Velo Energy Inc.
Consolidated Financial Statements
1st Quarter 2009
Interim Report

FIRST QUARTER FINANCIAL STATEMENTS

INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, Velo Energy Inc. (the Company) discloses that its auditors have not reviewed the unaudited consolidated financial statements for the period ended March 31, 2009.

NOTICE TO READER OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company, comprising the accompanying interim unaudited consolidated balance sheet as at March 31, 2009 and the interim unaudited consolidated statements of operations and deficit and cash flows for the three month period then ended are the responsibility of the Company's management.

These consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, MacKay LLP. The interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these consolidated financial statements in accordance with Canadian generally accepted accounting principles.

"Donald Gee"

Donald Gee
Chief Executive Officer

"Wan Jung"

Wan Jung
Chief Financial Officer

Velo Energy Inc.
Consolidated Balance Sheets

	March 31 2009	March 31 2008
	(**unaudited)**	(audited)
Assets		
Current		
Cash and term deposits	**$1,330,053**	$ 20,123
Receivables	**18,643**	49,332
Prepaid expenses and deposits	**5,000**	359,735
	$1,353,696	$ 429,190
Liabilities		
Current		
Accounts payable and accrued liabilities *(note 5)*	**$ 193,593**	$ 1,399,920
Indemnity payable (note 6)	**2,841**	452,133
Loan payable	**-**	20,000
Asset retirement obligations (note 7)	**-**	140,000
	196,434	2,012,053
Shareholders' Equity (Deficiency)		
Share Capital *(note 8(a))*	**7,462,924**	5,583,466
Contributed Surplus *(note 9)*	**289,094**	240,394
Warrants	**-**	48,700
Deficit	**(6,594,756)**	(7,455,423)
	1,157,262	(1,582,863)
	$1,353,696	$ 429,190

See note 1 for going concern

See accompanying notes to consolidated financial statements

Velo Energy Inc.
Consolidated Statements of Operations and Deficit

(unaudited)

	Three months March 31, 2009	Three months March 31, 2008
Expenses		
General and administrative	**$ 15,063**	$ 18,479
Interest	**-**	3,763
Operations	**-**	(6,572)
Stock based compensation (note 9(c))	**-**	-
	(15,063)	15,670
Interest income	**13,519**	293
Net (loss) and comprehensive (loss)	**(1,544)**	(15,377)
Deficit, beginning of period	**(6,593,212)**	(7,440,046)
Deficit, end of period	**$(6,594,756)**	$(7,455,423)
Loss per share (basic and diluted)	**$ (0.00)**	$ (0.00)
Weighted average number of shares outstanding	**65,608,888**	29,618,334

See note 1 for going concern

See accompanying notes to consolidated financial statements

Velo Energy Inc.

Consolidated Statements Of Cash Flows

(unaudited)

	Three Months March 31,2009	Three Months March 31, 2008
Cash Provided By (Used In)		
Operating Activities		
Net (loss)	**$ (1,544)**	$ (15,377)
Add non-cash items:		
Depreciation and accretion	**-**	-
Funds used in operations	**(1,544)**	(15,377)
Net change in non-cash working capital	**(19,361)**	(2,502)
	(20,905)	(17,879)
Financing Activities		
Loan payable	**-**	20,000
Net change in non-cash working capital	**-**	3,750
	-	23,750
Investing Activities		
Net change in non-cash working capital	**-**	(69,006)
	-	(69,006)
Increase (Decrease) in cash during period	**(20,905)**	(63,135)
Cash, beginning of period	**1,350,958**	83,258
Cash, end of period	**$ 1,330,053**	$ 20,123

See note 1 for going concern

See accompanying notes to consolidated financial statements

1. Nature of Operations and Going Concern

Velo Energy Inc. ("Velo" or the "Company") was incorporated on July 8, 2004 and was originally classified as a Capital Pool Corporation as defined in Policy 2.4 of the TSX Venture Exchange Corporate Finance Manual and Policies. Effective May 31, 2006, the Company purchased all of the outstanding shares of Velo Energy Ltd. by the issuance of 3,333,334 common shares of the Company. This was an arm's length transaction and constituted the Company's Qualifying Transaction under the rules of the TSX Venture Exchange. As a result of that transaction the Company was in the business of exploration, development and production of crude oil, natural gas and natural gas liquids in Western Canada.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue receiving financial support from shareholders and directors, raising adequate financing and generating profitable operations in the future. As at March 31, 2009, the Company had an accumulated deficit of $6,594,756 and working capital of $1,157,262. There are no assurances that the Company will achieve profitable operations. These financial statements do not reflect adjustments in the carrying value of the assets and liabilities, the reported revenue and expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate, and that such adjustments could be material.

