Quarterly Report:
VELOCITY ENERGY INC. (VCYE)
Period Ending March 31, 2011

Item 1: The exact name of the issuer and the address of its principal executive offices:

Velocity Energy Inc.
523 N. Sam Houston Pkwy. E.
Suite 175
Houston, Texas 77060
Phone: (713) 741-0610

Item 2: Shares outstanding:

A. COMMON STOCK

(i) Period end date: March 31, 2011
(ii) Number of shares authorized: 50,000,000
(iii) Number of shares outstanding: 6,347,359
(iv) Freely tradable shares (public float): 386,274
(v) Total number of beneficial shareholders: One
(vi) Total number of shareholders of record: 497

B. SERIES A PREFERRED

(i) Period end date: March 31, 2011
(ii) Number of shares authorized: 50,000,000
(iii) Number of shares outstanding: 20,000,000
(iv) Freely tradable shares (public float): 0
(v) Total number of beneficial shareholders: One
(vi) Total number of shareholders of record: One

Item 3: Interim financial statements

For the period ending March 31, 2011, the following unaudited interim financial statements are incorporated by reference herein.

1) Balance sheet;
2) Statement of income;
3) Statement of cash flows;
4) Statement of changes in stockholders' equity
5) Financial notes

They are attached to the end of this Quarterly Report, and entitled "Interim Financial Statements: Period ending March 31, 2011.

Item 4: Management's Discussion and Analysis or Plan of Operation.

Forward-Looking Information

This Form 10-Q quarterly report of the Company for the three months ended March 31, 2011, may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that there are statements that are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where the Company expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

A: General Overview of Operations and Current Developments

Velocity has two primary areas of operations: The State Waters of Texas in Matagorda Bay, and the five county producing areas in West Virginia.

The history of our ownership and operations in Matagorda Bay is documented in previously filed reports. On March 26, 2010, Sonterra Operating, Inc., a wholly-owned subsidiary of the Company, entered into an Option for Pipeline Right-of-Way and Easement and Well Assignment with Arbol Resources, Inc. ("Arbol") to acquire our interest in the 6.63 mile easement and pipeline as well as an option to acquire the State Tract 127 Well No. 1 Unit ("The 127 Well"), the State Tract 150-1 Well, and the State Tract 150-2 Well (collectively, "The 150 Wells, and, together with The 127 Well, "The Wells"), including rights as the Operator under the presently filed P-4's, all of which shall be referred to as the "Arbol Transaction" for all purposes herein. The Arbol Transaction enables the Company to avoid the risk and expense of certain plugging and abandonment obligations and may possibly provide a future revenue stream from a 1.25% of the sales value of the oil and gas metered and flowed in the Pipeline/Easement from one or more wells located and bottomed on State Tract 127 and 1.5% of the sales value of the oil and gas metered and flowed on the State Tract 150, in the event Arbol is able to successfully reenter the wellbores of The Wells and establish commercial production therefrom.

The Company previously announced its intent to pursue acquisitions of producing properties in the Appalachian Basin. On April 13, 2009, the Company executed a letter of intent to acquire certain producing properties in southern West Virginia pursuant to the Company's Appalachian Basin acquisition strategy, but did not consummate this acquisition in the second quarter of 2009 as anticipated. However, on October 2, 2009, Velocity Energy Partners LP, a wholly owned subsidiary of the Company, did close on the acquisition from this same private seller of producing oil and gas assets located in five counties of southern West Virginia as part of its previously announced Appalachian Basin acquisition strategy by making the first of two installment payments of $584,824, subject to certain adjustments, for said properties. To make the second and final installment payment of approximately $584,824 that was due on or about October 2, 2010, Velocity sold 32.8% of its holdings in West Virginia

to two private investors for $400,000. The second installment payment, of $549,430.93 was made on October 1, 2010, completing the final closing on the West Virginia acquisition.

The effective date of this acquisition was July 1, 2009, and a steady stream of revenues is expected from these long-lived reserves. In addition, the Company has identified 58 vertical and 43 horizontal locations to develop for similar long-lived natural gas reserves. Our ability to develop these reserves will be dependent on our success in raising drilling capital. Currently, we believe that we have satisfactory title to the undeveloped acreage. As leases near expiration, the Company will attempt to extend terms or re-lease.

B: Management's Discussion and Analysis of Financial Condition and Results of Operations. Activity Report on Velocity Energy Inc. (Interim Reporting Period March 2011 Q1)

Revenues. During the three months ended March 31, 2011 and 2010, we reported total revenue of $11,793 and $124,434, respectively. The revenue stream in 2011 is related to our Appalachian properties.

In the first quarter of 2011, gas production was 7,250 Mcf at an average price of $4.25 from the producing gas properties in the five counties in West Virginia. The company over accrued 2010 revenue by $16,654, partially offsetting the first quarter revenues. No production was recorded on the two temporarily abandoned wells in Matagorda Bay.

Consulting revenue was a result of out-sourcing internal land and legal resources to a third party oil and gas operator in Pennsylvania. This sector of business has been discontinued in 2011 due to the internal resource obtaining outside employment.

Lease Operating Expenses. During the three months ended March 31, 2011 and 2010, lease operating expenses were $21,112 and $23,397. Normal field operating expenses, meter and pipeline repairs, and compliance visits were the most significant expense incurred.

Production Taxes. During the three months ended March 31, 2011, production and ad valorem taxes were $2,038. The state severance tax rate in West Virginia is approximately 5% and the estimated ad valorem tax rate is 4.2%.

Impairment on Oil & Natural Gas Properties. No impairment expense was recorded in the quarter ended March 31, 2011.

Natural gas prices used in the impairment valuation were $3.35/mcf. The Company does not have any oil reserves.

General and Administrative Expense. General and administrative expenses for the three months ended March 31, 2011 and 2010 were $207,189 and $429,221, respectively. Non-cash stock compensation, payroll and rent are the most significant expenses incurred.

Non-cash stock compensation expenses for the three months ended March 31, 2011 and 2010 were $87,016 and $212,894, respectively.

Total payroll for the three month period ending March 31, 2011 was $100,000. Although payroll expense is recognized monthly, two employees deferred $75,000 in salary during the three month period ended March 31, 2011. The Company's corporate structure is to maintain as few employees as needed and to outsource all administrative functions.

Currently, the Company uses Owen Naccarato and Associates for legal services.

Rent expense for the twelve month period ended March 31, 2011 was $16,612. Our monthly rental expense is $5,537 and our lease expires on December 31, 2011.

Other Income (Expense). During the three months ended March 31, 2011, the Company had other expense of $560,890 compared to an expense of $1,351,163 for the three month period ended March 31, 2010.

Interest expense decreased from $1,318,058 in the first quarter of 2010 to $527,785 in the three month period ended March 31, 2011. On December 23, 2010 the Company purchased the Marquis Subordinated Note and the Summerview Subordinated note for $500. The purchase significantly reduced the monthly interest expense.

Financial Condition

Liquidity and Capital Resources

Our primary source of liquidity is intended to be cash flow from operations. In the absence of a significant acquisition or substantial drilling operations under the Farmout Agreement on acreage to which we have certain development rights pursuant to the Appalachian Basin acquisition, which we have been unable to raise since the acquisition due to depressed gas prices and other factors, the Company does not believe that we will have sufficient sources of capital to fund our operations for the next twelve months. We were not able to establish production at commercial rates from the aforementioned wells in the Matagorda Bay 150 Field, nor were we able to generate any significant revenue from our NTDS subsidiary or from our Appalachian Basin properties during 2010. While we did consummate an Appalachian Basin acquisition in accordance with our business plan, production from the existing wells in which we acquired small working interests are insufficient to offset our general, administrative, and operating expenses, and will remain insufficient in the absence of a drilling program.

The Company experienced a net loss of $6.3 million for the year ended December 31, 2008, a net loss of $13.7 million for the year ended December 31, 2009, a net gain of $.3 million for the year ended December 31, 2010, and a net loss of .8 million for the quarter ended March 31, 2011. Furthermore, the Company has $12.6 million in debt, maturity value, plus associated interest obligations, and has insufficient current sources of revenue to pay its debt obligations.

Accordingly, the Company is considering strategic alternatives to address the circumstances that cast serious doubt on its ability to continue as a going concern, including without limitation restructuring its debt with Marquis, Summerview, and Longview.

