VELO ENERGY INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009

The following is management's discussion and analysis ("MD&A") of the operating and financial results of Velo Energy Inc. ("Velo" or the "Company") for the three and nine months ended September 30, 2009. The information is provided as of November 24, 2009. The three and nine month results have been compared to the same periods of 2008. This discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2008, together with the accompanying notes, and the December 31, 2008 MD&A. These documents and additional information about Velo are available on SEDAR at www.sedar.com.

This discussion and analysis contains forward-looking statements relating to future events or future performance. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates" and similar expressions. These statements represent management's expectations or beliefs concerning, among other things, future operating results and various components thereof or the economic performance of Velo Energy Inc. The projections, estimates and beliefs contained in such forward-looking statements necessarily involve known and unknown risks and uncertainties, including the business risks discussed in the MD&A as at and for the years ended December 31, 2008 and 2007, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Operating conditions and weather can have a significant effect on the timing of events. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

All amounts are presented in Canadian dollars ("$") unless otherwise noted.

BUSINESS OF THE COMPANY

Velo Energy Inc. is a publicly traded oil and gas company listed on the TSX Venture Exchange (TSX-V) under the symbol "VLO". The Company was a capital pool company pursuant to the policies of the TSX-V, and 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. 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, building on the experience and success that its senior management experienced in the region previously. The Company's strategy in the UK Central North Sea will be to build a mix of cash generative development properties and appraisal opportunities focused primarily on oil in order to balance cash flow generation and reserve growth.

OVERVIEW

During the third quarter of 2009 the new management of Velo worked mainly on:

- potential acquisitions and farm-in agreements for oil and gas offshore properties located in the central North Sea, UK;
- obtaining financing, adequate to allow the company to pursue appraisal and development projects in the UK;
- setting-up the company's structure to allow effective operations in two jurisdictions

Subsequent to the end of the third quarter the Company signed a share purchase agreement to acquire all of the shares of North Sea Oil Ltd. ("NSO") a private company, incorporated in Alberta, Canada and North Sea Oil Exploration Limited. ("NSOE"), a private company incorporated in England and Wales, UK. NSOE will be the Company's operating subsidiary for its UK oil & gas projects. NSO is structured as a service company, which will provide geological, geophysical, engineering, financial and accounting services for the UK operations.

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:

- Caledonia (100%), which lies to the north of the Alba and Britannia fields, is an appraised oil pool that offers near-term production and cash-flow. The central area of the field was developed by Chevron Corporation in 2003 with historic cumulative production of over 6.0 million bbls of oil. First oil from the northern lobe is forecasted for the second quarter of 2010 upon completion of drilling a horizontal production well. A new horizontal production well in the northern lobe can be tied-in to existing subsea infrastructure, including the ConocoPhillips/Chevron-operated Britannia platform located only 6 kilometres to the south. Sproule International Limited ("Sproule") estimates proved and probable reserves for the Caledonia pool of 3.7 million bbls of oil with additional possible reserves of 5.7 million bbls of oil. Substantial reserve expansion exists with "attic" oil in the central lobe in addition to the potentially much larger eastern lobe, both of which will be the subject of continued exploration and evaluation.

- Sheryl (65%), which is currently operated by Sterling Resources with a 35% interest, was discovered in 2006. The discovery was subsequently followed up with seven appraisal wells. Sheryl offers longer term production and reserve growth with production drilling anticipated to take place in 2011 together with the potential tie-in to the nearby Saxon-Pict subsea manifold connecting to the Triton system. Sproule has modelled initial rates of production from Sheryl of 3,000 bbl of oil per day from a single well, 4,500 bbl of oil per day from two wells. Sproule estimates gross probable reserves of 3.2 million bbl of oil with additional possible reserves of 1.6 million bbl of oil.

- Catcher is an early stage prospect with prospective seismic data and is presently undrilled. Velo will fund 60% of the drilling cost of the initial exploratory well to earn a 50% working interest in the property. Prospect drilling is expected to test both Tay and Forties anomalies at shallow depth. There are no proved or probable reserves at Catcher, however, Sproule has estimated prospective oil resources of 11.0 million bbl of oil in the Forties anomaly and Tay sands (successful development case).

