Velo Energy Inc.

Interim Consolidated Financial Statements
As at and for the three month period ended March 31, 2010

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

	March 31, 2010	December 31, 2009
Assets		
Current		
Cash and cash equivalents	**$621,465**	$1,408,528
Term deposits	**30,000**	30,000
Accounts receivable	**67,401**	75,192
Prepaid expenses	**103,404**	277,137
	822,270	1,790,857
Long-term rent deposit and prepayments	**55,227**	70,227
Office equipment	**68,707**	70,224
	$946,204	$1,931,308
Liabilities		
Current		
Accounts payable and accrued liabilities *(note 6)*	**$2,518,706**	$1,900,534
Loan *(note 3)*	**1,905,630**	1,802,315
	4,424,336	3,702,849
Shareholders' Equity (Deficiency)		
Share capital *(note 4)*	**8,062,924**	8,062,924
Warrants *(note 4)*	**306,000**	306,000
Contributed surplus	**1,074,494**	1,074,494
Deficit	**(12,921,550)**	(11,214,959)
	(3,478,132)	(1,771,541)
	$946,204	$1,931,308

Nature of operations and going concern (Note 1)
Commitments and contractual obligations (Note 5)

See accompanying notes to the interim consolidated financial statements.

Velo Energy Inc.

Consolidated Statements of Operations, Comprehensive Loss and Deficit (unaudited)

(in Canadian dollars)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Revenue		
Management services	**$ 6,060**	$ -
Expenses		
General and administrative *(note 6)*	**1,439,818**	15,063
Interest and financing charges *(note 3)*	**270,400**	-
Depreciation	**3,415**	-
Foreign exchange gain	**(621)**	-
	1,713,012	15,063
Other items		
Interest income	**361**	13,519
Loss and comprehensive loss	**(1,706,591)**	(1,544)
Deficit, beginning of period	**(11,214,959)**	(6,593,212)
Deficit, end of period	**$(12,921,550)**	$(6,594,756)
Loss per share (basic and diluted)	**$(0.03)**	$(0.00)
Weighted average number of shares outstanding	**65,608,888**	65,608,888

See accompanying notes to the interim consolidated financial statements.

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
Cash Provided By (Used In):		
Operating Activities		
Loss	**$(1,706,591)**	$(1,544)
Add (subtract) non-cash items:		
Amortization of fair value of warrants	**69,000**	-
Depreciation	**3,415**	-
Unrealized foreign exchange gain	**(676)**	-
Funds used in operations	**(1,634,852)**	(1,544)
Net change in non-cash working capital	**849,686**	(19,361)
	(785,166)	(20,905)
Investing Activities		
Additions to office equipment	**(1,897)**	-
	(1,897)	-
Decrease in cash during period	**(787,063)**	(20,905)
Cash and cash equivalents, beginning of period	**1,408,528**	1,350,958
Cash and cash equivalents, end of period	**$621,465**	$1,330,053
Cash and cash equivalents:		
Cash	**$121,465**	$10,053
Term deposits	**500,000**	1,320,000
	$621,465	$1,330,053

See accompanying notes to the interim consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Velo Energy Inc. ("Velo" or the "Company") was incorporated on July 8, 2004 and was originally classified as a Capital Pool Company under Policy 2.4 of the TSX Venture Exchange Corporate Finance Manual and Policies. Effective May 31, 2006, the Company purchased all of the outstanding shares of Velo Energy Ltd. through the issuance of 3,333,334 common shares of the Company. This arm's length transaction constituted the Company's Qualifying Transaction under the rules of the TSX Venture Exchange. The Company's oil and natural gas operations were focused in southern Alberta. On July 9, 2008 the Company sold Velo Energy Ltd. to an unrelated party.

In August 2009, the Company's management and Board of Directors were replaced and Velo's focus was changed to oil exploration and development in the United Kingdom ("UK") Central North Sea.

On October 6, 2009, the Company signed a share purchase agreement to acquire 100% of the outstanding common shares of North Sea Oil Ltd. ("NSO"), a private company incorporated in Alberta, Canada and 100% of the outstanding common shares of North Sea Oil Exploration Limited ("NSOE"), a private company incorporated in England and Wales, UK (see Note 4).

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to acquire oil and natural gas properties, to obtain adequate financing to explore and develop these properties and generate profitable operations in the future. As at March 31, 2010, the Company had an accumulated deficit of $12,921,550, shareholders' deficiency of $3,478,132 and a working capital deficiency of $3,602,066.

In May 2010, the Company closed a private placement for total gross proceeds of approximately $8.2 million (discussed further in note 9). These proceeds will be used to finance the Company's short-term working capital needs, and additional financing will be required to acquire oil and natural gas properties for the Company to generate profitable operations.

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 be able to raise additional funds required to set up and develop profitable operations in the UK North Sea.

These financial statements do not reflect adjustments to carrying values of assets and liabilities and the balance sheet reclassifications that would be necessary if the going concern assumption were not appropriate, and such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements follow the same accounting policies as the most recent annual audited financial statements. The notes to these unaudited interim consolidated financial statements do not conform in all respects to the note disclosure requirements of Canadian generally accepted accounting principles ("GAAP") for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as at and for the year ended December 31, 2009.