The current financial crisis and recession has continued to negatively impact the prices for our natural gas production, limited access to the credit and equity markets, and increased the cost of capital. It may

also have other negative consequences that we cannot predict. The continued credit crisis and related turmoil in the global financial system and economic recession in the U.S. create financial challenges that will grow if conditions do not improve. Our cash flow from operations and cash on hand historically have not been sufficient to fund all of our expenditures, and we have relied on Longview and Marquis to provide us with additional capital. Our ability to access the capital markets has been restricted as a result of these crises and may continue to be restricted at a time when we would like, or need, to raise capital. If our cash flow from operations is less than anticipated and our access to capital is restricted, we may be required to reduce our operating and capital budget, which could have a material adverse effect on our results and future operations. The financial crisis may also limit the number of participants or reduce the values we are able to realize in asset sales or other transactions we may engage in to raise capital, thus making these transactions more difficult to consummate and less economic. Additionally, the current economic situation has affected the demand for natural gas and oil and has resulted in lower prices for natural gas and oil, which could have a negative impact on any possible future revenues related to possible future oil and gas production.

Our business model is based on growing the company by completing one or more acquisitions of producing properties with upside proven locations to be drilled and by participating in drilling prospects generated in-house and by third parties. As discussed above, acquisitions and access to capital may be difficult in the current economic environment. Acquisitions will have associated production equipment. We currently have two senior management team members focused on acquisitions. The number of acquisitions we complete and number of prospects in which we participate, if any, will determine whether we will hire additional consultants and/or employees. There is the potential for a significant increase in the number of consultants and/or employees in the event that we acquire or develop additional oil and gas properties and related assets.

Senior Secured Notes and Subordinated Notes

On November 13, 2008, the Company restructured its financing arrangements ("Financial Restructuring") by entering into two transactions with its lenders. Under the first transaction, the Company entered into a Securities Exchange Agreement (the "New Securities Exchange Agreement") with The Longview Fund, L.P. ("Longview") and Longview Marquis Master Fund, L.P. ("Marquis") under which Marquis acquired a warrant (the "Marquis Warrant") to acquire (a)(i) 1,000,000 shares of the Company's common stock, par value $0.001 per share, subject to adjustment, at an initial exercise price per share of $0.01, and (ii) an unsecured subordinated promissory note in the original aggregate principal amount of $9,440,000 (the "Marquis Subordinated Note"), bearing interest at 11% per annum; and Longview acquired (b)(i) an unsecured promissory note in the original aggregate principal amount of $2,210,551 (the "Longview Subordinated Note"), bearing interest at 11% per annum, and (ii) $1,000,000 in cash as principal repayment of the Old Notes described below.

As part of the consideration to the Company under the New Securities Exchange Agreement, Longview agreed to surrender to the Company warrants to acquire 3,000,000 shares of the Company's common stock at an exercise price of $0.30210709 per share (out of that certain Warrant to Purchase Common Stock dated February 14, 2008 to acquire up to 4,958,678 shares of the Company's common stock that Longview held prior to such transaction) (the "Old Longview Warrant"), and Longview surrendered to the Company the following notes payable by the Company in the aggregate outstanding principal

amount of $3,000,000 (collectively, the "Old Notes"): (i) that certain Amended and Restated Senior Secured Note dated February 14, 2008 (amended and restated May 16, 2008); and (ii) that certain Senior Secured Note dated May 22, 2008.

In exchange for the Marquis Warrant and the Marquis Subordinated Note, the Company acquired from Marquis all of the issued and outstanding shares of common stock, par value $0.001 per share, of NTDS and that certain Ninth Amended and Restated Senior Secured Note dated October 3, 2008, in the outstanding principal amount of $8,575,000, plus accrued and unpaid interest of approximately $865,000, issued by NTDS (the "North Texas Note"). The North Texas Note was cancelled upon delivery to the Company. The Marquis Subordinated Note was paid off in December, 2010 for $500.

Contemporaneously with the closing of the New Securities Exchange Agreement, the Company entered into a second transaction pursuant to a Securities Purchase Agreement between the Company and Marquis (the "Marquis Securities Purchase Agreement"). Under the Marquis Securities Purchase Agreement, the Company issued and sold to Marquis, and Marquis purchased from the Company, for consideration of $8,075,000, a senior secured promissory note in the principal amount of $8,875,000, bearing interest at 13% per annum, subject to certain adjustments (the "Senior Secured Note"), and a warrant to acquire 1,050,000 shares of common stock at an initial exercise price of $0.01 per share. As additional consideration under the Securities Purchase Agreement, the Company also granted Marquis a limited conveyance of overriding royalty interests (the "Overrides") of 3% of the Company's interest in the hydrocarbon production from all of the Company's (i) current oil and gas properties (the "3% ORRI") and (ii) oil and gas properties acquired in the future with $5,000,000 of proceeds from the sale of the Senior Secured Note, which sum has been deposited in the Acquisition Fund Account. The proceeds from the Securities Purchase Agreement were used in part to pay $1,000,000 of principal under the existing indebtedness owed to Longview pursuant to the Old Notes, to fund the Company's share of the completion costs of the State Tract 127-1 Unit and drilling and completion cost of the State Tract 150-1 ST #1 Well, and for general corporate purposes.

Under the Securities Purchase Agreement, from November 13, 2009 until November 12, 2010, the Company had the right to purchase from Marquis all (but not less than all) of the Overrides issued to Marquis prior to November 13, 2009 by delivering to Marquis, at its election, either Override Warrants (as defined in the Securities Purchase Agreement) or any combination of Common Override Exchange Shares (as defined in the Securities Purchase Agreement) and Preferred Override Exchange Shares (as defined in the Securities Purchase Agreement), but it has expired. In connection with the Securities Purchase Agreement, certain subsidiaries of the Company guaranteed payment of the Senior Secured Note and the Company and certain of its subsidiaries granted a security interest in substantially all of their real and personal property to Summerline Asset Management, LLC, as collateral agent for Marquis, as the secured party, and executed a security agreement, a mortgage, guarantees and pledges to evidence the same.

On July 27, 2009, the Company and Longview entered into a Share Exchange Agreement, effective as of November 1, 2008 (the "Agreement"), pursuant to which the parties, in part, acknowledged and effectuated their previous understandings and agreements in connection with a financial restructuring

of the Company on November 13, 2008, wherein Longview accepted payment of $1,000,000 in exchange for (i) the partial repayment of a senior secured note held by the Longview that was previously issued in connection with a Securities Exchange Agreement dated February 13, 2008 between the Company and the Longview; (ii) the agreement by the Longview to subordinate its remaining indebtedness in the form of an unsecured subordinated promissory note in the original aggregate principal amount of $2,210,551; and (iii) the cancellation by the Longview of warrants to purchase 3,000,000 shares of Company common stock.

Prior to the Agreement, the Longview held 23,182,876 shares, or 87.99%, of the issued and outstanding shares of the common stock of the Company. Pursuant to the Agreement, Longview exchanged 20,000,000 shares of Company common stock (the "Share Exchange") for 20,000,000 shares of Series A Convertible Preferred Stock issued by the Company ("Preferred Stock"). Under the Agreement, each share of Preferred Stock is valued at $1.20 per share for an aggregate value of $24,000,000 and is convertible into one share of common stock at a fixed rate of $1.20 per share, which amount is also the Conversion Value and the Liquidation Value as defined in the Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock filed with the Delaware Secretary of State on March 4, 2009, as corrected by the Certificate of Correction filed with the Delaware Secretary of State on April 9, 2009 (the "Certificate of Designation"). The Preferred Stock does not receive dividends and has no voting rights, except as otherwise provided in the Certificate of Designation. The Share Exchange became effective upon the execution of the Agreement, effective as of November 1, 2008, at which time the 20,000,000 shares of common stock were retired concurrently with the issuance of the Preferred Stock.

The descriptions of the above agreements are qualified in each case, in their entirety, by reference to the complete texts of such agreements, which have previously been filed with the SEC.

Other Notes

As part of the acquisition of the Velocity entities, the Company assumed a $75,000 promissory note, plus accrued interest, payable to our President and Chief Executive Officer, which bears interest at 8%, compounded annually ("Vandenberg Note"). The Vandenberg Note has been subordinated to the Senior Secured Note, the Marquis Subordinated Note, and the Longview Subordinated Note.

Capital Expenditures and Commitments

No capital expenditures were made in the three month period ended March 31, 2011, nor were any commitments entered into.

C: Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2010, nor as of March 31, 2011.

