Velo Energy Inc.
Interim Consolidated Financial Statements
September 30, 2009

Velo Energy Inc.
Consolidated Balance Sheets
(in Canadian dollars)

	September 30, 2009	December 31, 2008
	(unaudited)	
Assets		
Current		
Cash and cash equivalents	**$915,150**	$1,350,958
Term deposits	**15,000**	-
Receivables *(note 8)*	**90,719**	6,125
Prepaid expenses	**5,000**	-
	$1,025,869	$1,357,083
Liabilities		
Current		
Accounts payable and accrued liabilities *(note 7)*	**$372,822**	$195,436
Indemnity payable *(note 4)*	**2,841**	2,841
	375,663	198,277
Shareholders' Equity (Deficiency)		
Share capital *(note 5)*	**7,462,924**	7,462,924
Contributed surplus *(note 6)*	**1,074,494**	289,094
Deficit	**(7,887,212)**	(6,593,212)
	650,206	1,158,806
	$1,025,869	$1,357,083

See accompanying notes to the interim consolidated financial statements.

Velo Energy Inc.
Consolidated Statements of Operations and Deficit
(unaudited)
(in Canadian dollars)

	Three months September 30, 2009	Three months September 30, 2008	**Nine months September 30, 2009**	Nine months September 30, 2008
Revenue	**$ -**	$ -	**$ -**	$ -
Expenses				
General and administrative	**494,976**	31,702	**539,187**	75,360
Interest	**3,295**	-	**3,295**	3,763
Stock-based compensation *(note 5)*	**785,400**	-	**785,400**	-
	1,283,671	31,702	**1,327,882**	79,123
Other items				
Interest income	**7,554**	2,510	**33,882**	6,313
Gain on disposal of subsidiary *(note 3)*	**-**	942,909	**-**	942,909
	7,554	945,419	**33,882**	949,222
Net Income (loss) and comprehensive income (loss)	**(1,276,117)**	913,717	**(1,294,000)**	870,099
Deficit, beginning of period	**(6,611,095)**	(7,483,664)	**(6,593,212)**	(7,440,046)
Deficit, end of period	**$(7,887,212)**	$(6,569,947)	**$(7,887,212)**	$(6,569,947)
Income (loss) per share (basic and diluted)	**$(0.02)**	$0.02	**$(0.02)**	$0.02
Weighted average number of shares outstanding	**65,608,888**	54,002,554	**65,608,888**	37,835,727

See accompanying notes to the interim consolidated financial statements.

Velo Energy Inc.
Consolidated Statements of Cash Flows
(unaudited)
(in Canadian dollars)

	Three months September 30, 2009	Three months September 30, 2008	**Nine months September 30, 2009**	Nine months September 30, 2008
Cash Provided By (Used In)				
Operating Activities				
Net income (loss)	**$(1,276,117)**	$913,717	**$(1,294,000)**	$870,099
Add non-cash items:				
Stock-based compensation	**785,400**	-	**785,400**	-
Gain on sale of subsidiary	**-**	(942,909)	**-**	(942,909)
Funds used in operations	**(490,717)**	(29,192)	**(508,600)**	(72,810)
Net change in non-cash working capital	**104,875**	(7,033)	**87,792**	10,327
	(385,842)	(36,225)	**(420,808)**	(62,483)
Financing Activities				
Issuance of common shares	**-**	1,500,000	**-**	1,500,000
Share issue costs	**-**	(69,834)	**-**	(69,834)
Loan payable	**-**	(20,000)	**-**	-
Net change in non-cash working capital	**-**	-	**-**	3,750
	-	1,410,166	**-**	1,433,916
Investing Activities				
Purchase of term deposits	**(15,000)**	-	**(15,000)**	-
Sale of subsidiary *(note 3)*	**-**	(1,401)	**-**	(1,401)
Net change in non-cash working capital	**-**	-	**-**	(79,348)
	(15,000)	(1,401)	**(15,000)**	(80,749)
Increase (Decrease) in cash during period	**(400,842)**	1,372,540	**(435,808)**	1,290,684
Cash and cash equivalents, beginning of period	**1,315,992**	1,402	**1,350,958**	83,258
Cash and cash equivalents, end of period	**$915,150**	$1,373,942	**$915,150**	$1,373,942

Cash and cash equivalents:				
Cash	**$215,150**	$373,942	**$215,150**	$373,942
Term deposits	**700,000**	1,000,000	**700,000**	1,000,000
	$915,150	$1,373,942	**$915,150**	$1,373,942

See accompanying notes to the interim consolidated financial statements.

