VELO ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 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 year ended December 31, 2009. The information is provided as of April 30, 2010. The 2009 results have been compared to the results of 2008. This discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements as at and for the years ended December 31, 2009 and 2008, together with the accompanying notes. 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 years ended December 31, 2009 and 2008, 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 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", "Outlook", " Status of Petroleum and Natural Gas Properties" sections);
- The Company's assumptions in respect of the calculation of stock-based compensation and valuation of warrants (the "Stock-based Compensation Expense" and "Warrants-based Expense" sections).

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 operator.

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 second half of 2009, new management of Velo worked mainly on:

- 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;
- Setting up the Company's structure to allow effective operations in Canada and the UK;
- Dealing with regulatory authorities to define terms of participation in the UK Central North Sea.

On October 6, 2009, the Company signed a share purchase agreement to acquire 100% of the shares of North Sea Oil Ltd. ("NSO"), a private company incorporated in Alberta, Canada, and 100% of the shares of North Sea Oil Exploration Limited ("NSOE"), a private company incorporated in England and Wales, UK (discussed further in "purchase of NSO and NSOE" section and the notes accompanying the Company's audited financial statements as at and for the years ended December 31, 2009 and 2008). NSOE will be the Company's operating subsidiary for its UK oil & gas projects. NSO is structured as a service company that 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%), Sheryl (65%) and Catcher (50%).

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

On December 11, 2009, the Company signed a Bridge Loan agreement of $2,000,000 with Endeavour Financial Corporation to finance the Company's current working capital needs. The loan is granted for a one year period, but the agreement provides for immediate repayment in the event the Company completes a financing.

On October 15, 2009, the Company filed a preliminary prospectus, and on December 15, 2009 a final prospectus was filed to obtain financing for its operations. At that time, the closing of this public offering was expected in January 2010 once regulatory requirements were met.

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 transfer of interest in Caledonia, Sheryl and Catcher licences in UK 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 the public offering under the prospectus issued in December 2009, and the above-mentioned purchase agreement and letter of intent to acquire properties in the UK 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 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.

**** 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 the year ended December 31, 2009, due to a change in management and an increase in activities. General and administrative costs amounted to $2,419,604 for the year ended December 31, 2009 compared to $113,732 for the same period in 2008. In addition, the Company recognised stock-based compensation of $785,400 in the third quarter of 2009 (nil in 2008), as 5,610,000 stock options were granted to its directors, officers and consultants in the third quarter of 2009 (nil in 2008). As a result, the Company's net loss amounted to $3,189,267 for the year ended December 31, 2009, compared to net income of $846,834 for the respective period of 2008 (generated mainly due to a $942,909 gain on the disposal of its subsidiary Velo Energy Ltd.). Cash used in operating activities amounted to $2,390,662 for the year ended December 31, 2009, compared to $96,075 for the respective period of 2008. Cash flow from financing activities amounted to $2,000,000 for the year ended December 31, 2009, representing the Bridge Loan obtained from Endeavour, compared to $1,430,166 for the same period of 2008 relating to proceeds from an issue of common shares.

OUTLOOK *

The Company's current strategy is to establish and grow its oil and gas business in the UK North Sea by acquiring and/or farming into interest in unappraised and/or undeveloped assets and by participating in UK 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 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 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 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 years ended December 31, 2009, 2008 and 2007:

	2009	**2008**	**2007**
General and administrative expenses	**$2,419,604**	$113,732	$498,710
Stock-based compensation	**785,400**	-	72,724
Net income (loss)	**(3,189,267)**	846,834	(6,801,561)
Per share income (loss)	**$(0.05)**	$0.02	$(0.23)
Cash used in operating activities	**$(2,390,662)**	$(96,075)	$(759,345)
Outstanding common shares at December 31	***66,608,888***	*65,608,888*	*29,618,334*
Weighted average - basic	***65,608,888***	*44,836,085*	*29,618,344*

Comparative Balance Sheet Items

The following table summarizes the Company's financial position as at December 31, 2009, 2008 and 2007:

	2009	2008	2007
Cash and cash equivalents	**$ 1,408,528**	$1,350,958	$83,258
Current assets	**1,790,857**	1,357,083	525,738
Current liabilities	**3,702,849**	198,277	2,093,224
Share capital	**8,062,924**	7,462,924	5,583,466
Shareholders' equity	**$(1,771,541)**	$1,158,806	$(1,567,486)

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.