On September 30, 2009, NSOE has signed a letter of intent to acquire a 65.17% interest in Block 22/15 (referred to as the Banks property). The Banks property, which includes the Banks discovery, is considered by the Company to be highly prospective. A 2005 discovery well at Banks yielded a flow rate of 1,080 bbl/d of oil and 12.3 MMscf/d of gas upon drill stem testing. Due to previous experience with the Forties formation in this area, the management of Velo believes that no "oil-water contact" was encountered in the Banks 22/15-3 well. Velo believes the Banks well intercepted a "low-resistivity zone" and the Banks pool could extend both to the southeast and the northwest. Additionally, seismic data suggests that the Banks oil pool could extend to the northwest over 16 square kilometers. Initial estimates are that the smaller structural Banks pool contains approximately 6.0 million boe, however, significant oil reserves could be associated with a large stratigraphic trap to the northwest. Velo plans to drill additional appraisal wells at Banks to fully evaluate this property.

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

The Company will use the proceeds from this public offering to finance its operation in the UK North Sea, in particular to cover acquisition costs and commitments related to the above transactions as well as the Company's 2010 capital expenditure budget.

FINANCIAL SUMMARY

The Company's general and administrative costs increased during the third quarter of 2009 due to a change in management and an increase in activities. General and administrative costs amounted to $494,976 in the third quarter of 2009 compared to $31,702 in third quarter of 2008. In addition, the Company recognised stock based compensation of $785,400 in the third quarter 2009 (nil in 2008) as 5,610,000 stock options were granted to its directors, officers and consultants in third quarter of 2009 (nil in 2008). As a result, the Company's net loss amounted to $1,276,117 and $1,294,000 for three and nine month periods ended September 30, 2009 compared to net income $913,717 and $870,099 for respective periods of 2008 (generated mainly due to a gain on disposal of its subsidiary Velo Energy Ltd. of $942,909). Cash used in operating activities amounted to $490,717 and $508,600 for three and nine month periods ended September 30, 2009 compared to $29,192 and $72,810 for respective periods of 2008.

OUTLOOK

The Company's current strategy is to establish and grow its oil and gas business in the UK North Sea, by acquiring and farming into unappraised and/or undeveloped assets and by participating in UK North Sea licensing rounds. The Company intends to focus its efforts exclusively on the North Sea in the near term. Subject to closing of the acquisition transactions in respect of Caledonia and Banks, the Company's operations in 2010 will focus on:

- reactivating of the Caledonia field by drilling a production well with an appraisal side track;
- drilling an appraisal well in the Banks prospect;
- evaluating other prospects and farm-in potential in the central North Sea.

The Company currently anticipates incurring substantial expenditures for its capital investment plans and to meet contractual obligations as outlined in "Contractual Obligations". The proceeds from the public offering, expected to close as soon as regulatory requirements are met, and the Company's cash flow from operating activities may not be sufficient to satisfy both its current obligations and the requirements of its capital investment programs. The ability of the Company to undertake its capital investment and business plans are dependent on its ability to obtain additional financing.

FINANCIAL AND OPERATING HIGHLIGHTS

Net Income and Cash Flows from Operating Activities

The following table summarizes the Company's financial results for the three and nine months ended September 30, 2009 and 2008:

	Three Months ended September 30,		**Nine Months ended September 30,**	
	2009	**2008**	**2009**	**2008**
General and administrative expenses	**$494,976**	$31,702	**$539,187**	$75,360
Stock-based compensation	**785,400**	-	**785,400**	-
Net income (loss)	**(1,276,117)**	913,717	**(1,294,000)**	870,099
Per share income (loss)	**$(0.02)**	$0.02	**$(0.02)**	$0.02
Cash used in operating activities	**$(490,717)**	$(29,192)	**$(508,600)**	$(72,810)
Outstanding common shares at September 30	***65,608,888***	*54,002,554*	***65,608,888***	*37,835,727*
Weighted average - basic	***65,608,888***	*54,002,554*	***65,608,888***	*37,835,727*

