VELO ENERGY INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER, 2007

April 28, 2008

The following Management's Discussion and Analysis ("MD&A) is based on the consolidated financial statements of Velo Energy Inc. ("Velo" or the "Company") as at December 31, 2007. The MD&A should be read in conjunction with the audited financial statements and notes thereto, which were prepared in accordance with generally accepted accounting principles in Canada. This MD&A relates to events up to April 28, 2008. Additional information relating to the company is available on SEDAR at www.sedar.com.

The Company (formerly known as Aureus Ventures Inc.), which was a capital pool company pursuant to the policies of the TSX Venture Exchange (the "TSX-V"), completed a qualifying transaction in May 2006 in accordance with the policies of the TSX-V. The qualifying transaction was the purchase of Velo Energy Ltd. At that time the Company's name was changed to Velo Energy Inc.

VELO OVERVIEW

Velo is a Canadian oil and gas company with a focus in the Peace River Arch area of Alberta. The company strives to operate properties while maintaining a high working interest. The company has and continues to source farm out agreements to obtain land for exploration in order to preserve capital for drilling and completion operations.

FINANCIAL HIGHLIGHTS

The following table summarizes the Company's financial results for the years ended December 31, 2007 and 2006.

	Year Ended December 31	
	2007	2006
Revenue	$37,781	$27,817
Net loss	$(6,673,248)	$(568,118)
Per share loss	$(0.23)	$(0.036)
Total assets	$525,738	$8,777,763
Capital expenditures	$1,180,289	$3,629,155
Outstanding common shares	29,618,334	29,618,334
Weighted average - basic	29,618,334	15,732,730
Stock options outstanding	1,150,000	1,250,000

REVENUE

The Company generated $37,781 in natural gas revenue in 2007 (2006 – $27,817) primarily from the Pica 13-6 well.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were $498,710 for the year ended December 31, 2007 (2006 - $493,553).These expenses remained at the 2006 level as the company's activity level remained the same for most of the year. The 2007 expenses were primarily comprised of rent, wages, computer software and licenses, insurance and consulting fees.

INTEREST AND PENALTIES and INDEMNITY PAYABLE

Interest and penalties expense of $180,518 (2006 – Nil) result from the failure to renounce adequate qualifying expenditures for the flow through shares issued in December, 2006. This failure also resulted in the indemnity payable of $452,133 (2006 – Nil). The flow through share subscribers were indemnified in the case of an inadequate amount of qualifying expenditures being renounced.

OPERATIONS

Operations expenses of $140,221 (2006 – $34,831) for the year ended December 31, 2007 increased significantly from 2006 in relation to a nominal increase in revenues from 2006. This increase was substantially the result of attempting to bring on production at the Blueberry 13-30 well and in particular the rental cost of a compressor. The minimum rental period was much longer than actual production prior to the well watering out.

STOCK BASED COMPENSATION

Stock based compensation expenses were $72,724 for the year ended December 31, 2007 (2006 – $77,000). These expenses resulted from the issuance of new options to employees, consultants and directors and options granted in 2006 that vested in 2007.

IMPAIRMENTS

1. Petroleum and natural gas properties

Included in the Company's expenses is a non-cash charge of $4,924,364 (2006 – nil). These charges relate to an impairment of the carrying value of petroleum and natural gas properties. The impairment is the result of applying what is commonly known as the ceiling test which is prescribed under generally accepted accounting principles for exploration and production companies that use the full cost accounting method.

An impairment loss is recognized when the carrying value of a cost centre is not recoverable and exceeds its fair value. The carrying amount is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition.

An impairment loss is then measured as the amount by which the carrying amount of the petroleum and natural gas assets capitalized in a cost centre exceeds the sum of the fair value of

proved and probable reserves and the costs of unproved properties that have been subject to a separate test for impairment and contain no probable reserves.

2. Goodwill

The Company tested goodwill for impairment and determined that based on the trading price of the Company's shares at year end and, as a result, a goodwill impairment charge of $1,026,400 was recorded.

LOSS ON DISPOSAL OF ASSETS

In order to minimize general and administrative costs the Company's office was relocated from Calgary to Vancouver resulting in the disposal of all office equipment.

DEPRECIATION

Depreciation expense was $8,833 for the year ended December 31, 2007 (2006 – $6,352). This results from the non oil and gas assets being depreciated over their estimated year life prior to disposition.

INCOME TAXES

Future income tax recovery amounted to $128,313 (2006 – Nil) for the three month period and year ended December 31, 2007. This recovery resulted from the realization of previously unrecognized future income tax assets after the renunciation of flow through funds to the shareholders.