Item 5: Legal proceedings:

We currently are not aware of, or a party to, any legal proceedings. Additionally, our officers and directors, in their capacity as such, are not a part to any legal proceedings.

Item 6: Defaults upon senior securities:

Effective January, 2011, interest on the Marquis Senior Secured Note, the Summerview Senior Secured Note and the Longview Subordinated Note became payable on a monthly basis to the respective debtors. The Company did not have sufficient funds to pay the interest and hence have defaulted on the notes.

Item 7: Other information

Not Applicable

Item 8: Exhibits:

None

Item 9: Certificates:

I Donald E. Vandenberg certify that:

1. I have reviewed this Quarterly Report of Velocity Energy Inc. for the interim reporting period ending March 31, 2011.

2. Based upon my knowledge and belief, this disclosure statement does not contain any untrue statements made, in light of the circumstances under which such statements were made not misleading with respect to the period(s) covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for the periods presented in this disclosure statement.

The undersigned hereby certifies that the information herein is true and correct to the best of their knowledge and belief:

Dated this 17th day of May, 2011

VELOCITY ENERGY INC,

Certified by: **/s/ Donald E. Vandenberg**
Donald E. Vandenberg, CEO and Chairman

Name: Donald E. Vandenberg
Position CEO and Chairman
Phone (281) 741-8015
E-Mail dvandenberg@velocityenergy.net
Web-page N/A

Attachment:

Velocity Energy Inc. (VCYE)

Interim Financial Statements
Period Ending March 31, 2011
(2011 1st Quarter 10-Q)
)

VELOCITY ERERGY INC.

Unaudited Consolidated Balance Sheet

	March 31, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 10,458	$ 22,126
Accounts receivable	712	27,938
Prepaid expenses	10,793	13,116
Total current assets	21,963	63,180
Property and Equipment		
Oil and gas properties, full cost method		
Unproved properties	1,000	1,000
Proved Properties	934,782	934,782
Pipelines and facilities	778,418	778,418
Total oil and gas properties	1,714,200	1,714,200
Less accumulated depreciation, depletion and amortization	(115,624)	(109,328)
	1,598,576	1,604,872
Other property and equipment, net of accumulated depreciation of $23,180 and $20,604 at March 31, 2011 and December 31, 2010, respectively	13,475	16,051
Total property and equipment, net	1,612,051	1,620,923
Other Assets		
Debt issuance costs, net of accumulated amortization of $470,564 and $437,459 at March 31, 2011and December 31, 2010, respectively	77,248	110,353
Total other assets	77,248	110,353
Total Assets	$ 1,711,262	$ 1,794,456
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable, trade	$ 159,048	$ 158,549
Other payables and accrued liabilities	644,371	554,558
Interest payable	417,112	19,958
Total current liabilities	1,220,531	733,065
Noncurrent Liabilities		
Long-term debt, net of discounts of $ 326,613 and $457,245 at March 31, 2011 and December 31, 2010, respectively	9,735,832	9,605,200
Long term debt - related party	2,858,501	2,858,501
Asset retirement obligation	297,093	295,571
Total noncurrent liabilities	12,891,426	12,759,272
Shareholders' Deficit		
Convertible preferred shares, par value $0.001 per share, authorized 50,000,000 shares, issued and outstanding 20,000,000 and 20,000,000, respectively	20,000	20,000
Common stock, par value $0.001 per share, authorized 50,000,000 shares, issued and outstanding 6,347,359 and 6,347,359, respectivley	6,351	6,351
Treasury stock	-	-
Additional paid-in capital	9,242,149	9,155,133
Accumulated deficit	(21,669,195)	(20,879,365)
Total shareholders' deficit	(12,400,695)	(11,697,881)
Total Liabilities and Shareholders' Deficit	$ 1,711,262	$ 1,794,456

VELOCITY ENERGY INC.

Consolidated Statement of Operations

	For the three months ending, March 31, 2011	March 31, 2010
Revenues		
Oil and gas sales	$ 11,793	$ 81,034
Contract operating income	-	-
Drilling rig income	-	-
Consulting income	-	43,400
Operating overhead income	-	-
Gas gathering operations	-	-
Total revenues	11,793	124,434
Costs and Expenses		
Lease operating expenses	21,112	23,397
Production taxes	2,038	2,374
Consulting Expense	-	10,641
Gas gathering operations	-	-
Depreciation, depletion and amortization	8,872	46,283
Impairment on oil & natural gas properties	-	-
Accretion on asset retirement obligation	1,522	2,438
General and administrative	207,189	429,221
Total costs and expenses	240,733	514,354
Income (Loss) from Operations	(228,940)	(389,920)
Other (Expense)		
Interest expense	(527,785)	(1,318,058)
Debt issuance costs amortization	(33,105)	(33,105)
Other (expense)	(560,890)	(1,351,163)
Net (Loss) Before Tax	(789,830)	(1,741,083)
Deferred income tax expense	-	-
Net (Loss)	$ (789,830)	$ (1,741,083)
Loss per Common Share:		
Basic	$ (0.12)	$ (0.27)
Diluted	$ (0.12)	$ (0.27)
Weighted average number of common shares outstanding:		
Basic	6,347,359	6,347,359
Diluted	6,347,359	6,347,359

Velocity Energy Inc.

Consolidated Statement of Cash Flows

	For the three months ending, March 31, 2011	For the three months ending, March 31, 2010
Operating Activities		
Net income (loss)	$ (789,830)	$ (1,741,083)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	8,872	46,283
Accretion on asset retirement obligation	1,522	2,438
Non-cash compensation expense	87,016	212,894
Debt issuance costs amortization	33,105	33,105
Non-cash interest added to debt	-	1,313,699
Accretion of discount	130,632	-
Changes in operating assets and liabilities:		
Accounts receivable	27,226	(42,963)
Prepaid expenses	2,323	16,091
Accounts payable and accrued liabilities	90,312	124,797
Interest payable	397,154	4,359
Net cash used by operating activities	(11,668)	(30,380)
Investing Activities		
Purchases and development of oil and gas properties	-	(79,958)
Net cash provided by investing activities	-	(79,958)
Net Decrease in Cash and Equivalents	(11,668)	(110,338)
Cash and equivalents at beginning of period	22,126	290,730
Cash and Equivalents at End of Period	$ 10,458	$ 180,392
Non-Cash Investing & Financing Activities		
Conversion of debt to equity, net of costs	$ -	
Acquisition of Velocity Entities and assumption of note	$ -	
Liabilities asumed in reverse merger	$ -	
Supplementary Disclosure of Cash Flow Information		
Interest paid	$ -	$ -

VELOCITY ENERGY INC.

Consolidated Statement of Shareholders Equity (Deficit)
For the period from April 1, 2007 (Inception) to March 31, 2011

	Preferred Shares	Preferrd Stock Par Value	Common Shares	Common Stock Par Value	Additional Paid In Capital	Treasury Stock	Accumulated Deficit	Total Shareholder's Equity (Deficit)
Balance, April 1, 2007 (Inception)								
Issuance of common stock	-	$ -	23,814,717	$ 23,815	$ (12,925)	$ -	$ -	$ 10,890
Repurchase of shares			(1,968,158)	(1,968)	1,968	(900)		(900)
Net loss							(1,211,166)	(1,211,166)
Balance, December 31, 2007			21,846,559	21,847	(10,957)	(900)	(1,211,166)	(1,201,176)
Reverse merger			4,500,800	4,504	(587,476)	900		(582,072)
Convert notes from debt to equity					5,786,279			5,786,279
Issuance of warrants with senior debt					916,207			916,207
Issunace of warrants - NTDS					118,865			118,865
Stock compensation					1,000,933			1,000,933
Net loss							(6,301,941)	(6,301,941)
Balance, December 31, 2008			26,347,359	26,351	7,223,851	-	(7,513,107)	(262,905)
Issuance of preferred stock	20,000,000	20,000						
Exchanged common stock for preferred			(20,000,000)	(20,000)				
Stock compensation					1,333,684			1,333,684
Net loss							(13,662,810)	(13,662,810)
Balance, December 31, 2009	20,000,000	20,000	6,347,359	6,351	8,557,535	-	(21,175,917)	(12,592,031)
Stock compensation					597,598			597,598
Net loss							296,552	296,552
Balance, December 31, 2010	20,000,000	$ 20,000	6,347,359	$ 6,351	$ 9,155,133	$ -	$ (20,879,365)	$ (11,697,881)
Stock compensation					87,016			87,016
Net loss							(789,830)	(789,830)
Balance, March 31, 2011	20,000,000	$ 20,000	6,347,359	$ 6,351	$ 9,242,149	$ -	$ (21,669,195)	$ (12,400,695)

