VELO ENERGY INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

August 27, 2008

The following is Management's Discussion and Analysis of the financial condition and results of operations of Velo Energy Inc. ("Velo" or the "Company"), to enable a reader to assess material changes in financial condition and results of operations for the six months ended June 30, 2008. This Management's Discussion and Analysis is intended to supplement and complement the unaudited interim consolidated financial statements and notes thereto for the six month period ended June 30, 2008. This Management's Discussion and Analysis should also be read in conjunction with the annual financial statements for the year ended December 31, 2007. Additional information relating to the company is available on SEDAR at www.sedar.com.

The Company, which was a capital pool company pursuant to the policies of the TSX Venture Exchange (the TSX-V), completed a qualifying transaction in May 2006 in accordance with the policies of the TSX-V. The qualifying transaction was the purchase of Velo Energy Ltd. whereby the Company issued 3,333,334 shares for 100% of the outstanding shares. Subsequent to this transaction, the Company had 19,733,334 common shares outstanding and its name was changed to Velo Energy Inc.

VELO OVERVIEW

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

FINANCIAL AND OPERATING HIGHLIGHTS

Financial Highlights

The following table summarizes the Company's financial results for the three and six months ended June 30:

	Three months June 2008	Three months June 2007
Net loss	$(28,241)	$(591,949)
Per share and diluted per share loss	$(0.00)	$(0.02)
Total assets	$388,392	$1,523,601
Capital expenditures:	$0	$350,972
Outstanding Common shares at June 30	29,618,334	29,618,334
Weighted average – basic	29,618,334	29,618,334

	Six months June 2007	Six months June 2007
Net loss	$(43,618)	$(5,616,296)
Per share loss	$(0.00)	$(0.19)
Total assets	$388,392	$1,523,601
Capital expenditures:	$0	$991,039
Outstanding Common shares at June 30	29,618,334	29,618,334
Weighted average – basic	29,618,334	29,618,334

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were $31,751 (2007 - $181,497) and $50,230 (2007 - $273,696) for the three and six months ended June 30, 2008, respectively. The decrease for the periods reflects the reduced operating activity of the Company. Legal fees were $11,294 for the three months and $26,538 for the six months. Transfer agent, filing fees and press releases totalled $11,309 for the three and six months.

INTEREST AND INDEMNITY PAYABLE

Interest expense was $nil (2007 – $31,082) and $3,763 (2007 - $31,082) for the three and six months ended June 30, 2008, respectively. The decrease is due to the large interest and penalty incurred in 2007 as a result of monies owing to Canada Revenue Agency from the failure to renounce adequate qualifying expenditures for the flow through shares issued in December, 2006. This failure also resulted in the indemnity payable of $452,133 (2007 – Nil). The flow through share subscribers were indemnified in the case of an inadequate amount of qualifying expenditures being renounced.

OPERATIONS

A recovery of $6,572 was realized in the six months end June 30, 2008 as compared to an expense of $64,009 in 2007. For the three months ended June 30, 2008 there was nil expense (2007 - $39,668). Both changes were a result of reduced operating activity of the Company.

STOCK COMPENSATION EXPENSE

Stock compensation expense was Nil for the three months (2007 – nil) and Nil for the six months ended June 30, 2008 (2007 – $30,724). There were no new options issued during the quarter.

IMPAIRMENTS

1. Petroleum and natural gas properties

There was no impairment charge during the current quarter of the six months ending June 30, 2008. Included in the Company's 2007 quarterly expenses is a non-cash charge of $349,163 and a non-cash charge of $4,204,838 for the six month period, both related to an impairment of the carrying value of petroleum and natural gas properties. The impairment is the result of applying what is commonly known as the ceiling test which is prescribed under generally accepted accounting principles for exploration and production companies that use the full cost accounting method.

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

An impairment loss is then measured as the amount by which the carrying amount of the petroleum and natural gas assets capitalized in a cost centre exceeds the sum of the fair value of proved and probable reserves and the costs of unproved properties that have been subject to a separate test for impairment and contain no probable reserves.

2. Goodwill

There was no goodwill impairment during the current periods. At March 31, 2007, the Company tested goodwill for impairment and determined that based on the impairment of the oil and gas properties that the goodwill was impaired. As a result, a goodwill impairment charge of $1,026,400 was recorded in the quarter.

DEPLETION AND DEPRECIATION

Depletion and depreciation expense was Nil for the three months (2007 – 2,757) and Nil for the six months (2007 – 6,076) ended June 30, 2008. Office furniture and fixtures were sold in 2007.

CAPITAL EXPENDITURES

Exploration and development for the three and six months ended June 30, 2008 were Nil (2007 – $350,972 and $991,039), respectively, as a result of the Company's reduced operating activity.

STATUS OF PETROLEUM AND NATURAL GAS PROPERTIES

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

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

During the month of December 2006 the Woking 05-02-76-5W6 well was completed in the Gething and Bluesky formations with no success. The well is presently completed in the Spirit River Formation with uneconomic flow rates on perforation. Velo and its partner are evaluating a stimulation of the zone to enhance production. Operations at Woking were suspended pending this evaluation.