1. Nature of Operations

Velo Energy Inc. ("Velo" or the "Company") was incorporated on July 8, 2004 and was originally classified as a Capital Pool Company under 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. through the issuance of 3,333,334 common shares of the Company. This arm's length transaction constituted the Company's Qualifying Transaction under the rules of the TSX Venture Exchange. The Company's oil and gas operations were focused in southern Alberta. On July 9, 2008 the Company sold Velo Energy Ltd.

In August 2009, the Company's management was replaced and Velo's focus was changed to oil exploration and development in the UK Central North Sea.

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 operation of the Company is dependant upon its ability to obtain adequate financing and to generate profitable operations in the future. As at September 30, 2009, the Company had an accumulated deficit of $7,887,212 and working capital of $650,206. These financial statements do not reflect adjustments to carrying values of assets and liabilities and the balance sheet reclassifications that would be necessary if the going concern assumption were not appropriate, and such adjustments could be material.

On October 15, 2009, the Company filed a preliminary prospectus to obtain financing for its operations in the UK Central North Sea. The closing of this public offering is expected as soon as regulatory requirements are met.

2. Accounting Policies

The unaudited interim consolidated financial statements follow the same accounting policies as the most recent annual audited financial statements, except as noted below. The notes to these unaudited interim consolidated financial statements do not conform in all respects to the note disclosure requirements of Canadian generally accepted accounting principles ("GAAP") for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2008.

The consolidated financial statements include the accounts of Velo Energy Inc. and, prior to July 9, 2008, its wholly-owned subsidiary, collectively referred to as the "Company".

Accounting Changes

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 Canadian 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.

2. Accounting Policies (continued)

Accounting Changes (continued)

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, Financial Instruments — Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. The Company will include these additional disclosures in its annual consolidated financial statements for the year ending December 31, 2009.

3. Business Acquisitions and Disposal

On May 31, 2006 the Company acquired all of the shares of Velo Energy Ltd., a private oil and gas company. By agreement dated and effective July 9, 2008, the Company sold its wholly-owned subsidiary Velo Energy Ltd. for $1. The gain on disposal was determined as follows:

Cash and cash equivalents	$	1,402
Receivables		45,293
Prepaid expenses and deposits		342,110
Property, plant and equipment		4,939,584
Accumulated amortization and write down of property, plant and equipment		(4,939,584)
		388,805
Accounts payable and accrued liabilities		(1,235,755)
Asset retirement obligations		(133,985)
		(1,369,740)
Net liabilities		980,935
Legal expenses reimbursed by parent in connection with disposal		(38,025)
		942,910
Less: proceeds		(1)
Gain on disposal of subsidiary	**$**	**942,909**

4. 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.

5. 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

The issued share capital is as follows:

	Number of Common Shares		Amount
Balance December 31, 2006	29,618,334	$	6,177,911
Share issue costs	-		(13,999)
Indemnity on unspent flow through funds (note 4)	-		(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 indemnity claims (note 4)	5,990,554		449,292
Issued for cash	30,000,000		1,500,000
Share issue costs	-		(69,834)
Balance, December 31, 2008 and September 30, 2009	65,608,888	$	7,462,924

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 was 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 shortfall. See Note 4.

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.

5. Share Capital (continued)

b) 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 August 7, 2009, the Company has granted 5,610,000 stock options to its officers, directors and consultants to acquire common shares at an exercise price of $0.20. The stock options vest immediately and expire in 5 years.

Stock-based compensation expense of $785,400 for the stock options granted has been recognized for the three and nine months ended September 30, 2009. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2009
Risk free interest rate	2.0%
Weighted average years	4.0
Expected volatility	100%
Expected dividend yield	0%

Exercise prices for stock options granted are determined by the closing market price on the day before the date of grant.

6. Contributed Surplus

	September 30, 2009	December 31, 2008
Balance, beginning of period	$ 289,094	$ 240,394
Stock-based compensation	785,400	-
Expired agent warrants	-	48,700
Balance, end of period	**$ 1,074,494**	**$ 289,094**

7. Related Party Transactions

Before August 1, 2009

Related party transactions were 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 were paid to a company controlled by a director of the Company (2008 - $2,000). 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.