VELOCITY ENERGY INC.
Notes to Unaudited Consolidated Financial Statements
Period Ended March 31, 2011

1. Basis of Presentation

The accompanying unaudited consolidated financial statements report interim financial information for Velocity Energy Inc., a Delaware corporation formerly known as Sonterra Resources, Inc. (the "Company"), and its wholly owned subsidiaries: Sonterra Oil & Gas, Inc., a Delaware corporation ("Sonterra Oil & Gas"), which was merged into the Company on November 11, 2008; Sonterra Operating, Inc., a Delaware corporation ("Sonterra Operating"); Velocity Energy Inc, a Delaware corporation, which changed its name to Velocity Energy Operating Inc. on March 4, 2009 ("Velocity Operating"); Velocity Energy Offshore LP, a Delaware limited partnership ("Velocity Offshore"); Velocity Energy Partners L.P., a Delaware limited partnership ("Velocity Partners"); Velocity Energy Limited LLC, a Texas limited liability company ("Velocity Limited"); North Texas Drilling Services, Inc., a Texas corporation ("NTDS"); River Capital Holdings Limited, a Barbados corporation ("RCHL"); and River Reinsurance Limited, a Barbados corporation ("River Re"). Collectively, all of the subsidiaries are referred to as the "Subsidiaries". References to "the Company" refer to Velocity Energy Inc., formerly known as Sonterra Resources, Inc., and its Subsidiaries. Additionally, the terms "us," "our," "we," and "its" are sometimes used as abbreviated references to the Company.

The Company was originally incorporated in Florida effective as of June 17, 1997, as Permastoprust International, Inc. and subsequently changed its name to Greystone Credit Inc. on June 30, 1999. The current publicly traded entity was incorporated in Delaware under the name whOOdoo.com, inc. on July 1, 1999. On August 4, 1999, Greystone Credit Inc. acquired whOOdoo.com, inc. in a share exchange, resulting in the Company's state of incorporation being changed to Delaware and the name of the Company becoming whOOdoo.com, Inc. On July 17, 2000, the name of the Company was changed to Ballistic Ventures, Inc. On June 5, 2004, the name of the Company was changed to River Capital Group, Inc. ("River Capital"). River Capital intended to establish and grow a core reinsurance business through two entities incorporated in Barbados, RCHL and River Re, but was unable to raise equity or debt capital and River Capital abandoned its efforts to establish a reinsurance business. These businesses of RCHL and River Re are dormant, and the Company reached an agreement to divest both RCHL and River Re in the third quarter of 2009, but was unable to consummate the divestiture; however, the efforts to sell the entities have been revived and Company expect to consummate the sale of both entities in the first or second quarter of 2011. Following the closing of the Securities Exchange in February 2008 discussed below, the name of the Company was changed to Sonterra Resources, Inc., and the Company emerged from shell company status as an oil and gas exploration and production company. On March 4, 2009, the name of the Company was changed to Velocity Energy Inc.

On February 14, 2008, the Company consummated the transactions (the "Securities Exchange") contemplated by a Securities Exchange and Additional Note Purchase Agreement entered into on August 3, 2007 with The Longview Fund, L.P. ("Longview"), together with an affiliated fund, which collectively owned approximately 66.6% of the Company's common stock. The Securities Exchange was comprised of a series of transactions that occurred as part of the closing including (i) Sonterra Resources' 38,552,749 issued and outstanding shares of common stock being combined into 3,855,275 shares of common stock in a 1-for-10 reverse stock split; (ii) the Company's name being changed from River Capital Group, Inc. to Sonterra Resources, Inc.; and (iii) Longview's exchange of (a) all of its shares of common stock of Sonterra Oil & Gas, Inc., (b) a $5,990,010 equity note from Sonterra Oil & Gas, and (c) a warrant to purchase 50 shares of Sonterra Oil & Gas common stock for 21,846,558 shares of the Company's common stock and a warrant to purchase 4,958,678 shares of the Company's common stock. Longview also exchanged its

$2,000,000 non-equity note from Sonterra Oil & Gas for a senior secured note from the Company in an equal principal amount.

As a result of the Securities Exchange, (i) 100% of the issued and outstanding capital stock of Sonterra Oil & Gas, which was formerly known as Sonterra Resources, Inc. prior to the Securities Exchange, was transferred to the Company (known as River Capital Group, Inc. prior to the Securities Exchange); (ii) the Company became engaged, through its Subsidiaries, in the operation and development of oil and gas properties and related assets; and (iii) the former stockholders of Sonterra Oil & Gas held approximately 95% of the common stock of the Company. Although the Company was the legal acquirer of Sonterra Oil & Gas and continues as the publicly traded entity, the acquisition has been treated for accounting and financial reporting purposes as a recapitalization of the Company with Sonterra Oil & Gas as the acquirer (reverse acquisition). The historical financials prior to February 14, 2008, are those of Sonterra Oil & Gas, which was subsequently merged into the Company on November 7, 2008, and for SEC reporting purposes, the Company presents the consolidated historical financial statements of the Company and the Subsidiaries through the effective date of the Securities Exchange, and the combined financial results thereafter.

On November 13, 2008, the Company restructured its financing arrangements ("Financial Restructuring") by entering into two transactions with its lenders. Under the first transaction, the Company entered into a Securities Exchange Agreement (the "New Securities Exchange Agreement") with The Longview Fund, L.P. ("Longview") and Longview Marquis Master Fund, L.P. ("Marquis") under which Marquis acquired a warrant (the "Marquis Warrant") to acquire (a)(i) 1,000,000 shares of the Company's common stock, par value $0.001 per share, subject to adjustment, at an initial exercise price per share of $0.01, and (ii) an unsecured subordinated promissory note in the original aggregate principal amount of $9,440,000 (the "Marquis Subordinated Note"), bearing interest at 11% per annum; and Longview acquired (b)(i) an unsecured promissory note in the original aggregate principal amount of $2,210,551 (the "Longview Subordinated Note"), bearing interest at 11% per annum, and (ii) $1,000,000 in cash as principal repayment of the Old Notes described below.

As part of the consideration to the Company under the New Securities Exchange Agreement, Longview agreed to surrender to the Company warrants to acquire 3,000,000 shares of the Company's common stock at an exercise price of $0.30210709 per share (out of that certain Warrant to Purchase Common Stock dated February 14, 2008 to acquire up to 4,958,678 shares of the Company's common stock that Longview held prior to such transaction) (the "Old Longview Warrant"), and Longview surrendered to the Company the following notes payable by the Company in the aggregate outstanding principal amount of $3,000,000 (collectively, the "Old Notes"): (i) that certain Amended and Restated Senior Secured Note dated February 14, 2008 (amended and restated May 16, 2008); and (ii) that certain Senior Secured Note dated May 22, 2008.

In exchange for the Marquis Warrant and the Marquis Subordinated Note, the Company acquired from Marquis all of the issued and outstanding shares of common stock, par value $0.001 per share, of NTDS and that certain Ninth Amended and Restated Senior Secured Note dated October 3, 2008, in the outstanding principal amount of $8,575,000, plus accrued and unpaid interest of approximately $865,000, issued by NTDS (the "North Texas Note"). The North Texas Note was cancelled upon delivery to the Company. The Marquis Subordinated Note was paid off in December, 2010 for $500.

Contemporaneously with the closing of the New Securities Exchange Agreement, the Company entered into a second transaction pursuant to a Securities Purchase Agreement between the Company and Marquis (the "Marquis Securities Purchase Agreement"). Under the Marquis Securities Purchase Agreement, the Company issued and sold to Marquis, and Marquis purchased from the Company, for consideration of $8,075,000, a senior secured promissory note in the principal amount of $8,875,000, bearing interest at 13% per annum, subject to certain adjustments (the "Senior Secured Note"), and a warrant to acquire 1,050,000 shares of common stock at an initial exercise price of $0.01 per share. As additional consideration under the Securities Purchase Agreement, the Company also granted Marquis a limited conveyance of overriding royalty interests (the "Overrides") of 3% of the Company's interest in the

hydrocarbon production from all of the Company's (i) current oil and gas properties (the "3% ORRI") and (ii) oil and gas properties acquired in the future with $5,000,000 of proceeds from the sale of the Senior Secured Note, which sum has been deposited in the Acquisition Fund Account. The proceeds from the Securities Purchase Agreement were used in part to pay $1,000,000 of principal under the existing indebtedness owed to Longview pursuant to the Old Notes, to fund the Company's share of the completion costs of the State Tract 127-1 Unit and drilling and completion cost of the State Tract 150-1 ST #1 Well, and for general corporate purposes.

