VELO ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2010

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 months ended March 31, 2010. The information is provided as of May 28, 2010. The three months results have been compared to the same period of 2009. This discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements as at and for the year ended December 31, 2009, together with the accompanying notes and the December 31, 2009 MD&A. These documents and additional information about Velo are available on SEDAR at www.sedar.com.

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. and, at the time, 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.

FORWARD- LOOKING INFORMATION

This MD&A 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", "potential", "intend", "believe" 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 this MD&A as at and for the three months ended March 31, 2010, 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.

Forward-looking statements included or incorporated by reference in this document include statements with respect to:

- the Company's strategy to establish and grow an oil and gas business in the UK Central North Sea (the "Overview", " Outlook", "Liquidity and Capital Resources" sections);
- the Company's ability to raise capital and obtain financing necessary to set up and develop profitable oil operations in the UK (the "Overview", "Outlook", "Liquidity and Capital Resources" and "Commitments and Contractual Obligations" sections);
- The Company's ability to sign a sale and purchase agreement and obtain financing and necessary consents required to close proposed acquisition/farm-in transactions (the "Overview" and "Outlook").

The Company's actual results may differ materially from those anticipated in these forward-looking statements as a result of the following risk factors:

- General economic conditions in Canada, the United Kingdom and globally;
- Volatility and competition in the capital and debt market, which causes uncertainty in terms of adequate financing being available to the Company on acceptable terms;
- The uncertainty of realizing anticipated benefits from proposed acquisitions, including uncertainty regarding reserve estimates;
- Industry conditions, in particular volatility in oil prices, availability of drilling and production equipment, and changes in capital and operating costs;
- Risks inherent to subsea development and offshore operations, including but not limited to drilling hazards, environmental damage, health and safety, unexpected geological and technical problems, extreme weather conditions, insufficient storage and transportation capacity;
- Competition for drilling rigs, subsea equipment, professional services and skilled personnel;
- Governmental regulations in respect of the oil and gas industry, including environmental regulations, the corporate income tax regime, the consents and approvals necessary for offshore operations in the UK, and decommissioning liabilities;
- Fluctuations in foreign exchange and interest rates;
- Risks associated with being a non-operator, including dependence on the operator's skills to keep costs and timetables within a budget and dependence on the operator's industry preferences, choices and priorities (which may not be in line with the Company's).

For the purpose of forward-looking statements included or incorporated by reference in this MD&A, the Company made assumptions regarding:

- General economic conditions and financial markets, including costs of raising capital and cost of debt;
- Availability of financing on acceptable terms;
- Availability of acquisition or farm-in prospects in offshore UK;
- The energy market and future oil prices;
- Availability of drilling, development and production equipment and respective professional services and skilled personnel;
- Current technology and future costs of equipment and operation for offshore oil production in UK;
- Governmental consents and environmental and tax laws;
- Future exchange rates and interest rates;
- Cooperation with partners and field operators.

The above summary of major risks and assumptions, related to forward-looking statements included or incorporated by reference in this MD&A has been provided for readers to gain a more complete perspective on Velo's future operation. However, readers should be cautioned that the above list of factors is not exhaustive and that this information may not be appropriate for other purposes. Forward-looking statements included or incorporated by reference in this MD&A are valid only as at the date of this MD&A, and the Company does not intend to update or revise these forward-looking statements except as required by applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OVERVIEW *

During the first quarter of 2010, management of Velo worked mainly on:

- Dealing with regulatory authorities to define terms of participation in the UK Central North Sea;
- Negotiating potential acquisitions and farm-in agreements for oil and gas offshore properties located in the UK Central North Sea;
- Obtaining adequate financing to allow the Company to pursue appraisal and development projects in the UK.

On January 6, 2010, the Company received a letter from the UK Department of Energy and Climate Change (“DECC”) advising that DECC refused to consent to the proposed transfers of interest in Caledonia, Sheryl and Catcher licences in UK Central North Sea blocks. DECC advised that it had not formed a view on the Company’s financial capacity but was not satisfied with several aspects of the Company, including its technical capacity and its corporate structure in relation to specific needs for operation in the UK offshore basin.