2. Significant Accounting Policies

The unaudited interim period consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies and methods of application as those used in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2008 except as described below. Under Canadian GAAP, additional disclosure is required in annual financial statements and accordingly the unaudited interim period consolidated financial statements should be read together with the audited annual consolidated financial statements for the year ended December 31, 2008 and the accompanying notes included thereto.

The consolidated financial statements include the accounts of Velo Energy Inc. and, prior to July 9, 2008, its subsidiary, collectively referred to as the "Company". The Company's interest in the voting share capital of its subsidiary was 100%.

Accounting Changes

Effective January 1, 2007, the Company implemented the new CICA Handbook Section 1506 "accounting changes". Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of change in accounting policies, estimates and error on the financial statements.

Effective January 1, 2008, the Company implemented the new CICA Handbook Section 1400 "General standards of financial presentation" to include requirements to assess and disclose the Company's ability to continue as a going concern.

2. Significant Accounting Policies (continued)

Accounting Changes (continued)

Adoption of New Accounting Standards

Effective January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under Section 3862, *Financial Instruments Disclosures*, Section 3863, *Financial Instrument - Presentation* and Section 1535, *Capital Disclosures*. *Financial Instruments* Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments - Recognition and Measurement*, Section 3863 and Section 3865,*Hedges*. Section 3863 is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

The adoption of Sections 3862 and 3863 had no impact on the Company's consolidated financial statements. *Capital Disclosures* Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed.

The Company has included the required disclosure in Note 12 and 13.

International financial reporting standards ("IFRS")

In 2006, the CICA Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Basis of Consolidation

These consolidated financial statements include the accounts of Velo Energy Inc. and Velo Energy Ltd., its wholly-owned subsidiary from the date of acquisition.

Revenue recognition

The Company recognizes interest income as it is earned and natural gas revenue when it is delivered.

2. Significant Accounting Policies (continued)

Property, Plant and Equipment

The Company has adopted the Canadian Institute of Chartered Accountants Accounting Guideline 16 on Full Cost Accounting for Oil and Gas Companies. In applying the full cost guideline, all costs relating to the acquisition of, exploration for and development of oil and gas reserves are accumulated in a single Canadian cost centre. Such costs include lease acquisition, lease rentals on undeveloped properties, geological and geophysical, drilling both productive and non-productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activity.

Gains or losses are not recognized upon the disposition of oil and gas properties unless such a disposition would change the depletion rate by 20% or more. Gains and losses are recognized upon the disposition of other assets.

All costs of acquisition, exploration and development of oil and gas reserves, associated tangible plant and equipment costs (net of salvage value), and estimated costs of future development of proven undeveloped reserves are depleted and depreciated by the unit of production method based on estimated gross proven reserves as determined by independent engineers.

Costs of unproved properties and seismic costs on undeveloped land are excluded from oil and gas properties for the purpose of calculating depletion.

The relative volumes of oil and natural gas reserves and production are converted to equivalent barrels of oil based on the relative energy content of each product on a 1 barrel to 6 thousand cubic feet basis.

In applying the full cost guideline, the Company calculates its ceiling test by comparing the carrying value of property, plant and equipment to the sum of the undiscounted cash flows expected to result from the future production of proved reserves and the sale of unproved properties. Cash flows are based on third party quoted forward prices adjusted for transportation and quality. Should the ceiling test result in an excess of carrying value, the Company would then measure the amount of the impairment by comparing the carrying amounts of property, plant and equipment to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves and the sale of unproved properties. A risk free interest rate is used to arrive at the net present value of future cash flows. Any excess is recorded as a permanent impairment.