CAPITAL EXPENDITURES

Expenditures on petroleum and natural gas properties and equipment for the year ended December 31, 2006 were $1,180,289 (2006 – $3,629,155) and relate to completion activities on the 16-25-82-8W6 and 13-06-84-5W6 wells in addition to tie-in costs for the 13-30-82-7W6 and 13-06-84-5W6 wells located in the Peace River Arch area.

STATUS OF PETROLEUM AND NATURAL GAS PROPERTIES

Velo drilled and cased three wells in 2006 including Blueberry 16-25-82-8W6, Pica 13-6-84-5W6 and Woking 5-2-76-5W6. Through its earned interests, Velo has acquired petroleum and natural gas ("P&NG" rights for existing wellbores in Blueberry at 13-30-82-7W6 and in Woking at 7-35-75-5W6. P&NG rights to the existing 16-1-84-6W6 well in Pica have also been made available as part of the associated earned interest.

During 2007, Velo conducted several completion operations and tied in two wells. In Blueberry, at 16-25-82-8W6, the recovery of identified hydrocarbons in the Basal Gething was impeded due to water inflow caused by the apparent lack of hydraulic isolation. The Middle Gething and Bluesky zones were perforated and no hydrocarbons were recovered. Subsequent to year end, the well was abandoned, cut and capped. The 13-30-82-7W6 well was tied in and put on production during the month of May. The well flowed intermittently during the month and was suspended due to uneconomic flow rates.

At Pica 13-6-84-5W6, the well was completed in a middle Gething zone and was tied in for production during the month of December 2007. The Pica well flowed for approximately 21 days prior to watering out. The well is currently suspended pending the review by Velo and its partners of an upper Gething zone.

The Woking 05-02-76-5W6 well was completed in the Gething and Bluesky formations with no success. The well is presently completed in the Spirit River Formation with uneconomic flow rates on perforation. Velo and its partner are evaluating a stimulation of the zone to enhance production. Operations at Woking were suspended pending this evaluation.

TRANSACTIONS WITH RELATED PARTIES

General and administrative expenses of Nil (2006-$12,500) were charged to the Company during the year by a company controlled by three directors.

Engineering fees of $58,000 were paid to a director of the Company.

LIQUIDITY

At December 31, 2007, the company had negative working capital of $1,567,486 and cash of $83,258. In October, 2007 the Company made an informal proposal to its unsecured creditors consisting of an initial payment of 23% of the amount payable with a further 17% to be paid by April 30, 2008. A large percentage of unsecured creditors have agreed to the proposal. In addition, the company made a proposal to the holders of the flow through shares who have an indemnity claim. To date, 80% of the claimants have agreed to the proposal.

Additional exploration and development activity will be dependent upon resolving the creditor situation noted above and acquiring additional capital funding.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, and accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and that the fair value of these financial instruments approximates their carrying value.

SHARE CAPITAL

The company is authorized to issue an unlimited number of common and preferred shares. As at December 31 2007, there were 29,618,334 common shares issued and outstanding; 798,500 common shares issuable upon the exercise of warrants; 100,000 common shares issuable upon exercise of stock options at a price of $0.25 per share, 800,000 common shares issuable upon exercise of options at a price of $0.30 per share and 250,000 common shares issuable upon exercise of options at a price of $.20 per share expiring five years from the date of grant.

In May 2006, the Company granted Blackmont Capital Inc. (the "Agent"), the sole agent of the Public Offering, the aforementioned warrants to purchase 750,000 common shares at a price of $0.30 per common share. This option expired on November 30, 2007.

In December 2006, the Company granted to the agents of the flow-through share issuance, warrants to purchase 798,500 common shares at a price of $.20 per common shares. The warrants expire in June 2008.

SELECTED QUARTERLY INFORMATION

The following table summarizes the Company's quarterly results for the past two years:

	December 31 2007	September 30 2007	June 30 2007	March 31 2007
Revenue	$28,168	-	$9,565	$48
Net loss	$799,159	$257,793	$591,949	$5,024,347
Loss per share–basic	$.02	$.009	$.021	$.17

	December 31 2006	September 30 2006	June 30 2006	March 31 2006
Revenue	$13,694	$14,123	-	-
Net loss	$189,310	$91,093	$271,894	$15,821
Loss per share-basic	$.008	.005	$.021	$.002

FOURTH QUARTER 2007

For the three months ended December 31, 2007, the Company incurred a loss of $799,159. This was primarily a result of general and administrative expenses of $60,859 (2006 - $103,248), interest and penalties of $121,448 (2006 – Nil), operations expenses of $69,125 (2006-$25,572), stock based compensation expenses of $42,000 (2006 - $30,817), an additional impairment charge of $660,244 (2006 – Nil) and a future income tax recovery of $128,313 (2006 – Nil) in the period.