3. LOAN

On December 11, 2009, the Company signed a Bridge Loan agreement of $2,000,000 with Endeavour Financial Corporation ("Endeavour") to finance the Company's current working capital needs. The Bridge Loan matures on December 14, 2010 and bears interest at a rate of 10% per annum, payable at maturity or 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. Currently, the Company is in discussion with Endeavour to amend this provision.

The agreement also provides for an additional fee of $167,000, payable to Endeavour in cash or by means of issuing common shares, if the loan is not repaid in full by April 1, 2010. Accordingly, on May 5, 2010, the Company issued to Endeavour 721,694 common shares of Velo as payment for the above fee, calculated based on the 5-day volume weighted average closing price of the Company's shares immediately before April 1, 2010. The fee of $167,000 was recognized in Consolidated Statement of Operations, Comprehensive Loss and Deficit as interest and financing charges for the three months ended March 31, 2010.

The balance of the Bridge Loan consisted of the following:

		March 31, 2010	**December 31, 2009**
Consideration received	$	2,000,000	2,000,000
Accrued interest		58,630	9,315
Deferred financing charges		(153,000)	(207,000)
	$	1,905,630	1,802,315

4. SHARE CAPITAL

a) Authorized and Issued Common Shares

Authorized

An unlimited number of common shares, without nominal or par value and an unlimited number of preferred shares, issuable in series.

Issued

As at March 31, 2010 and December 31, 2009 the Company has issued 66,608,888 common shares for the total amount of $8,062,924, including 1,000,000 common 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.

Shares issued subsequent to March 31, 2010

On May 5, 2010, the Company issued 721,694 common shares to Endeavour as payment for the Bridge Loan fee (as discussed in note 3).

Further to a private placement closed on May 14, 2010 and May 21, 2010, the Company issued total of 28,533,156 common shares at $0.30 per share (further discussed in note 9)

4. SHARE CAPITAL (continued)

b) Incentive Stock Options

No stock options were granted and/or exercised during the three month period ended March 31, 2010.

As at March 31, 2010 there were 5,610,000 stock options to purchase common shares outstanding with an exercise price of $0.20 per share and a remaining contractual life of 4.3 years.

c) Warrants

No share purchase warrants were granted and/or exercised during the three month period ended March 31, 2010. As at March 31, 2010, there were:

- 1,200,000 share purchase warrants issued, 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 of December 14, 2010.
- 500,000 share purchase warrants issued, 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 of December 10, 2010.

Subsequent to 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 (further discussed in note 9)

5. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As at March 31, 2010, the Company has the 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 an operating lease agreement for the rental of office space in Calgary. The approximate lease payments total $4.7 million and are payable over the next 10 years.

Bridge Loan
The Bridge Loan obligation includes interest to be paid at maturity (see Note 3).

Financial Advisory Services
The obligation in respect of financial advisory services relate to the service agreement with Endeavour International. The agreement is in effect for next 15 months, 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.

6. RELATED PARTY TRANSACTIONS

Transactions are with the Company's directors and officers in the form of consulting services totaled $366,500 for the three months ended March 31, 2010. Accrued liabilities as at March 31, 2010 include $1,027,900 due to the Company's directors and officers ($661,400 being unpaid consulting services in respect of 2009). These transactions occurred in the normal course of business and have been recorded 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 at that time. These transactions were in the normal course of business.

7. FINANCIAL INSTRUMENTS

The Company is exposed to credit and interest rate risk on its financial instruments. There were no changes to the Company's exposure to these risks, or the objectives, policies and processes to manage these risks from December 31, 2009.

As at March 31, 2010, the fair values of all financial instruments approximated their carrying values due to their short-term maturity. The Company categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in their measurement. Cash and cash equivalents and term deposits have been categorized as Level 1 financial instruments. There have been no transfers between levels during the three month period ended March 31, 2010.

8. CAPITAL MANAGEMENT

In the management of capital, the Company includes shareholders' equity (deficiency) and interest bearing debt defined as long term loans and current portion of long-term loans. Shareholders' equity includes share capital, warrants, contributed surplus and deficit.

The Company is not subject to any external capital requirements. There were no changes in the Company's capital management policies during the first quarter of 2010.

As at March 31, 2010, the Company had shareholders' deficiency of $3,478,132 and working capital deficiency of $3,602,066. Management of the Company is currently working on obtaining additional financing.

9. SUBSEQUENT EVENTS

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. 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 North Sea and for general corporate purposes.

In addition, the Company paid, where applicable, a finder's fee by issuing subscription units equivalent to 5% of the units subscribed for by a particular broker or individual. As the result, there were an additional 1,042,841 units issued, which included 1,042,841 common shares and 521,421 share purchase warrants. The exercise price and expiry date of the share purchase warrants are consistent with the warrants issued as part of the private placement.

All units issued further to this private placement are subject to resale restrictions and can not be resold until four months and one day after the date of issue.