Other capital assets are recorded at cost and are depreciated on a straight–line basis over their estimated life.

Joint Ventures

The Company conducts exploration, development and production activities jointly with others and, accordingly, these financial statements reflect only the Company’s proportionate interest in such activities.

2. Significant Accounting Policies (continued)

Goodwill

Goodwill is recorded at cost and not amortized. The Company tests for potential impairment of goodwill on an annual basis and, should it be determined that goodwill is impaired, the asset is written down at that time.

Asset Retirement Obligations

The Company recognizes the fair value of the liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site by site basis. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the consolidated statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized using the unit of production method based on estimated gross proven reserves as determined by independent engineers.

Financial instruments

CICA Handbook Section 3251, *Equity*, Section 3855, *Financial Instruments - Recognition and Measurement* and Section 3861, *Financial Instruments - Disclosure and Presentation,* all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held to maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, de-recognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financial instruments will be expensed in the period incurred.

The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Flow-through Shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. A future tax liability is generated when the renouncements related to the corresponding exploration and development expenditures are filed.

2. Significant Accounting Policies (continued)

Stock-based Compensation

The Company accounts for stock options granted to directors, officers, employees and nonemployees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

Future Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, The Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability and the benefit of losses carried forward for tax purposes, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in earnings in the period that the change occurs. Future tax assets are recognized to the extent that they are more likely than not to be realized.

Loss Per Share

The calculation of basic loss per share is based on the weighted average numbers of shares outstanding.

The treasury stock method of calculating diluted earnings per share is used whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

Use of Estimates

The amounts recorded for amortization and depletion of the petroleum and natural gas properties and for site restoration and reclamation are based on estimates of reserves and future costs. The ceiling test calculation is based on estimates of proven reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates, and those related to the future cash flows used to assess impairment, are subject to measurement uncertainty and their impact on the financial statements of future periods could be material.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the

2. Significant Accounting Policies (continued)

Valuation of equity units issued in private placements (continued)

closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as contributed surplus.

3. Business Acquisitions

On May 31, 2006 the Company acquired all of the shares of Velo Energy Ltd., a private oil and gas company. The acquisition was accounted for by the purchase method and the excess of the purchase price over the net assets acquired was allocated to goodwill.

Goodwill	$	1,081,759
Total purchase price	**$**	**1,081,759**

Consideration was comprised of:

Issue of 3,333,334 common shares	$	1,000,000
Costs related to the acquisition		81,759
Total consideration	**$**	**1,081,759**

The results of operations for Velo Energy Ltd. have been included in the consolidated financial statements from May 31, 2006 to July 9, 2008.

At March 31, 2007, the Company tested goodwill for impairment and determined that based on the impairment of the oil and gas properties, further described in note 4, that the goodwill was impaired. As a result, a goodwill impairment charge of $1,026,400 was recorded in that quarter.

4. Property, Plant and Equipment

	March 31, 2009		
	Cost	Accumulated Amortization and write down	Net
Petroleum and natural gas properties and equipment	$ 4,915,066	$ 4,915,066	$ -
Furniture, fixtures and equipment	24,518	24,518	-
Total	**$ 4,939,584**	**$ 4,939,584**	**$ -**

	March 31, 2008		
	Cost	Accumulated Amortization and write down	Net
Petroleum and natural gas properties and equipment	$ 4,915,066	$ 4,915,066	$ -
Furniture, fixtures and equipment	24,518	24,518	-
Total	**$ 4,939,584**	**$ 4,939,584**	**$ -**

5. Accounts Payable

In 2008 the Company made an informal proposal to its unsecured creditors. The basic terms of the proposal included an initial payment of 23% of the amount payable with a further 17% to be paid by April 30, 2008. Creditors representing $1,031,980 in unsecured payables have agreed to the proposal. Forgiveness of the amounts agreed to will be recorded when the Company fulfills its obligations under the proposal.