Under UK regulations, DECC must consent to any proposed transfers of interest in offshore licenses. Accordingly, the Company was unable to close a public offering under a prospectus issued in December 2009, and the purchase agreement and letter of intent to acquire properties in the UK, signed in September 2009 by its subsidiary, North Sea Oil Ltd. (“NSO”) were terminated.

After a number of meetings and correspondence with DECC, on February 23, 2010, the Company received clarification from DECC that it will consider transfers of non-operating license interests in the UK Central North Sea to Velo. Accordingly, the Company restructured its business plan and reduced its team of professionals, as the status of non-operator generally requires fewer resources; non-operators are involved in all major decisions in respect of the particular field, however, their involvement and responsibilities for daily operations are limited.

The Company is currently in process of negotiating a new potential transaction to acquire/farm-in into a non-operating interest in an oil and gas property in the UK North Sea that will comply with DECC requirements.

On May 14, 2010 and May 21, 2010, the Company closed a private placement of 27,490,315 units at $0.30 per unit, each unit consisting of one common share and one half of a share purchase warrant. Each whole warrant will entitle the holder to acquire one common share at the exercise price of $0.50 and expires 18 months from the date of closing. The total gross proceeds amounted to $8,247,095 and will be used to finance the Company’s short term working capital requirements, including payment of accrued liabilities incurred with respect to acquisitions in the UK Central North Sea and for general corporate purposes.

**** This section contains forward-looking information. Please see the “Forward-looking Information” section (at the beginning of this document) for a discussion of risks and uncertainties relating to such information.***

FINANCIAL SUMMARY

The Company’s general and administrative costs increased during first quarter of 2010 due to a change in management and an increase in activities. General and administrative costs amounted to $1,439,818 for the three months ended March 31, 2010 compared to $15,063 for the same period in 2009. As a result, the Company’s net loss amounted to $1,706,591 for the three months ended March 31, 2010, compared to $1,544 for the respective period of 2009. Cash used in operating activities amounted to $1,634,852 for the three months ended March 31, 2010, compared to $1,544 for the respective period of 2009.

OUTLOOK *

The Company’s current strategy is to establish and grow its oil and gas business in the UK Central North Sea by acquiring and/or farming into interest in unappraised and/or undeveloped assets and by participating in UK Central North Sea licensing rounds on a non-operator basis.

The Company’s short-term operations will focus on:

- finalizing a Sales and Purchase Agreement in respect of acquisition/farm-in into a non-operating interest in an oil and gas property in the UK Central North Sea;
- preparing a new prospectus and obtaining adequate financing (via a public offering) to cover acquisition and development costs of the above mentioned property;
- evaluating other prospects and farm-in potentials in the UK Central North Sea.

The Company currently anticipates incurring substantial expenditures for its capital investment plans and to meet contractual obligations as outlined in "Commitments and Contractual Obligations". The Company's ability to undertake its capital investment and business plans is dependent on its ability to obtain additional financing.

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FINANCIAL AND OPERATING HIGHLIGHTS

Net Income and Cash Flows from Operating Activities

The following table summarizes the Company's financial results for the three months ended March 31, 2010 and 2009:

	Three months ended March 31, 2010	Three months ended March 31, 2009
General and administrative expenses	**$1,439,818**	$15,063
Net income (loss)	**(1,706,591)**	(1,544)
Per share income (loss)	**$(0.03)**	$(0.00)
Cash used in operating activities	**$(1,634,852)**	$(1,544)
Issued common shares at March 31	***66,608,888***	*65,608,888*
Weighted average - basic	***65,608,888***	*65,608,888*