	2009	2008
General and administrative:		
Consulting, management and external directors' fees	**$1,101,497**	$7,250
Professional services	**305,037**	77,820
Travel expenses	**234,930**	-
Office expenses	**352,333**	-
Financing costs	**360,808**	-
Other general and administrative	**64,999**	28,662
Total general and administrative	**$2,419,604**	$113,732
Capitalized exploration and development costs	**$0**	$0

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to $2,419,604 for the year ended December 31, 2009 as compared to $113,732 for the respective period of 2008. The increase in expenditures reflects the increase in the Company's team and its activity in 2009.

INTEREST AND INDEMNITY PAYABLE

In December 2006, the issued flow though shares but failed to renounce adequate qualifying expenditures. In July, 2008 the Company extinguished $449,292 of indemnity claims by issuing common shares of the Company at $0.075 per share, resulting in 5,990,554 shares being issued. This failure resulted in indemnity payable of $452,133.

The Company was also assessed $164,944 in Part XII.6 tax by the 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. Exercise prices for stock options granted are determined by the closing market price on the day before the date of grant.

On August 7, 2009, the Company 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 was recognized for the year ended December 31, 2009. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model (the assumptions used for the model are discussed in the notes accompanying the Company's audited consolidated financial statements as at and for the year ended December 31, 2009).

Stock compensation expense was $Nil for the year ended December 31, 2008.

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WARRANTS- BASED EXPENSE *

In December 2009, the Company granted the following share purchase warrants, each warrant giving the right to acquire one common share of Velo:

- 1,200,000 warrants at an exercise price of $0.50 per share for a period of one year were granted to Endeavour Financial Corporation ("Endeavour") further to a Bridge Loan agreement (as described in the "Bridge Loan" section)
- 500,000 warrants at an exercise price of $0.50 per share for a period of one year were granted to Endeavour Financial International Corporation ("Endeavour International") further to a financial advisory service agreement (as described in the "Commitments and Contractual Obligations" section)

The fair value allocated to the above-mentioned warrants issued in 2009 amounted to $306,000 and was calculated based on an estimation of the fair value of each warrant on the grant date using a Black-Scholes pricing model (the assumptions used for the model are discussed in the notes accompanying the Company's audited consolidated financial statements as at and for the year ended December 31, 2009)

The fair value of the warrants issued in respect of the Bridge Loan of $216,000 was recognized as deferred financing charges and is amortized over the one-year term of the Bridge Loan using the effective interest rate method. The respective amortisation charge for 2009 amounted to $9,000.

The fair value of the warrants issued in respect of the financial advisory service agreement of $90,000 was recognized as a prepaid expense for financial services and is amortized over an 18-month period, representing the minimum term of the financial advisory service agreement. The respective amortisation charge for 2009 amounted to $2,500.

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PURCHASE OF NSO AND NSOE

On October 6, 2009, the Company signed a share purchase agreement to acquire 100% of the outstanding common shares of each of NSO and NSOE in a non-arms length transaction for a purchase price of $600,000, payable by the issue of 1,000,000 common shares of Velo at a market price of $0.60 per share. The senior management team of Velo were either registered or beneficial shareholders of NSO and NSOE prior to the acquisition.

At the time of acquisition, NSOE had a Sale and Purchase Agreement signed to acquire various interests in three oil and gas exploration and development properties located in the UK Central North Sea, however, both NSOE and Velo did not have financing available to close this transaction. Accordingly, the purchase of NSO and NSOE by Velo was approved by the TSX Venture Exchange on the condition that the 1,000,000 shares issued are placed in escrow until the Company closes a financing and completes the UK North Sea acquisition. If these transactions are not completed then the shares of NSO and NSOE will be conveyed back to the vendors and the 1,000,000 common shares of Velo will be cancelled. The TSX-V conditional approval is valid until June 30, 2010. On December 7, 2009 the Company issued 1,000,000 common shares as consideration for the above transaction and these shares are held in escrow at December 31, 2009.

STATUS OF PETROLEUM AND NATURAL GAS PROPERTIES

Canada

In July, 2008, Velo Energy Ltd. was sold to Daran Energy Services Corp., a private company in Alberta, for a 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 in consideration of current commodity prices, the Company does not intend to incur any expenditures under this agreement.

*UK North Sea**

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.

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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.

BRIDGE LOAN

On December 11, 2009, the Company signed a Bridge Loan agreement of $2,000,000 with Endeavour to finance the Company's current working capital needs. The Bridge Loan matures in one year and bears interest at a rate of 10% per annum, payable at maturity or on an earlier repayment date. In the event the Company completes any financing, the proceeds should be used to first repay the Bridge Loan together with accrued interest. If the loan is not repaid in full by April 1, 2010, a fee of $167,000 will be paid to Endeavour in cash or by means of issuing Velo's common shares. In addition, the Company granted Endeavour 1,200,000 share purchase warrants, each warrant carrying the right to acquire one common share of Velo at an exercise price of $0.50 per share for a period of one year.