After August 1, 2009

Transactions are with the Company's directors and officers in the form of consulting services, which total $265,200 for the period ended September 30, 2009 including $236,200 in accrued liabilities as at September 30, 2009. These transactions occurred in the normal course of business and have been valued at exchange amounts based on commercial rates and terms agreed to in the related consulting contracts.

As at September 30, 2009, the Company has accounts receivable of $79,550 due from North Sea Oil Ltd. ("NSO"), a company which Velo agreed to acquire subsequent to September 30, 2009 – see Note 10. This amount reflects expenses incurred by NSO that were paid for by the Company. Members of the senior management team of Velo are either registered or beneficial shareholders of NSO. The amount due from NSO is unsecured, interest free and repayable on demand.

8. Financial instruments:

(a) Fair values:

At September 30, 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 current receivables are mainly due from NSO and the government (GST). The Company believes there is no unusual exposure associated with these receivables.

(c) Interest rate risk:

The Company's current policy is to invest excess cash in redeemable guaranteed investment certificates ("GICs") 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 September 30, 2009, the Company's cash and cash equivalents balance included $700,000 in redeemable GICs, maturing October 5, 2009.

9. 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 external capital requirements. There were no changes in the Company's capital management policies during the period.

10. Subsequent Events

Financing

On October 15, 2009, the Company filed a preliminary prospectus to obtain financing for its operations in the UK Central North Sea. The closing of this public offering is expected as soon as regulatory requirements are met.

Subsidiaries

On, October 6, 2009, the Company signed a share purchase agreement to acquire all of the shares of North Sea Oil Ltd., a private company, incorporated in Alberta, Canada and North Sea Oil Exploration Limited ("NSOE"), a private company incorporated in England and Wales, UK, in a non-arms length transaction for the total purchase price of $600,000, payable by the issue of 1,000,000 common shares of Velo at a deemed issue price of $0.60 per share. Members of the senior management team of Velo are either registered or beneficial shareholders of NSO and NSOE. The transaction was approved by the TSX Venture Exchange on the condition that 1,000,000 shares issued are placed in escrow until the Company closes the public offering and completes the Sale and Purchase Agreement for oil and gas properties in the UK North Sea (as described below). If these transactions are not completed then the NSO and NSOE shares will be conveyed back to the vendors and the 1,000,000 common shares of Velo will be cancelled.

10. Subsequent Events (continued)

Balance sheets of NSO and NSOE as at September 30, 2009 are as follows:

		NSO as at September 30, 2009		NSOE as at September 30, 2009
Assets				
Current Assets				
Cash	$	71,826	£	2
Term deposits		15,000		-
Prepayments		9,640		-
	$	96,466	£	2
Liabilities and Shareholders' Deficiency				
Current Liabilities				
Accounts payable	$	128,778	£	-
Accrued liabilities		256,650		13,880
		385,428		13,880
Shareholders' Deficiency				
Share capital		2		2
Deficit		(288,964)		(13,880)
		(288,962)		(13,878)
	$	96,466	£	2

Commitments

On September 29, 2009, NSOE signed a Sale and Purchase Agreement to acquire various interests in three oil and gas, exploration and development properties located in the UK Central North Sea. The agreement provides for consideration of US$ 12 million (equivalent of approximately $12.9 million) payable on closing and subsequent payments of US$ 8 million and US$ 5 million (equivalent of approximately $8.6 million and $5.4 million) payable upon achieving gross production of one million and three million barrels of oil, respectively, from any new or recompleted well drilled in the Caledonia field. In addition, at closing, NSOE will be obliged to provide a deposit or letter of credit in the estimated amount of GBP £8.6 million (equivalent of approximately $14.8 million) as security related to the future decommissioning costs of Caledonia and will be committed to 60% of the cost to drill a well to the Paleocene Forties Formation in the Catcher property (at an estimated cost to NSOE of $10.7 million) which must occur by December 31, 2010 in order to earn a 50% equity interest in the Catcher property.

The payments and commitments noted in the Sale and Purchase Agreement above are expected to be financed using funds from the public offering discussed above.