Comparative Balance Sheet Items

The following table summarizes the Company's financial position as at March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31,2009
Cash and cash equivalents	**$ 621,465**	$ 1,408,528
Current assets	**822,270**	1,790,857
Current liabilities	**4,424,336**	3,702,849
Share capital	**8,062,924**	8,062,924
Shareholders' equity	**$(3,478,132)**	$(1,771,541)

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 March 31, 2010	Three months ended March 31, 2009
General and administrative:		
Consulting, management and external directors' fees	**$836,637**	$4,500
Professional services	**43,386**	886
Travel expenses	**127,622**	129
Office expenses	**393,594**	141
Financing costs	**25,159**	-
Other general and administrative	**13,420**	9,407
Total general and administrative	**$1,439,818**	$15,063
Capitalized exploration and development costs	**$0**	$0

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to $1,439,818 for the three months ended March 31, 2010 as compared to $15,063 for the respective period of 2009. The increase in expenditures reflects the increase in the Company's team and its activity in 2010.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, cash deposits, accounts receivable, prepaid expenses, short-term loan and accounts payable and accrued liabilities. It is management's opinion that the Company is not currently 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 March 31, 2010, there were 66,608,888 common shares issued, including 1,000,000 shares held in escrow. The shares held in escrow are accounted for as contingently returnable shares at March 31, 2010, which were not considered outstanding and are not included in the computation of basic loss per share until they are released from escrow.

As at March 31, 2010, the Company also had:

- 5,610,000 stock options issued to acquire common shares at an exercise price of $0.20 and with expiry date of August 7, 2014;
- 500,000 share purchase warrants issued, each warrant carrying the right to acquire one common share at an exercise price of $0.50 and with an expiry date of December 10, 2010.
- 1,200,000 share purchase warrants issued, each warrant carrying the right to acquire one common share at an exercise price of $0.50 and with an expiry date of December 14, 2010.

Subsequent to March 31, 2010, the Company has issued following common shares and warrants:

- On May 5, 2010 - 721,694 common shares to Endeavour as payment for the Bridge Loan fee (as described in the notes accompanying the Company's unaudited consolidated financial statements as at and for the three month period ended March 31, 2010);

- Further to a private placement closed on May 14, 2010 and May 21, 2010, the Company issued total of 28,533,156 common shares (as described in the notes accompanying the Company's unaudited consolidated financial statements as at and for the three month period ended March 31, 2010);

- As part of the private placement closed on May 14, 2010 and May 21, 2010, the Company issued 14,266,583 share purchase warrants, each warrant giving the right to acquire one common share of Velo at an exercise price of $0.50 per share with an expiry date 18 months after the closing date (as described in the notes accompanying the Company's unaudited consolidated financial statements as at and for the three month period ended March 31, 2010).

TRANSACTIONS WITH RELATED PARTIES

During the first quarter of 2010, transactions with the Company's directors and officers in the form of consulting services totalled $366,500. The Company's accrued liabilities as at March 31, 2010 include $1,027,900 due to its directors and officers (out of which, $661,400 represents unpaid consulting services in respect of 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.

During the first quarter of 2009, the Company incurred management fees of $3,000 with a company controlled by a director of the Company. These transactions were in the normal course of business.

LIQUIDITY AND CAPITAL RESOURCES *

As of March 31, 2010, the Company had a working capital deficiency of $(3,602,066), equity deficiency of $(3,478,132) and cash of $621,465.

On May 14, 2010 and May 21, 2010, the Company closed the private placement of 27,490,315 units at $0.30 per unit, each unit consisting of one common share and one half of a share purchase warrant (as described in the notes accompanying the Company's unaudited consolidated financial statements as at and for the three month period ended March 31, 2010). The total gross proceeds amounted to $8,247,095 and will be used to finance the Company's short term working capital requirements, including payment of accrued liabilities incurred with respect to acquisitions in the UK Central North Sea and for general corporate purposes.