Under the Securities Purchase Agreement, from November 13, 2009 until November 12, 2010, the Company had the right to purchase from Marquis all (but not less than all) of the Overrides issued to Marquis prior to November 13, 2009 by delivering to Marquis, at its election, either Override Warrants (as defined in the Securities Purchase Agreement) or any combination of Common Override Exchange Shares (as defined in the Securities Purchase Agreement) and Preferred Override Exchange Shares (as defined in the Securities Purchase Agreement), but it has expired. In connection with the Securities Purchase Agreement, certain subsidiaries of the Company guaranteed payment of the Senior Secured Note and the Company and certain of its subsidiaries granted a security interest in substantially all of their real and personal property to Summerline Asset Management, LLC, as collateral agent for Marquis, as the secured party, and executed a security agreement, a mortgage, guarantees and pledges to evidence the same.

On July 27, 2009, the Company and Longview entered into a Share Exchange Agreement, effective as of November 1, 2008 (the "Agreement"), pursuant to which the parties, in part, acknowledged and effectuated their previous understandings and agreements in connection with a financial restructuring of the Company on November 13, 2008, wherein Longview accepted payment of $1,000,000 in exchange for (i) the partial repayment of a senior secured note held by the Longview that was previously issued in connection with a Securities Exchange Agreement dated February 13, 2008 between the Company and the Longview; (ii) the agreement by the Longview to subordinate its remaining indebtedness in the form of an unsecured subordinated promissory note in the original aggregate principal amount of $2,210,551; and (iii) the cancellation by the Longview of warrants to purchase 3,000,000 shares of Company common stock.

Prior to the Agreement, the Longview held 23,182,876 shares, or 87.99%, of the issued and outstanding shares of the common stock of the Company. Pursuant to the Agreement, Longview exchanged 20,000,000 shares of Company common stock (the "Share Exchange") for 20,000,000 shares of Series A Convertible Preferred Stock issued by the Company ("Preferred Stock"). Under the Agreement, each share of Preferred Stock is valued at $1.20 per share for an aggregate value of $24,000,000 and is convertible into one share of common stock at a fixed rate of $1.20 per share, which amount is also the Conversion Value and the Liquidation Value as defined in the Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock filed with the Delaware Secretary of State on March 4, 2009, as corrected by the Certificate of Correction filed with the Delaware Secretary of State on April 9, 2009 (the "Certificate of Designation"). The Preferred Stock does not receive dividends and has no voting rights, except as otherwise provided in the Certificate of Designation. The Share Exchange became effective upon the execution of the Agreement, effective as of November 1, 2008, at which time the 20,000,000 shares of common stock were retired concurrently with the issuance of the Preferred Stock.

On July 13, 2009, one of the two rigs in North Texas Drilling Services, Inc. incurred major damages while rigging down. The damages were reported to the insurance carrier and appropriate agencies. The Company provided a comprehensive damage assessment as well as like-kind and quality comparative values to its insurer in furtherance of its insurance claim. The rig was insured for $375,000, and the Company received insurance proceeds of $323,941 on August 24, 2009.

The demand for the NTDS drilling equipment had been extremely weak to non-existent for longer than six months, so management elected to auction all of the equipment on March 9, 2010. With all parties in agreement, Kruse Energy and Equipment sold 100% of the NTDS rigs, tools and rolling stock in a public auction in Oklahoma City for a total value net of auction fees and preparation expenses of $403,793. From these proceeds, the company paid First National Bank of Weatherford $105,250 to pay off the bank note

and associated interest in April 2010. The remainder of the funds received from this sale was used in part to close the purchase of the assets in West Virginia and in part for other general and administrative expenses.

On March 26, 2010, Sonterra Operating, Inc., a wholly-owned subsidiary of the Company, entered into an Option for Pipeline Right-of-Way and Easement and Well Assignment with Arbol Resources, Inc. ("Arbol") to acquire our interest in the 6.63 mile easement and pipeline as well as an option to acquire the State Tract 127 Well No. 1 Unit ("The 127 Well"), the State Tract 150-1 Well, and the State Tract 150-2 Well (collectively, "The 150 Wells, and, together with The 127 Well, "The Wells"), including rights as the Operator under the presently filed P-4's, all of which shall be referred to as the "Arbol Transaction" for all purposes herein. The Arbol Transaction enables the Company to avoid the risk and expense of certain plugging and abandonment obligations and may possibly provide a future revenue stream from a 1.25% of the sales value of the oil and gas metered and flowed in the Pipeline/Easement from one or more wells located and bottomed on State Tract 127 and 1.5% of the sales value of the oil and gas metered and flowed on the State Tract 150, in the event Arbol is able to successfully reenter the wellbores of The Wells and establish commercial production therefrom.

The Company previously announced its intent to pursue acquisitions of producing properties in the Appalachian Basin. On April 13, 2009, the Company executed a letter of intent to acquire certain producing properties in southern West Virginia pursuant to the Company's Appalachian Basin acquisition strategy, but did not consummate this acquisition in the second quarter of 2009 as anticipated. However, on October 2, 2009, Velocity Energy Partners LP, a wholly owned subsidiary of the Company, did close on the acquisition from this same private seller of producing oil and gas assets located in five counties of southern West Virginia as part of its previously announced Appalachian Basin acquisition strategy by making the first of two installment payments of $584,824, subject to certain adjustments, for said properties. To make the second and final installment payment of approximately $584,824 that was due on or about October 2, 2010, and to ensure funding for the consummation of the acquisition and avoid forfeiture of the southern West Virginia properties as well as to reduce future operating and capital expenditures which the company would otherwise be unable to fund, Velocity sold 32.8% of its holdings in West Virginia to two private investors for $400,000. The second installment payment, of $549,430.93 was made on October 1, 2010, completing the final closing on the West Virginia acquisition. The effective date of this acquisition was July 1, 2009, and a steady stream of revenues is expected from these long-lived reserves. In addition, the Company has identified 58 vertical and 43 horizontal locations to develop for similar long-lived natural gas reserves. Our ability to develop these reserves will be dependent on our success in raising drilling capital. Currently, we believe that we have satisfactory title to the undeveloped acreage. As leases near expiration, the Company will attempt to extend terms or re-lease.

These financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The significant accounting policies followed by the Company are described in Note 3 to the audited consolidated financial statements for the year ended December 31, 2008, the last full calendar year for which the Company secured full audited consolidated financial statements.

In the opinion of management, all normal recurring adjustments considered necessary for the fair statement of the results for the interim period presented have been included. Certain reclassifications have been made to prior periods' financial statements to conform to the current presentation. These reclassifications had no effect on total assets, total liabilities, stockholders' equity or net income.

2. Going Concern

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company experienced a net loss of $6.3 million for the year ended December 31,

2008, a net loss of $13.7 million for the year ended December 31, 2009, and a net gain of $.3 million for the year ended December 31, 2010, and a net loss of $.8 million for the three month period ended March 31, 2011. Furthermore, the Company has $12.6 million in debt, maturity value, plus associated interest obligations, and had virtually no significant source of revenue in 2011 to pay its debt.

The foregoing discussion of the Acquisition is qualified in its entirety by reference to the definitive, binding Letter of Intent and Exhibits related to the financing thereof, copies of which was filed as Exhibit 10.1 through 10.7 to the Form 8-K filed on October 12, 2009, and are incorporated into this Item 2 by reference.

3. Restricted Cash

As part of the Financial Restructuring in November 2008, the Company established a special controlled access account at Sterling Bank ("Acquisition Funds Account"), which was intended to be used primarily for acquisitions or as otherwise agreed by the Company and Summerline, the asset management company representing Marquis, as Collateral Agent. The balance of the Acquisitions Fund Account at December 31, 2008 was approximately $3.7 million. To access the funds (the "Acquisition Funds"), both the Company and Summerline, the asset management company representing Marquis, had to agree on the use of such funds and submit written authorization to Sterling Bank to release these funds.

