, if any, obtained by subtracting the assigned amount from the closing trading price of the common shares on the Toronto Stock Exchange. The share appreciation rights vest over three years. As at March 31, 2006, the trading price of the Company's stock on the Toronto Stock Exchange was \$4.20. Therefore \$0.1 million in costs have been recognized (2005 - \$nil).

6. Per Share Amounts

	For the Three Months Ended March 31, 2006	For the Three Months Ended March 31, 2005
Weighted average number of common shares outstanding	30,834,140	22,559,600
Shares issuable pursuant to stock options	651,842	940,491
Shares issuable pursuant to performance warrants	698,583	-
Weighted average number of diluted common shares outstanding	32,184,565	23,500,091

The weighted average diluted shares outstanding include all stock options in the money from the date of grant or the beginning of the period. The weighted average diluted shares include the performance warrants which are treated as contingently issuable shares and are included from the beginning of the period that all of the conditions for issue were satisfied.

7. Segmented Information

The Company operates in three different geographical locations and has chosen to disclose key financial data based on those jurisdictions. Where not specifically identified, income statement line items, such as interest revenue, relate to Canada. Any allocations of costs between segments are done at cost and based on time allocated to the various projects.

	For the Three Months Ended March 31, 2006	For the Three Months Ended March 31, 2005
Petroleum & natural gas revenues, net:		
Canada	320	367
France	871	-
	\$ 1,191	\$ 367
Net earnings (loss):		
Canada	(586)	(1,964)
France	308	176
Libya	-	-
	\$ (278)	\$ (1,788)
Cash flow generated from operations:		
Canada	190	251
France	745	(67)
Libya	-	-
	\$ 935	\$ 184
Capital expenditures:		
Canada	188	234
France	186	1,793
Libya	2,255	449
	\$ 2,629	\$ 2,476

	March 31, 2006	December 31, 2005
Identifiable assets:		
Canada	\$ 41,990	\$ 38,406
France	13,000	13,804
Libya	7,224	2,411
	\$ 62,214	\$ 54,621

8. Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and the amount due to related party approximated their fair values as at December 31, 2005 as a result of the short-term nature of these instruments.

The oil and gas industry is subject to risks including fluctuations in foreign exchange rates and commodity prices. The Company's operating results and financial condition will be dependent on the prices it receives for oil and natural gas production. Oil and natural gas prices have fluctuated during recent years and are determined by supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions. While Verenex manages its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate these fluctuations.

9. Commitments and Contingencies

Contractual Obligations	Payments Due by Period			
	Total	Less than 1 Year	1 to 3 Years	4 to 5 years
Operating Leases	\$ 2,112	\$ 532	\$ 1,048	532
Work Program Commitments:				
Libya	11,000	6,100	-	\$ 4,900
France	150	150	-	-
	11,150	6,250	-	4,900
Total Contractual Obligations	\$ 13,262	\$ 6,782	\$ 1,048	\$ 5,432

Office leases

Effective May 1 2005, Verenex Energy Area 47 Libya Limited, a 100% owned subsidiary, entered into a two-year contract to sublease office space in Tripoli, Libya at a cost of approximately three thousand, seven hundred and fifty dollars per month payable annually in advance. The Company has the option to extend the term of the lease by up to 3 years under the same terms. Effective November 1, 2005 additional office space was subleased in Tripoli at a cost of one thousand, eight hundred dollars per month payable in advance. Under the terms of the Joint Operating Agreement with Medco International Ventures Limited ("Medco"), 50% of these costs are expected to be recoverable.

Effective May 1, 2005, the Company agreed to sublease additional floor space in Calgary from Vermilion. The terms of the amended agreement provide office space at a cost of six thousand, three hundred and thirty-nine dollars per month plus a monthly operating cost charge of six thousand, one hundred and twelve dollars per month. This agreement expires October 30, 2007.