Currently, the Company does not have material cash inflows and/or adequate financing available to set up and develop profitable operations in the UK Central North Sea. The Company's financial statements are presented 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 operations. The Company's ability to continue as a going concern is dependant upon its ability to raise equity financing. The current economic environment has made access to debt and equity markets more difficult, where cost of capital has increased while the availability of capital has decreased. No assurance can be provided that the Company will raise the required levels of financing.

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COMMITMENTS AND CONTRACTUAL OBLIGATIONS*

As at March 31, 2010, the Company had following contractual obligations:

	Total	Less than One Year	One to Three Years	Four to Five Years	After Five Years
Office lease - Calgary	$ 4,722,000	$ 535,000	$ 1,069,000	$1,069,000	$2,049,000
Bridge loan	2,200,000	2,200,000	-	-	-
Financial advisory services	213,000	183,000	30,000	-	-
	7,302,000	3,085,000	1,099,000	1,069,000	2,049,000

Office Lease - Calgary
The Company is committed under operating lease agreements for the rental of office space in Calgary. The approximate lease payments total $4.7 million and is payable over the next 10 years.

Bridge Loan
The Bridge Loan obligations relate to loan from Endeavour Financial Corporation (as described in the notes accompanying the Company's unaudited consolidated financial statements as at and for the three month period ended March 31, 2010).

Financial Advisory Services
The obligation in respect of financial advisory services relate to the service agreement with Endeavour Financial International Corporation. The agreement is in effect until June 10, 2011, with an option to extend if agreed by both parties.

The Company is currently pursuing contracts that will require additional financing. The ability of the Company to meet the above commitments is dependent on its ability to obtain additional financing.

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SELECTED QUARTERLY INFORMATION

Eight Most Recent Quarters ($):

	March 31, 2010	**December 31, 2009**	**September 30, 2009**	**June 30, 2009**
Revenue	6,060	5,079	0	0
Net income (loss)	(1,706,591)	(1,895,267)	(1,276,117)	(16,339)
Net income (loss) per share- basic & diluted	(0.03)	(0.03)	(0.02)	(0.00)

	March 31, 2009	**December 31, 2008**	**September 30, 2008**	**June 30, 2008**
Revenue	0	0	0	0
Net income (loss)	(1,544)	(23,265)	913,717	(28,241)
Net income (loss) per share- basic & diluted	(0.00)	(0.00)	0.02	(0.00)

ACCOUNTING PRONOUNCEMENTS

Status of Transition to International Financial Reporting Standards (IFRS)

On February 13, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The eventual changeover to IFRS represents a change due to new accounting standards. Although IFRS is principles-based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in accounting policies, as well as increased disclosure requirements under IFRS.

The Company has substantially completed the diagnostic phase and does not expect implementation of IFRS to have a significant impact on the Company's results of operation and financial position mainly due to the Company's current limited operations and lack of assets. The Company will elect to apply certain exemptions available under IFRS 1 for first-time adoption (specifically in respect of IFRS 3 Business Combinations and IFRS 2 Share-based Payments), which will relieve the Company from retrospective application of IFRS and as a result the changeover to IFRS is not expected to result in significant changes to the Company's past results or the value of the Company's equity, with the exception of the accounting for flow-through shares which have been issued by the Company historically.

For all future transactions in 2010, the Company considers the IFRS impact on any accounting policy decisions, implementation of any new IT systems, accounting processes and internal controls over financial reporting. The switch to IFRS is not currently anticipated to have a material impact on the accounting policies and/or internal controls over financial reporting currently in use. Throughout 2010, the Company will focus on IFRS disclosure requirements and gaining the required IFRS expertise that will be applicable once the Company develops its operations.

Critical Accounting Estimates

The amounts recorded in respect of stock options and share purchase warrants granted are based on the Company's estimation of their fair value, calculated using assumptions regarding the life of the option/warrant, interest rates and volatility. By their nature, these estimates and assumptions are subject to uncertainty, and the actual fair value of option/warrant may differ at any time.

DIRECTORS

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

OFFICERS

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

William H. Smith, Q.C. – Corporate Secretary