As at the date of this MD&A, the loan was not repaid and the Company intends to issue shares to Endeavour in an amount equivalent to $167,000 as payment for the additional fee.

SHARE CAPITAL

The Company is authorized to issue an unlimited number of common and preferred shares. As at December 31, 2009, there were 66,608,888 common shares issued, including 1,000,000 shares held in escrow (as described in the "Purchase of NSO and NSOE" section). The shares held in escrow are accounted for as contingently returnable shares at December 31, 2009, 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 December 31, 2009, the Company also has:

- 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;
- 1,700,000 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.

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 ($2,000 in 2008). These transactions were in the normal course of operations and are measured at the exchange amount (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 $789,400 for the period ended December 31, 2009, including $701,400 in accrued liabilities as at December 31, 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.

LIQUIDITY AND CAPITAL RESOURCES *

As of December 31, 2009, the Company had a working capital deficiency of $(1,911,992), equity deficiency of $1,771,541 and cash of $1,408,528.

Currently, the Company does not have material cash inflows and/or adequate financing available to set up and develop profitable operations in the UK, 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 December 31, 2009, the Company had the following contractual obligations:

	Total	Less than One Year	One to Three Years	Four to Five Years	After Five Years
Office Lease - Calgary	$ 4,856,000	$ 535,000	$ 1,069,000	$1,069,000	$2,183,000
Office Lease - London	1,327,000	279,000	559,000	489,000	-
Bridge Loan	2,367,000	2,367,000	-	-	-
Financial Advisory Services	267,000	188,000	79,000	-	-
	8,817,000	3,369,000	1,707,000	1,558,000	2,183,000

Office Lease - Calgary

The Company is committed under operating lease agreements for the rental of office space. The approximate total lease payments amount to $4.9 million for the Calgary office location and is payable over the next 10 years.

Office Lease – London, UK

As at December 31, 2009, the Company was committed under operating lease agreements for the rental of office space in London, UK. The approximate total lease payment amounted to $1.3 million and was payable over the next five years. Further to restructuring of the Company's business, in March 2010 the London office was closed and the lease agreement was terminated without further costs to the Company (except for the loss of three months' rent deposit at approximately $81,000, which has been included in prepaid expenses).

Bridge Loan

On December 11, 2009, the Company signed a Bridge Loan agreement of $2,000,000 with Endeavour to finance the Company's current working capital needs. The Bridge Loan matures in one year and bears an interest of rate of 10% per annum, payable at maturity or on an earlier repayment date. In the event the Company completes any financing, the proceeds should be used to first repay the Bridge Loan together with accrued interest. If the loan is not repaid in full by April 1, 2010, a fee of $167,000 should be paid to Endeavour in cash or by means of issuing Velo's common shares.

Financial Advisory Services
On December 11, 2009, the Company appointed Endeavour International to provide financial advisory services with respect to financing and development of the Company's oil and gas assets. Further to the financial advisory agreement signed, the Company will pay Endeavour International consulting fees and success fees whenever the Company engages in debt transactions (excluding the above Bridge Loan). The agreement was signed for a period of 18 months (with an option to extend) and provides for a monthly retainer fee of US$15,000 per month.

The Company is currently pursuing contracts that will require additional financing. The Company's ability 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 ($):

	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Revenue	0	0	0	0
Net income (loss)	(1,895,267)	(1,276,117)	(16,339)	(1,544)
Net income (loss) per share- basic & diluted	(0.03)	(0.02)	(0.00)	(0.00)

	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Revenue	0	0	0	0
Net income (loss)	(23,265)	913,717	(28,241)	(15,377)
Net income (loss) per share- basic & diluted	(0.00)	0.02	(0.00)	(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 will consider 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.

Changes in Accounting Policies

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. This section clarifies the criteria for the recognition of assets, intangible assets and internally developed intangible assets. No changes were required to these financial statements as a result of this change.

On January 1, 2009, the Company prospectively adopted Section 1582, Business Combinations, which replaces former guidance on business combinations. This section establishes principles and requirements of the acquisition method for business combinations and related disclosures. Adoption of this section did not have a material impact on the consolidated financial statements.

On January 1 2009, the Company prospectively adopted Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Adoption of these new sections did not have a material impact on the consolidated financial statements.

In January 2009, the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which requires the Company to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The accounting treatments provided in EIC-173 have been applied in the preparation of these financial statements and, as required, have been applied retrospectively without restatement of prior periods. The adoption of this standard did not have an impact on the financial statements.

Effective December 31, 2009, the Company adopted 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. These amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards ("IFRS").

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