9. Commitments and Contingencies (continued)

The Company entered into negotiations with Vermilion for the early termination of its current office lease. In return for a lease buy-out, the Company will receive a lump sum payment of \$400,000. Effective March 14, 2006, the Company agreed to lease floor space in Calgary commencing June 1, 2006. The terms of the agreement provide office space at a cost of nineteen thousand, nine hundred and twenty-eight dollars month plus a monthly operating cost charge of nine thousand, one hundred and seventy-five dollars per month. This agreement expires May 31, 2011.

Libya

On January 30, 2005 the Company announced it had been selected as a successful bidder in Libya's Bid Round 1 for an Exploration and Production Sharing Agreement ("EPSA"). Verenex has the right to explore for oil and gas in Area 47, a 6,182 square kilometre area in the Ghadames Basin in northwest Libya. Verenex is the Operator with a 50% interest in Area 47 in partnership with Medco, which holds the remaining 50% interest. The EPSA sets out the required minimum work program during the initial 5-year exploration and appraisal period and defines the terms for development, during a 25-year exploitation period, of any commercial discoveries made during the initial 5-year period.

Under the terms of the EPSA for Area 47, Verenex and Medco (the "contractor group") are required to acquire new seismic, including 1,000 kilometres of 2-D and 200 square kilometres of 3-D, and drill three exploration wells during the 5-year exploration and appraisal period. All exploration and appraisal costs during this period, including the minimum commitment program and any additional seismic and drilling, will be borne 100% by Verenex and Medco. If the minimum commitment program is not carried out, the contractor group will be liable for a specified unit cost for seismic and wells which in aggregate is a maximum of US \$20 million (US \$10 million net to Verenex).

If a discovery is made on the block and the Parties (the Libyan National Oil Corporation ("NOC") and the contractor group) unanimously agree that it is commercial, a joint operating company would be established to operate the discovery. Development capital expenditures would be shared 50% by the contractor group and 50% by the NOC. Operating costs would be shared on the basis of the production allocation split, with the contractor group paying 13.7% of these costs and the NOC 86.3%. The NOC pays 100% of all royalties and Libyan taxes incurred on each discovery, including the contractor group share.

As at March 31, 2006, the Contractor group had awarded a Canadian equivalent \$9.0 million (US \$7.5 million) (gross) (Cdn. \$4.5 million net to Verenex) contract for its 2006 seismic program and work began in late December 2005 on surveying for the first 243 square kilometre 3-D seismic shoot in the southern part of Area 47. Expenditures to date under this contract have amounted to approximately \$2.0 million (US \$1.7 million) (gross) (Cdn. \$1.0 million net to Verenex). In addition, contracts were awarded to purchase casing, tubulars and wellhead equipment in advance of the 2006 drilling program in the amount of \$5.1 million (US \$4.4 million) (gross) (Cdn. \$2.6 million net to Verenex). As at the end of March 2006, approximately \$2.6 million (US \$2.2 million) (gross) (Cdn. \$1.3 million net to Verenex) had been billed.

France

The Company has commitments to its partner VREP in France on the Aquitaine Maritime permit.

At Aquitaine Maritime, VREP (the "Operator") awarded a contract in 2005 to Petroleum Geo-Services ("PGS") to undertake a combined 2-D and 3-D offshore seismic program. The seismic acquisition and subsequent processing is estimated to cost approximately \$7.9 million Canadian

9. Commitments and Contingencies (continued)

equivalent (US \$6.6 million) (gross). The program commenced on September 3, 2005 and the acquisition phase was completed on October 14, 2005. The new seismic is currently being interpreted to remap leads and prospects with expected completion in May 2006. Verenex has a 50% participating interest in the permit and expects its share of the costs to be approximately \$4.2 million. As at March 31, 2006, the Company had recorded approximately \$3.8 million in expenditures relating to this commitment.

10. Subsequent Events

On April 11, 2006 the Company announced it had executed contracts for two drilling rigs for its operations in Area 47 in Libya. The contract awards were approved by the Area 47 Management Committee, which includes representatives from Verenex, partner Medco and the NOC.