On May 29, 2009, at which time the outstanding principal of the Senior Secured Note was $6,682,500, Marquis and Summerview Marquis Fund, L.P. ("Summerview") entered into a letter agreement whereby Marquis transferred to Summerview a portion of the Senior Secured Note in the principal amount of $1,679,842, including all of Marquis' right, title and interest with respect to the transferred portion of the Senior Secured Note, and Summerview agreed to be bound by all of the terms and conditions of the Securities Purchase Agreement. Marquis continued to hold a note in the principal amount of $6,647,127, which represented the portion of the Senior Secured Note (the "Marquis Secured Note") remaining after the transfer of the portion to Summerview.

On June 17, 2009, the Company, Marquis, Summerview and certain subsidiaries of the Company entered into that certain June 2009 Amendment Agreement which amends the Marquis Secured Note (the "Amendment"). Pursuant to the Amendment, Marquis paid the Company $1,500,000 (the "Additional Payment"), and in consideration therefore, the principal amount of the Marquis Senior Secured Note was increased by $1,644,375. The Company has issued and delivered to Marquis a note in the same form as the Senior Secured Note for the new principal amount of $6,647,126.98. The proceeds of the Additional Payment were be used to fund an Agreed Acquisition as defined in Section 4(d) of the Securities Purchase Agreement. The terms and conditions of the Summerview Secured Note were not amended as a result of or in connection with the amendment to the Marquis Secured Note pursuant to the Amendment. As a result of the Additional Payment, the balance in the Acquisition Funds Account of June 30, 2009 was $1,629,931. In July 2009, an additional $225,000 was released to fund general and administrative costs.

$750,000 was released on September 17, 2009 primarily to fund the initial payment of 50% of the unadjusted purchase price in order to consummate the acquisition of the southern West Virginia assets and secondarily to cover certain other related as well as some unrelated expenses. The balance in the Acquisition Funds Account at September 30, 2009 was $654,931. All restrictions on the use of the Acquisition Funds were lifted on November 25, 2009 following payment on that date of $199,568 under the Marquis Secured Note and of $50,432 under the Summerview Secured Note out of the Acquisition Funds Account.

The balance of the Acquisitions Fund Account at December 31, 2009 was $-0- and no additional funds were deposited in the Acquisitions Fund Account during 2010.

4. Property and Equipment

The Company follows the full cost method of accounting for its investments in oil and natural gas properties. Under this method, all costs associated with acquisition, exploration, and development of oil and gas properties are capitalized, including general and administrative costs that are directly related with such acquisition, exploration and development costs. Specific capitalized costs include acquisition costs, geological and geophysical expenditures, lease rentals on undeveloped properties, and the costs of drilling and equipping productive and non-productive wells. Capitalized costs are categorized as either being subject to amortization or not subject to amortization.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves and estimated future costs to plug and abandon wells and related costs of site restoration, are amortized on the unit-of-production method using estimates of proved reserves as determined by independent engineers. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

In addition, capitalized costs, less accumulated amortization and related deferred income taxes, shall not exceed an amount (the full cost ceiling) equal to the sum of:

1) The present value of estimated future net revenues computed by applying current prices of oil and gas reserves to estimated future production of proved oil and gas reserves, less estimated future expenditures (based on current costs) to be incurred in developing and producing the proved reserves computed using a discount factor of ten percent and assuming continuation of existing economic conditions;

2) plus the cost of properties not being amortized;

3) plus the lower cost of estimated fair value of unproven properties included in the costs being amortized; and

4) less income tax effects related to the differences between the book and tax basis of the properties.

5. Earnings (Loss) Per Common Share

Basic loss per common share is calculated by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share considers the dilutive effect of the average number of common stock equivalents, consisting of the Company's common stock options and warrants, that were outstanding during the period. For the calendar year 2010, the Company had a net gain of $.3 million, resulting in a $0.05 per share gain in 2010. The Company posted a $.8 million lost in the first quarter of 2011.

For purposes of calculating the weighted average number of shares of common stock outstanding and earnings (loss) per share data, the number of common shares issued by the Company in the Securities Exchange transaction is deemed to be included in the number of common shares of the Company outstanding during the interim period.

6. Stock Based Compensation

Concurrent with the consummation of the Securities Exchange, the Company adopted the 2007 River Capital Group, Inc, Non-Qualified Stock Option Plan (the "2007 Stock Option Plan") to provide for the issuance of stock options as compensation to key employees, officers and non-employee directors.

Stock options issued to employees under the 2007 Stock Option Plan vest incrementally over a period of three years and have a ten-year life. On February 14, 2008, a total of 5,140,359 common stock options were issued. These options had exercise prices that ranged from $0.332 to $0.453 per share, and were scheduled to expire in February 2018. These options were forfeited on June 23, 2008, when the then management team resigned from the Company. A new management team was employed on June 23, 2008, and a total of 2,459,087 new common stock options were issued to the initial two members of the management team. An additional 1,141,719 new common stock options were issued to the third member of the management team whose start date commenced July 1, 2008, and this third member also received an additional 30,000 new common stock options in exchange for a four-month deferral of salary. These options have exercise prices that range from $1.35 to $2.025 per share and will expire in June 2018.

	Number Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Term in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2010	3,630,806	$ 1.707	9.5	$ -
Exercised	-	-	-	$ -
Exercisable at December 31, 2010	30,000	$ 1.35	5.0	$ -

Effective as of March 31, 2009, the Company adopted the 2008 Sonterra Resources, Inc. Equity Compensation Plan ("2008 Equity Compensation Plan"). Under the 2008 Equity Compensation Plan, no employee participant may receive options to purchase more than 400,000 shares of common stock in any given year, the total number of options awarded to all employee participants shall not exceed 1,300,000 in any given year, and a maximum of 3,000,000 options may be awarded. The 3,000,000 options available under the 2008 Equity Compensation Plan are in addition to a maximum of 5,140,165 options available under the 2007 Stock Option Plan. Equity compensation is intended to qualify as performance-based compensation under Section 162(m) of the Code. The Corporate Compensation and Nominating Committee has reviewed and discussed with the Company the 2008 Equity Compensation Plan as well as the Company's overall incentive-driven compensation philosophy. No options have been awarded under the 2008 Equity Compensation Plan.

In accordance with Statement of Financial Accounting Standard No. 123, the Company determines the value of the stock-based compensation granted to its employees by use of a Black-Scholes valuation model. That value is recognized as stock compensation expense over the expected life of the underlying options. Total stock-based compensation expense recognized for the calendar year 2009 and nine months ended December 31, 2010 was $1.3 million and $.4 million, respectively.

The following warrants are outstanding as of December 31, 2010:

	Number	Exercise Price	Expiration Date
The Longview Fund, L.P.	1,958,678	$ 0.30	February 14, 2013
Longview Marquis Master Fund, L.P. (1)	2,050,000	$ 0.01	November 13, 2013

(1) Notwithstanding the total of 2,050,000 shares of common stock issuable upon exercise of the warrants held by Longview Marquis Master Fund, L.P., in no event shall the total number of shares of common stock of the Company held by Longview Marquis Master Fund, L.P. immediately following any such exercise exceed 4.99% of the outstanding shares of the common stock of the Company.

7. Debt

At March 31, 2011 and December 31, 2010, debt consisted of the following:

	March 31, 2011	December 31, 2010
Marquis Senior Secured Note, net of unamortized discount of $260,703 and $364,987 at March 31, 2011 and December 31, 2010, respectively, interest rate of 13%, interest deferred to January, 2011 and then payable monthly, principal paid in 11 monthly installments of $286,496 with a balloon payment of $4,870,436 payable on November 13, 2011, secured by oil and gas properties.	7,761,187	7,656,903
Summerview Senior Secured Note, net of unamortized discount of $65,910 and $92,258 at March 31, 2011 and December 31, 2010, respectively, interest rate of 13%, interest deferred to January, 2011 and then payable monthly, principal paid in 11 monthly installments of $72,877 with a balloon payment of $1,238,908 payable on November 13, 2011, secured by oil and gas properties.	1,974,645	1,948,297
Longview Subordinated Note – Related party, interest rate of 11%, interest payable quarterly, 25% of principal due November 13, 2011 and 75% of principal due on November 13, 2012 secured by oil and gas properties after retirement of Senior Secured Note.	2,775,341	2,775,341
Subordinated note payable to related party, interest rate of 8%, compounded annually, all principal and interest payments will be deferred until repayment of any senior and subordinated debt.	83,160	83,160
Total current debt	$ 12,594,333	$ 12,463,701

On May 29, 2009, at which time the outstanding principal of the Senior Secured Note was $6,682,500, Marquis and Summerview Marquis Fund, L.P. ("Summerview") entered into a letter agreement whereby Marquis transferred to Summerview a portion of the Senior Secured Note in the principal amount of $1,679,842, including all of Marquis' right, title and interest with respect to the transferred portion of the Senior Secured Note, and Summerview agreed to be bound by all of the terms and conditions of the Securities Purchase Agreement. Marquis continued to hold a note in the principal amount of $6,647,127, which represented the portion of the Senior Secured Note (the "Marquis Secured Note") remaining after the transfer of the portion to Summerview.