FINANCIAL AND OPERATING HIGHLIGHTS (CONTINUED)

Comparative Balance Sheet Items

The following table summarizes the Company's financial position as at September 30, 2009, June 30, 2009 and December 31, 2008:

	September 30, 2009	June 30, 2009	December 31, 2008
Cash and cash equivalents	**$ 915,150**	$1,315,992	$1,350,958
Current assets	**1,025,869**	1,354,235	1,357,083
Current liabilities	**375,663**	213,312	198,277
Share capital	**7,462,924**	7,462,924	7,462,924
Shareholders' equity	**$650,206**	$1,140,923	$1,158,806

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to $494,976 and $539,187 for the three and nine month periods ended September 30, 2009 as compared to $31,702 and $75,360 for the respective periods of 2008. The increase in expenditures reflects the increase in the Company's team and its activity in the third quarter of 2009.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The Company is a venture issuer that has not had significant revenue from operations in either of its last two financial years. In accordance with National Instrument 51-102, additional disclosure on material costs is presented below.

	Three Months ended September 30,		Nine Months ended September 30,	
	2009	**2008**	**2009**	**2008**
General and administrative:				
Consulting and management fee	**$272,800**	$2,000	**$282,939**	$2,000
Professional services	**149,690**	15,047	**165,793**	41,585
Travel expenses	**53,924**	-	**53,924**	-
Office expenses	**14,087**	-	**15,635**	-
Other general and administrative	**4,475**	14,655	**20,896**	31,775
Total general and administrative	**$494,976**	$31,702	**$539,187**	$75,360
Capitalized exploration and development costs	**$0**	$0	**$0**	$0

INTEREST AND INDEMNITY PAYABLE

The Company failed to renounce adequate qualifying expenditures for the flow through shares issued in December, 2006. This failure resulted in the indemnity payable of $452,133.

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.

The Company has been assessed $164,944 in Part XII.6 tax by Canada Revenue Agency. The Part XII.6 tax was paid on August 11, 2009.

STOCK-BASED COMPENSATION EXPENSE

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 granted 5,610,000 stock options to its officers, directors and consultants to acquire common shares at the exercise price of $0.20. The stock options vest immediately and expire in 5 years. Exercise prices for stock options granted are determined by the closing market price on the day before the date of grant.

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 (assumptions used for the model are discussed in the notes accompanying the Company's unaudited interim financial statements as at and for the three and nine month periods ended September 30, 2009).

Stock compensation expense was $Nil for the three and nine month periods ended September 30, 2008.

STATUS OF PETROLEUM AND NATURAL GAS PROPERTIES

Canada

In July, 2008, Velo Energy Ltd. was sold to Daran Energy Services Corp., a private Alberta company, for nominal consideration. The sale included the shares of Velo Energy Ltd. and the debt owing from Velo Energy Ltd. to the Company. The Blueberry, Pica and Woking wells were properties owned by Velo Energy Ltd. As such, the rights to these properties, along with their respective abandonment costs are no longer a part of the Company.

In July 2008, Velo entered into a confidential joint venture and participation agreement (the "Agreement") with a private Alberta company, to jointly participate in a drilling, completion, seismic, recompletion of wells located on certain lands in Southern Alberta. The Company had the option to commit up to a maximum of $1,000,000 to be expended by the end of 2009 on qualifying Canadian Exploration Expenses or Canadian Development Expenses. Generally, Velo would pay 100% of costs to earn 50% of the private company's working interest in each well. With the change in the Company's focus and having regarded current commodity prices, the Company does not intend to incur any expenditures under this agreement.

UK North Sea

On September 29, 2009, NSOE (which the Company has agreed to acquire) 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: Caledonia (100%), Sheryl (65%) and Cather (50%).

On September 30, 2009, NSOE signed a letter of intent to acquire a 65.17% interest in Block 22/15 (referred as Banks property).