6. Indemnity Payable

The Company issued $1,977,000 of flow through shares in December, 2006. The Company failed to spend the full $1,977,000 on qualifying expenditures as at December 31, 2007, the final day for qualification. As part of the subscription agreement the Company agreed to indemnify the subscribers of the flow through shares in the event of such an occurrence. The shortfall of $990,536 of qualified expenditures resulted in the indemnity payable of $452,133. The highest marginal tax rate of a subscriber's province of residence was used to calculate the payable.

In July, 2008 the Company extinguished $449,292 of the indemnity claims for common shares of the Company. The issue price of the shares was $0.075 per share, resulting in 5,990,554 shares being issued.

7. Asset Retirement Obligations

At December 31, 2007, the Company had recorded $140,000 for future asset retirement obligations of the subsidiary.

The asset retirement obligation was determined using the following assumptions:

- The total amount of undiscounted future cash flows to settle the liability is estimated to be $140,000.
- The liability is estimated to be settled within a year.

Deposits are being held by the Energy Resources Conservation Board as collateral for these obligations. The deposits and asset retirement obligation were included in the disposal of the subsidiary (note 3).

8. Share Capital

a) Authorized and Issued Common Shares

Authorized

An unlimited number of common voting shares (the "Common Shares") without nominal or par value and an unlimited number of preferred shares issuable in series.

Issued Share Capital

The issued share capital is as follows:

8. Share Capital (continued)

a) Authorized and Issued Common Shares (continued)

	Number of Common Shares	Amount
Balance December 31, 2006	29,618,334	$ 6,177,911
Share issuance costs	-	(13,999)
Indemnity on unspent flow through funds	-	(452,133)
Tax effect of flow-through common shares	-	(128,313)
Balance, December 31, 2007	29,618,334	5,583,466
Issued for payment of debt	5,990,554	449,292
Issued for cash	30,000,000	1,500,000
Share issuance costs	-	(69,834)
Balance, March 31, 2009	65,608,888	$ 7,462,924

In May 2006, the Company issued 5,000,000 common shares at $0.30 per share for gross proceeds of $1,500,000. In December 2006, the Company issued 9,885,000 flow-through common shares at $0.20 per share for gross proceeds of $1,977,000. Under the terms of the flow-through share agreement, the Company is committed to spend 100% of the gross proceeds on qualifying exploration and development expenditures prior to December 31, 2007, which it did not do. An indemnity payable was recorded for the short fall, see note 6.

In July 2008, the Company issued 5,990,554 common shares at a deemed price of $0.075 per share as settlement for $449,292 of the indemnity payable.

In August 2008, the Company issued 30,000,000 common shares at $0.05 per share for gross proceeds of $1,500,000.

b) Escrowed Shares

The 4,000,000 common shares issued to the founders (the “Seed Capital Shares”) for a total consideration of $500,000 were deposited with a trustee under an escrow agreement. In accordance with TSX Venture Exchange (the “Exchange”) Policy 2.4., 10% of the Seed Capital Shares were released from escrow on the issuance of the Final Exchange Bulletin on June 5, 2006 (the “Initial Release”) and an additional 15% will be or have been released on each of the dates which are 6 months, 18 months, 24 months, 30 months, and 36 months following the Initial Release.

8. Share Capital (continued)

b) Escrowed Shares (continued)

The 3,333,334 common shares issued to purchase Velo Energy Ltd. are Value Escrow Shares. Under the Value Escrow Agreement and Exchange Policy 5.4, 10% of the Value Escrow Shares were released from escrow at the Initial Release and an additional 15% will be or have been released on each of the dates which are 6 months, 12 months, 18 months, 24 months, 30 months, and 36 months following the Initial Release.

All common shares of the Company acquired in the secondary market prior to the completion of a Qualifying Transaction by a control Person, as defined in the policies of the Exchange, are required to be deposited in escrow.

All Common Shares deposited in escrow and to be released subject to the completion of a Qualifying Transaction will be cancelled upon the issuance of a TSX Venture Exchange bulletin delisting the Common Shares of the Company.

c) Incentive Stock Options

The Company has a stock option plan where the number of common shares reserved under the plan shall not exceed 10% of the issued and outstanding common shares and the number reserved for any one individual may not exceed 5% of the issued and outstanding shares.