On November 16, 2009, the Marquis Senior Secured Note, net of unamortized discount of $469,271 and $782,123 at December 31, 2010 and December 31, 2009, respectively, was restructured to provide for an interest rate of 13%, with interest deferred to January, 2011, and then made payable monthly, and with principal payments to be paid in eleven (11) monthly installments of $286,496 each, followed by a balloon payment of $4,870,436 payable on November 13, 2011. The Marquis Senior Secured Note remains secured by the Company’s oil and gas properties.

On November 16, 2009, the Summerview Senior Secured Note net of unamortized discount of $118,606 and $197,650 at December 31, 2010 and December 31, 2009, respectively, was restructured to provide for an interest rate of 13%, with interest deferred to January, 2011, and then made payable monthly, with principal payments to be paid in eleven (11) monthly installments of $72,877 each, followed by a balloon payment of $1,238,908 payable on November 13, 2011. The Summerview Senior Secured Note remains secured by the Company’s oil and gas properties.

On November 16, 2009, the Marquis Subordinated Note, net of unamortized discount of $3,457,136 and $4,677,305, was restructured to provide for an interest rate of 11%, with interest payable quarterly, and with 25% of principal due November 13, 2011 and the remaining 75% of principal due on November 13, 2012. The Marquis Subordinated Note was formerly secured by drilling rigs owned by NTDS, but is currently unsecured as a result of the auction sale of the NTDS assets.

On November 16, 2009, the Summerview Subordinated Note, net of unamortized discount of $1,161,001, was restructured to provide for an interest rate of 11%, with interest payable quarterly, and with 25% of principal due November 13, 2011 and the remaining 75% of principal due on November 13, 2012. The Summerview Subordinated Note was formerly secured by drilling rigs owned by NTDS, but is currently unsecured as a result of the auction sale of the NTDS assets.

On December 23, 2010, the Company purchased the Marquis Subordinated Note and the Summerview Subordinated Note for $500.

8. Subsequent Events

In April, 2011 the Company sold its interest in the Appalachian properties to a private investor for $380,000. Subsequently, the Company distributed the cash to Longview Marquis Master Fund, L.P. and Summerview Marquis Fund, L.P. and received in return a reduction in their respective notes of $7,174,898 and $1,825,102. The new debt owed to Longview Marquis Master Fund, L.P, and Summerview Marquis Fund, L.P. is $846,992 and $215,452, respectively.

9. Recent Accounting Pronouncements

FASB Statement of Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"): SFAS 160, issued in December 2007, establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the non-controlling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company does not currently have any non-controlling interests in its subsidiaries and thus does not expect the adoption of SFAS 160 to impact its consolidated financial statements.

FASB Statement of Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133" ("SFAS 161"): SFAS 161, issued in March 2008, requires new and expanded disclosures regarding hedging activities. These disclosures include, but are not limited to, a tabular presentation of derivative data; financial statement presentation of fair values on a gross basis, including those that currently qualify for netting under FASB Interpretation No. 39; and a specific footnote narrative regarding how and why derivatives are used. The disclosures are required in all interim and annual reports. SFAS 161 is effective for fiscal and interim periods beginning after November 15, 2008. The Company is not currently engaged in any hedging activities and thus does not expect the application of SFAS 161 to impact its consolidated financial statements.

On May 28, 2009, the FASB issued SFAS No. 165, *Subsequent Events*, which provides guidance on management's assessment of subsequent events. Historically, management had relied on U. S. auditing literature for guidance on assessing and disclosing subsequent events. SFAS No. 165 represents the inclusion of guidance on subsequent events in the accounting literature and is directed specifically to management, since management is responsible for preparing an entity's financial statements. SFAS No. 165 clarifies that management must evaluate, as of each reporting period, events or transactions that occur

after the balance sheet date through the date that the financial statements are issued. SFAS No. 165 is effective prospectively for interim and annual financial periods ending after June 15, 2009. The Company has adopted the provisions of SFAS No. 165 for its reporting period ending December 31, 2009. The adoption of SFAS No. 165 did not have a material impact of the Company's financial condition or results of operations. The Company has evaluated subsequent events up through the date of the filing of this report with the SEC.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Information

This Form 10-Q quarterly report of the Company for the three months ended March 31, 2011, may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that there are statements that are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where the Company expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

The following are factors that could cause actual results or events to differ materially from those anticipated, and include, but are not limited to: general economic, financial and business conditions; the Company's ability to minimize expenses; the Company's ability to attract and retain key personnel to support its present and planned operations; the Company's ability to acquire additional oil and gas properties and/or operations on acceptable terms, or at all; the Company's ability to obtain additional necessary financing from outside investors and/or bank and mezzanine lenders; and the ability of the Company to generate sufficient revenues to cover operating expenses and position it to achieve positive cash flow.

Readers are cautioned not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date hereof. The Company believes the information contained in this filing to be accurate as of the date hereof. Changes may occur after that date, and the Company will not update that information except as required by law in the normal course of its public disclosure practices.

Additionally, the following discussion regarding the Company's financial condition and results of operations should be read in conjunction with these unaudited financial statements for the first quarter of 2011 as well as the financial statements and related notes contained in the 2010 and 2009 annual filings as well as the financial statements for the fiscal year ended December 31, 2008, as set forth in the Company's Form 10-K filed with the U.S. Securities and Exchange Commission on May 8, 2009. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Our significant accounting policies are described in Note 3 to the Financial Statements of the Company's Form 10-K for the fiscal year ended December 31, 2008, and have not been changed since then. Certain of these policies are of particular importance to the portrayal of our financial position and results of operations, and require the application of significant judgment by management. We analyze our estimates, including those related to reserves, depletion and impairment of oil and gas properties, and the ultimate utilization of the deferred tax asset, and base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements subsequent to the Securities Exchange.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The Company believes certain significant accounting policies affect its more significant judgments and estimates used in the preparation of its financial statements. We believe the following accounting policies to be critical to our operations:

Full Cost Method of Accounting. Oil and gas properties are stated at historical cost using the full cost method of accounting. Under this method, all costs associated with the acquisition, exploration and development of oil and gas properties are capitalized, including acquisition costs, geological and geophysical expenditures, lease rentals on undeveloped properties, and the costs of drilling and equipping productive and non-productive wells. Capitalized costs are categorized as either being subject to amortization or not being subject to amortization.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves as well as estimated future costs to plug and abandon wells and costs of site restoration, are amortized on the unit-of-production method using estimates of proved reserves as determined by independent engineers. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

In addition, capitalized costs, less accumulated amortization and related deferred income taxes, shall not exceed an amount (the full cost ceiling) equal to the sum of:

1) the present value of estimated future net revenues computed by applying current prices of oil and gas reserves to estimated future production of proved oil and gas reserves, less estimated future expenditures (based on current costs) to be incurred in developing and producing the proved reserves computed using a discount factor of ten percent and assuming continuation of existing economic conditions;

2) plus the cost of properties not being amortized;

3) plus the lower of cost or estimated fair value of unproven properties included in the costs being amortized; and

4) less income tax effects related to the differences between the book and tax basis of the properties. Given the complexities associated with oil and gas reserve estimates and the history of price volatility in the oil and gas markets, events may arise that would require us to record an impairment of the recorded book values associated with oil and gas properties. We have recognized impairments in 2010, 2009 and 2008 and there can be no assurance that impairments will not be required in the future.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income.

Revenue Recognition. We recognize oil and gas revenue from our interest in producing wells as the oil and gas is sold to third parties. Gas gathering operations revenues are recognized upon delivery of the product to third parties.