Closing of these transactions remains subject to UK regulatory approval. The Company expects the above properties to provide an opportunity for production development in the short and medium term and reserve growth in the medium and long term.

TRANSACTIONS WITH RELATED PARTIES

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 NSO. 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.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, cash deposits, receivables, and accounts payable and accrued liabilities. It is management's opinion that currently 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 September 30, 2009, there were 65,608,888 common shares issued and outstanding. There were also 5,610,000 stock options issued to acquire common shares, exercisable until August 7, 2014.

Subsequent to September 30, 2009, the Company agreed to issue 1,000,000 common shares as a payment for the purchase of 100% of the shares of NSO and NSOE. These shares will be placed in escrow until the Company closes the public offering and completes the Sale and Purchase Agreement for the oil and gas properties in the UK North Sea. 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.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2009, the Company had positive working capital of $650,206 and cash of $915,150.

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.

CONTRACTUAL OBLIGATIONS

As at September 30, 2009, the Company had no commitments and/or contractual obligations other than those included in liabilities in the Company's financial statements.

On October 6, 2009, the Company signed a share purchase agreement to acquire all of the shares of NSO and NSOE, 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. As a result, the Company will assume NSO and NSOE deficits which amounted to approximately $550,000 and £20,000 as at October 31, 2009 for NSO and NSOE, respectively. 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-V 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.

The 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**

CONTRACTUAL OBLIGATIONS (CONTINUED)

On September 29, 2009, NSOE (which the Company has agreed to acquire) signed a sale and purchase agreement and separate letter of intent to acquire various interests in oil and gas, exploration and development properties located in the UK Central North Sea. Closing of these transactions remains subject to UK regulatory approval, however, upon closing the Company will have the following commitments:

- The sale and purchase agreement provides for the 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;
- At closing of the sale and purchase agreement, 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;
- Further to the sale and purchase agreement, the Company will be committed to 60% of the cost to drill a well to the Palecene 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 letter of intent provides for consideration of US$4 million (equivalent of approximately $4.3 million) payable on closing; and
- All the above properties are subject to UK annual license fees of approximately GBP £0.2 million (equivalent of approximately $0.3 million) in respect of the Company's share.

In November 2009, the Company also signed operating lease agreements for the rental of office space in Calgary and London. The total office rent commitments amount to approximately $0.9 million per annum, payable over the next 10 years.

The Company is currently pursuing projects/contracts that will require additional financing. In the future, the Company will rely on internally generated cash flow, private or public equity investments, joint ventures, farm-outs, public or private debt capital, exercise of options and other sources of capital as may be available to the Company.

SELECTED QUARTERLY INFORMATION

Most recent eight Quarters ($):

	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
Revenue	0	0	0	0
Net income (loss)	(1,276,117)	(16,339)	(1,544)	(23,265)
Net income (loss) per share- basic & diluted	(0.02)	(0.00)	(0.00)	(0.00)

	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
Revenue	0	0	0	28,168
Net income (loss)	913,717	(28,241)	(15,377)	(799,159)
Net income (loss) per share- basic & diluted	0.02	(0.00)	(0.00)	(0.02)

ACCOUNTING PRONOUNCEMENTS

Accounting changes

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.

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

Critical Accounting 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.

BUSINESS RISKS

Velo's activities are focused on exploration, development and production of oil and gas properties, 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 qualified and professional employees 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 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.

DIRECTORS

Arthur S. Millholland, P.Geol. - President and Chief Executive Officer
Harald Ludwig - Director
Massimo Carrello - Director
Ray Antony - Director
Rick Schmitt - Director

OFFICERS

Arthur S. Millholland, P.Geol. - President and Chief Executive Officer
William H. Smith, Q.C. – Executive Vice President and General Counsel
Gareth Noonan – Executive Vice President Finance
Gerald Roe – Chief Operating Officer
Aleksandra Owad, CGA, FCCA(UK) – Chief Financial Officer
Kim Galavan – Chief Administrative Officer