The first rig, contracted with Oil Drilling & Exploration (Borneo) Pty Limited (“ODE”), a subsidiary of Ensign Energy Services Inc. based in Calgary, Alberta, is expected to be available to spud the Company’s first well late in the third quarter of 2006. The second rig, contracted with KCA DEUTAG Drilling GmbH (“KCA DEUTAG”) based in Germany, is expected to be delivered in the first quarter of 2007.

Both contracts include an initial two-year term, with two one-year extension options exercisable by the Company. Under the contract terms, the Company retains the ability to assign the rigs to third parties, with the approval of the contractor, if circumstances warrant. Maximum early termination exposure under the two contracts in aggregate is \$7.2 million (net Verenex 50% share).

The contracts require that Letters of Credit (“LC’s”) be entered into in support of maximum termination amounts, which vary over the life of the contract. As a result, the Company has issued two letters of credit (“LC’s”) relating to the signing of the drilling contracts that back-stop early termination provisions. The terms of the contract call for the LC’s to vary over the period of the contract. The first LC expires on November 13, 2008 and is exercisable by Oil Drilling & Exploration (Borneo) Pty Limited (“ODE”), a subsidiary of Ensign Energy Services Inc. based in Calgary, Alberta. The ODE contract required that cash collateral of US \$2.5 million (gross) to be put in place initially. The second LC in favour of KCA DEUTAG Drilling GmbH based in Germany (“KCA DEUTAG”), expires on April 30, 2009 and is supported by initial cash collateral of US \$3.3 million (gross). The LC’s have provisions to increase these amounts to a maximum of US\$ 12.0 million (gross) in aggregate at the projected spud dates, after which the LC amounts decline as the rigs are worked.

The Company has received funds from its partner, Medco International Ventures Limited, for its 50% share of the cash collateral and the total amount of cash provided as support for the LC’s, in the amount of \$6.8 million, has been reflected as restricted cash on the balance sheet. The joint venture payable related to restricted cash amounting to \$3.4 million due to Medco has also been segregated on the balance sheet.

COMPANY INFORMATION

DIRECTORS

William T. Fanagan^{1,2,3}
West Vancouver, BC

Lorenzo Donadeo³
President & CEO
Vermilion Energy Trust
Calgary, AB

Claudio A. Ghersinich⁴
Executive Director
Carrera Investments Corp.
Calgary, AB

Gerry J. Macey^{2,3,4}
Calgary, AB

James D. (Jim) McFarland
President & CEO
Verenex Energy Inc.
Calgary, AB

Johannes J. (Jim) Nieuwenburg^{2,4}
Calgary, AB

1 Chairman

2 Audit Committee

3 Governance and Human Resources Committee

4 Independent Reserves and Environment,
Health & Safety Committee

OFFICERS & KEY PERSONNEL

James D. (Jim) McFarland, P.Eng.
President & CEO

Kenneth D. (Ken) Hillier, C.A.
Chief Financial Officer

Blair Anderson
Manager, Exploration

Giuseppe (Joe) Arcuri
Manager, Geophysics

Fadi Nammour, P.Eng.
Manager, Business
Development & Operations

Don Shepherd, P.Eng.
General Manager, Libya

Charles W. Berard
Corporate Secretary
Partner, Macleod Dixon LLP

AUDITORS

Deloitte & Touche LLP
Calgary, Alberta

BANKERS

The Toronto-Dominion Bank
Calgary, Alberta

EVALUATION ENGINEERS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL

Macleod Dixon LLP
Calgary, Alberta

TRANSFER AGENT

Computershare Trust Company of
Canada

STOCK EXCHANGE

Toronto Stock Exchange
Symbol - VNX

CORPORATE OFFICE

Suite 3050, 400 – 4th Avenue SW
Calgary, AB T2P 0J4 Canada
Telephone: +1-403-355-6280
Facsimile: +1-403-231-1774
www.verenexenergy.com



Verenex Energy Inc.
Suite 3050, 400 – 4th Avenue SW
Calgary, Alberta T2P 0J4
Telephone: +1-403-355-6280
Facsimile: +1-403-231-1774
www.verenexenergy.com