On February 15, 2007 the Company granted 350,000 incentive stock options to employees and consultants of the Company to purchase common shares at an exercise price of $0.20 per share. These options expire on February 15, 2011 and vest equally at the date of grant, June 15, 2007, October 15, 2007 and February 15, 2008.

On June 1, 2006 the Company granted 1,400,000 incentive stock options to employees, consultants and directors of the Company to purchase common shares at an exercise price of $0.30 per share. These options expire on June 2, 2011 and vest equally at the date of grant, September 30, 2006, January 31, 2007 and May 31, 2007.

In 2004, the Company granted incentive stock options to its directors and officers or to companies controlled by directors and officers of the Company to purchase up to a maximum of 900,000 of the issued and outstanding Common Shares at a price of $0.25 per Common Shares, expiring December 12, 2009. During 2006, 800,000 of these options were exercised for cash.

Changes in the number of stock options, with their weighted average exercise prices, are summarized below:

	March 31, 2009			March 31, 2008		
	Number of Options		Weighted average exercise price	Number of Options		Weighted average exercise price
Outstanding, beginning of year	1,150,000	$	0.27	1,150,000	$	0.27
Exercised	-		-	-		-
Forfeited	(700,000)		0.29	(50,000)		0.30
Granted	-		-	-		-
Outstanding, end of the year	**450,000**	**$**	**0.25**	**1,100,000**	**$**	**0.27**
Exercisable	450,000	$	0.25	1,100,000	$	0.27

8. Share Capital (continued)

c) Incentive Stock Options (continued)

During the first quarter, stock-based compensation expense was $Nil (2008 - $Nil) with a corresponding credit to contributed surplus. The fair value of the options was estimated using the Black-Scholes option pricing model, using a risk-free interest rate of 4.0%, expected volatility of 60%, expected life of four years and no expected dividends.

9. Contributed Surplus

	March 31, 2009
Balance, beginning of year	$ 289,094
Stock-based compensation	-
Exercised stock options	-
Balance, end of period	**$ 289,094**

10. Future Income Tax

The Company has the following deductions available as at March 31, 2009:

Non-capital losses	$ 478,000
Share issue expenses	$ 163,000

11. Related Party Transactions

Related party transactions are with directors and a company controlled by a director and officer of the Company. During the first quarter of 2009, $3,000 in management fees was paid to a company controlled by a director of the Company (2008 - $nil). These transactions were in the normal course of operations and are measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

12. Financial instruments

(a) Fair values:

At March 31, 2009 and 2008, the fair values of all financial instruments approximated their carrying values due to their short-term maturity.

(b) Credit risk:

The Company's receivables are due from companies operating in the petroleum and natural gas industry. The Company believes there is no unusual exposure as regular credit assessments are performed.

12. Financial instruments (continued)

(c) Interest rate risk:

The Company has cash balances. The Company's current policy is to invest excess cash in redeemable guaranteed investment certificates ("GIC") issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As of March 31, 2009, the Company's cash balance included $1,320,000 in redeemable GIC's, bearing interest at 4% per annum, maturing December 4, 2010.

13. Capital Management

The Company's objectives when managing capital are to (i) safeguard the entity's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders; and (ii) maintain a capital structure that provides financing options to the Company when a financing or a refinancing need arises to ensure access to capital on commercially reasonable terms, without exceeding its debt capacity.

In the management of capital, the Company includes all components of shareholders' equity in the definition of capital.

The Company manages the capital structure by monitoring its operational results against various financial scenarios prepared to reflect the changes in market and economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue debt to replace existing debt with similar or different characteristics, issue new shares, buy back shares or adjust the amount of cash and cash equivalents. The Company is not subject to any capital requirements imposed by a regulator. There were no changes in the Company's capital management policies during the period.

14. Contingent Liabilities

The President of the Company was dismissed during the second quarter of 2007. He has filed a wrongful dismissal action against the Company's wholly owned subsidiary, Velo Energy Ltd. which was sold to a third party and it is the Company's position that this liability has been transferred. The maximum potential exposure of this liability is $60,000. The outcome of this matter is uncertain.

As of the end of the quarter, there were no claims outstanding involving Velo Energy Inc.