The additional impairment charge was taken on the Pica 13-6 well after it watered out in late December.

NEWLY ADOPTED ACCOUNTING ESTIMATES

On January 1, 2007, the Company adopted the new CICA Handbook sections 3855 – Financial Instruments – Recognition and Measurement, 3861 – Financial Instruments – Disclosure and Presentation, 3865 – Hedges, and 1530 – Comprehensive Income. The newly adopted accounting policies are disclosed in the notes to the financial statements. There were no other significant accounting policies newly adopted during the year ended December 31, 2007.

CRITICAL ACCOUNTING 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.

Capitalized costs relating to the exploration and development of oil and gas reserves, along with estimated future capital expenditures required in order to develop proved reserves, will be depleted and depreciated on a unit-of-production basis using estimated proved reserves once a determination of reserves has been made.

The carrying value of property, plant and equipment will be reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The cost recovery ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

Liability recognition for asset retirement obligations associated with oil and gas well sites and facilities are determined using estimated costs discounted based on the estimated life of the asset. These capitalized costs are amortized on a unit-of-production basis, consistent with depletion and depreciation. Over time, the liability is accreted up to the actual expected cash outlay to perform the abandonment and reclamation.

In order to recognize stock-based compensation expense, the Company estimates the fair value of stock options granted using the Black-Scholes model which uses assumptions related to interest rates, expected life of the option, volatility of the underlying security and expected dividend yields. These assumptions may vary over time.

The determination of the Company's income and other tax liabilities require interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded on the Company's financial statements.

BUSINESS RISKS

Velo's exploration and production activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different–sized companies ranging from smaller junior producers, intermediate and senior producers and royalty trust organizations, to the much larger integrated petroleum companies. The Company is subject to a number of risks which are also common to other organizations involved in the oil and gas industry. Such risks include finding and developing oil and gas reserves at economic costs, estimated amounts of recoverable reserves, production of oil and gas in commercial quantities, marketability of oil and gas produced, fluctuations in commodity prices, financial and liquidity risks and environmental and safety risks.

In order to reduce exploration risk, Velo employs highly qualified and motivated professional employees and consultants who have demonstrated the ability to generate quality proprietary geological and geophysical prospects. To maximize drilling success, the Company explores in areas that afford multi-zone prospect potential, targeting a range of shallow low-to-moderate-risk prospects.

The Company mitigates its risk related to producing hydrocarbons through the utilization of the most advanced technology and information systems. In addition, the Company strives to operate the majority of its prospects, thereby maintaining operational control.

Exploration and production for oil and gas is very capital intensive. As a result, the Company relies on equity markets as a source of new capital. Equity is subject to market conditions and availability may increase or decrease from time to time.

Oil and gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. The Company conducts its operations with high standards in order to protect the environment and the general public. Velo maintains insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations.

FUTURE ACCOUNTING POLICY CHANGES

In December 2006, the CICA issued Handbook section 1535 "Capital disclosures" which is effective for years beginning on or after October 1, 2007. The section specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This new Section relates to disclosures and is not expected to have an impact on the Company's financial results.

In December 2006, the CICA issued Handbook Section 3862, "Financial Instruments – Disclosures" and Handbook Section 3863, "Financial Instruments – Presentation" to replace Handbook Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 expands on the disclosures previously required under Section 3861 that establishes standards for disclosures about financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Section 3863 is consistent with the presentation requirements of Section 3861 that establishes standards for presentation of financial instruments and non-financial derivatives. These sections apply to interim and annual financial statements for fiscal periods beginning on or after October 1, 2007 and will be adopted by the Company on January 1, 2008. Transitional provisions are complex and vary based on the type of financial instruments under the consideration. The effect on the Company's financial statements is not expected to be material.

The CICA has amended Handbook Section 1400 "General standards of financial presentation" effective for periods beginning on or after January 1, 2008 to include requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of this new section is not expected to have an impact on the Company's financial statements.

In January 2006, the CICA Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The impact of the transition to IFRS on the Company's financial statements has not yet been determined.

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

Certain information with respect to Velo contained herein, including management's assessment of future plans and operations, contain forward-looking statements. These forward-looking statements are based on assumptions and are subject to numerous risks and uncertainties, certain of which are beyond Velo's control, including the impact of general economic conditions, industry conditions, and volatility of commodity prices, currency exchange, stock market volatility and ability to access sufficient capital. As a result, Velo's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur. In addition, the reader is cautioned that historical results are not necessarily indicative of future performance.