TRANSACTIONS WITH RELATED PARTIES

During the quarter the Company borrowed $20,000 (2007 - $Nil) from a corporation controlled by three directors of the Company. The loan is repayable upon demand and bears interest at prime plus 5%.

The above-noted related party transaction was in the normal course of business and was measured at the exchange value which was the amount of consideration established and agreed to by the related parties.

SUBSEQUENT EVENTS

Settlement of December 2006 Flow-Through Obligation

Having obtained the conditional approval of the TSX Venture Exchange ("TSX-V"), on July 24, 2008 the Company issued 5,990,554 shares from treasury at a price of $0.075 per share settling an the indemnity obligation of $449,292. These shares are subject to a 4 month hold period in Canada.

New Joint Venture

Velo has 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 has committed 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 will pay 100% of costs to earn 50% of the private company's working interest in each well.

Other

Final payments to trade creditors of Velo Ltd. have been made and the restructuring completed. In July, 2008, Velo Energy Ltd. was sold to Daran Energy Services Corp., a private Alberta company, for nominal consideration. The sale includes the shares of Velo Energy Ltd. and the debt owing from Velo Energy Ltd. to the Company.

Private Placement

Velo completed a private placement raising $1.5 million by issuing 30 million common shares at $0.05 per share. The Company paid finders fees of $57,500 (5%) in connection with $1,150,000 of the financing.

LIQUIDITY

At June 30, 2008, the company had negative working capital of $1,611,104 and cash of $1,402. As discussed above, with the numerous events completed subsequent to June 30, 2008, namely; the final payment of 17% under the trade creditor proposal, the share for debt settlement of the indemnity payable, the sale of Velo Energy Ltd. and the completion of the private placement the Company has been able to eliminate the working capital deficit at June 30 and create a surplus estimated to be in excess of $1 million.

With the financial transactions undertaken subsequent to June 30 and the entering into of the new joint venture, the Company is now in position to resume exploration and development activity of oil and gas properties.

FINANCIAL INSTRUMENTS

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

SHARE CAPITAL

The company is authorized to issue an unlimited number of common and preferred shares. As at June 30, 2008, there were 29,618,334 common shares issued and outstanding; Nil common shares issuable upon the exercise of warrants; 100,000 common shares issuable upon exercise of stock options at a price of $0.25 per share, 750,000 common shares issuable upon exercise of options at a price of $0.30 per share and 250,000 common shares issuable upon exercise of options at a price of $.20 per share expiring five years from the date of grant.

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

COMMITMENTS

The Energy Utility Board has required a letter of credit be established with them for the abandonment of wells. The letter of credit totals $342,187 and is secured with cash.

CONTINGENCY

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. The subsidiary will aggressively defend its position. The maximum potential exposure to the subsidiary is $60,000.

SELECTED QUARTERLY INFORMATION

The following information refers to the three months ended:

	June 30, 2008 ($)	March 31, 2008 ($)	December 31, 2007 ($)	September 30, 2007 ($)
Revenue	0	0	$28,168	0
Net loss	28,241	15,377	799,159	257,793
Net loss per share-basic & diluted	.00	.00	.02	.01

	June 30, 2007 ($)	March 31, 2007 ($)	December 31, 2006 ($)	September 30, 2006 ($)
Revenue	9,565	48	13,694	14,123
Net loss (income)	591,949	5,024,347	133,951	91,093
Net loss per share-basic & diluted	.02	.17	.01	.01

ACCOUNTING PRONOUNCEMENTS

Accounting changes

The CICA amended Handbook Section 1400 “General Standards of Financial Presentation” effective for periods beginning on or after January 1, 2008 to include requirements to assess and disclose the Company’s ability to continue as a going concern. The adoption of this new section did not have an impact on the Company’s financial statements.

In December 2006, the CICA issued Handbook section 1535 “Capital Disclosures” which is effective for years beginning on or after October 1, 2007. The Company manages its capital to ensure it will be able to continue as a going concern while maximizing the return to shareholders largely through equity sales. These stock issues depend on numerous factors including a positive oil and gas environment, positive stock market conditions, a company’s track record, and the experience of management. The capital structure of the Company consists of shareholder’s equity, comprising issued capital and deficit.

In December 2006, the CICA issued Handbook Section 3862, “Financial Instruments – Disclosures” and Handbook Section 3863, “Financial Instruments – Presentation” to replace Handbook Section 3861, “Financial Instruments – Disclosure and Presentation”. Section 3862 expands on the disclosures previously required under Section 3861 that establishes standards for disclosures about financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Section 3863 is consistent with the presentation requirements of Section 3861 that establishes standards for presentation of financial instruments and non-financial derivatives. These sections apply to interim and annual financial statements for fiscal periods beginning on or after October 1, 2007. The effect on the Company's financial statements was not material.

Critical Accounting Estimates

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company.

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

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

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

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

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

FUTURE ACCOUNTING POLICY CHANGES

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

BUSINESS RISKS

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

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

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

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

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

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