Reserve Estimates. Our estimates of oil and gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent in the interpretation of such data as well as in the projection of future rates of production and the timing of development expenditures. Reserve engineering is

a subjective process of estimating underground accumulations of oil and gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and gas reserves and future net cash flows depend upon a number of variable factors and assumptions, all of which may in fact vary considerably from actual results. These factors and assumptions include historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and gas prices, future operating costs, severance taxes, development costs and workover costs. The future drilling costs associated with reserves assigned to proved undeveloped locations may ultimately increase to an extent that these reserves may be later determined to be uneconomic. For these reasons, estimates of economically recoverable quantities of oil and gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of future net cash flows expected therefrom, may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of our oil and gas properties and/or the rate of depletion of the oil and gas properties. Actual production, revenues and expenditures, with respect to our reserves, will likely vary from estimates and such variances may be material. The reserve information contained in this report was developed internally, using standard guidelines for reserve recognition and reporting.

Impairment of Oil & Gas Properties and Other Property & Equipment. We review our long-term assets and oil and gas properties for impairment at least annually and whenever events and circumstances indicate a decline in the recoverability of their carrying value. We estimate the expected future cash flows of our oil and gas properties and compare such future cash flows to the carrying amount of the properties to determine if the carrying amount is recoverable. If the carrying amount exceeds the estimated undiscounted future cash flows, we will adjust the carrying amount of the oil and gas properties to their fair value. The factors used to determine fair value include, but are not limited to, estimates of proved reserves, future commodity pricing, future production estimates, anticipated capital expenditures, and a discount rate commensurate with the risk associated with realizing the expected cash flows projected.

General Overview of Operations and Current Developments

Historically, Velocity has had two primary areas of operations: The State Waters of Texas in Matagorda Bay, and five county producing area in southern West Virginia.

The history of our ownership and operations in Matagorda Bay is documented in previously filed reports. On March 26, 2010, Sonterra Operating, Inc., a wholly-owned subsidiary of the Company, entered into an Option for Pipeline Right-of-Way and Easement and Well Assignment with Arbol Resources, Inc. ("Arbol") to acquire our interest in the 6.63 mile easement and pipeline as well as an option to acquire the State Tract 127 Well No. 1 Unit ("The 127 Well"), the State Tract 150-1 Well, and the State Tract 150-2 Well (collectively, "The 150 Wells, and, together with The 127 Well, "The Wells"), including rights as the Operator under the presently filed P-4's, all of which shall be referred to as the "Arbol Transaction" for all purposes herein. The Arbol Transaction enables the Company to avoid the risk and expense of certain plugging and abandonment obligations and may possibly provide a future revenue stream from a 1.25% of the sales value of the oil and gas metered and flowed in the Pipeline/Easement from one or more wells located and bottomed on State Tract 127 and 1.5% of the sales value of the oil and gas metered and flowed on the State Tract 150, in the event Arbol is able to successfully reenter the wellbores of The Wells and establish commercial production therefrom.

The Company previously announced its intent to pursue acquisitions of producing properties in the Appalachian Basin. On April 13, 2009, the Company executed a letter of intent to acquire certain producing properties in southern West Virginia pursuant to the Company's Appalachian Basin acquisition strategy, but did not consummate this acquisition in the second quarter of 2009 as anticipated. However, on October 2, 2009, Velocity Energy Partners LP, a wholly owned subsidiary of the Company, did close on the acquisition from this same private seller of producing oil and gas assets located in five counties of

southern West Virginia as part of its previously announced Appalachian Basin acquisition strategy by making the first of two installment payments of $584,824 for said properties. The second and final installment was made on October 1, 2010.

The effective date of this acquisition was July 1, 2009, and a steady stream of revenues is expected from these long-lived reserves. In addition, the Company has identified 58 vertical and 43 horizontal locations to develop for similar long-lived natural gas reserves. Our ability to develop these reserves will be dependent on our success in raising drilling capital.

Currently, we believe that we have satisfactory title to the undeveloped acreage. As leases near expiration, the Company will attempt to extend terms or re-lease.

Revenues. During the three months ended March 31, 2011 and 2010, we reported total revenue of $11,793 and $124,434, respectively. The revenue stream in 2011 is related to our Appalachian properties.

In the first quarter of 2011, gas production was 7,250 Mcf at an average price of $4.25 from the producing gas properties in the five counties in West Virginia. The company over accrued 2010 revenue by $16,654, partially offsetting the first quarter revenues. No production was recorded on the two temporarily abandoned wells in Matagorda Bay.

Consulting revenue was a result of out-sourcing internal land and legal resources to a third party oil and gas operator in Pennsylvania. This sector of business was discontinued in 2010 due to the internal resource obtaining outside employment.

Lease Operating Expenses. During the three months ended March 31, 2011 and 2010, lease operating expenses were $21,112 and $23,397. Normal field operating expenses, meter and pipeline repairs, and compliance visits were the most significant expense incurred.

Production Taxes. During the three months ended March 31, 2011, production and ad valorem taxes were $2,038. The state severance tax rate in West Virginia is approximately 5% and the estimated ad valorem tax rate is 4.2%.

Impairment on Oil & Natural Gas Properties. No impairment expense was recorded in the quarter ended March 31, 2011.

Natural gas prices used in the impairment valuation were $3.35/mcf. The Company does not have any oil reserves.

General and Administrative Expense. General and administrative expenses for the three months ended March 31, 2011 and 2010 were $207,189 and $429,221, respectively. Non-cash stock compensation, payroll and rent are the most significant expenses incurred.

Non-cash stock compensation expenses for the three months ended March 31, 2011 and 2010 were $87,016 and $212,894, respectively.

Total payroll for the three month period ending March 31, 2011 was $100,000. Although payroll expense is recognized monthly, two employees deferred $75,000 in salary during the three month period ended March 31, 2011. The Company's corporate structure is to maintain as few employees as needed and to outsource all administrative functions.

Currently, the Company uses Owen Naccarato and Associates for legal services.

Rent expense for the twelve month period ended March 31, 2011 was $16,612. Our monthly rental expense is $5,537 and our lease expires on December 31, 2011.

Other Income (Expense). During the three months ended March 31, 2011, the Company had other expense of $560,890 compared to an expense of $1,351,163 for the three month period ended March 31, 2010.

Interest expense decreased from $1,318,058 in the first quarter of 2010 to $527,785 in the three month period ended March 31, 2011. On December 23, 2010 the Company purchased the Marquis Subordinated Note and the Summerview Subordinated note for $500. The purchase significantly reduced the monthly interest expense.

Financial Condition

Liquidity and Capital Resources

Our primary source of liquidity is intended to be cash flow from operations. In the absence of a significant acquisition or substantial drilling operations under the Farmout Agreement on acreage to which we have certain development rights pursuant to the Appalachian Basin acquisition, which we have been unable to raise since the acquisition due to depressed gas prices and other factors, the Company does not believe that we will have sufficient sources of capital to fund our operations for the next twelve months because we were not able to establish production at commercial rates from the aforementioned wells in the Matagorda Bay 150 Field, nor were we able to generate any significant revenue from our NTDS subsidiary nor from our Appalachian Basin properties during 2009. While we did consummate an Appalachian Basin acquisition in accordance with our business plan, production from the existing wells in which we acquired small working interests are insufficient to offset all of our general, administrative, and operating expenses, and will continue to be insufficient to do so in the absence of a drilling program.

The Company experienced a net loss of $6.3 million for the year ended December 31, 2008, a net loss of $13.7 million for the year ended December 31, 2009, a net gain of $0.3 million for the year ended December 31, 2010, and a net loss of $.8 million in the three month period ended March 31, 2011. Furthermore, the Company has $12.6 million in debt, maturity value, plus associated interest obligations, and has insufficient current sources of revenue to pay its debt obligations.

Accordingly, the Company is considering strategic alternatives to address the circumstances that cast serious doubt on its ability to continue as a going concern, including without limitation restructuring its debt with Marquis, Summerview, and Longview.

The current financial crisis and recession has continued to negatively impact the prices for our oil and natural gas production, limited access to the credit and equity markets, and increased the cost of capital. It may also have other negative consequences that we cannot predict. The continued credit crisis and related turmoil in the global financial system and economic recession in the U.S. create financial challenges that will grow if conditions do not improve. Our cash flow from operations and cash on hand historically have not been sufficient to fund all of our expenditures, and we have relied on Longview and Marquis to provide us with additional capital. Our ability to access the capital markets has been restricted as a result of these crises and may continue to be restricted at a time when we would like, or need, to raise capital. If our cash flow from operations is less than anticipated and our access to capital is restricted, we may be required to reduce our operating and capital budget, which could have a material adverse effect on our results and future operations. The financial crisis may also limit the number of participants or reduce the values we are able to realize in asset sales or other transactions we may engage in to raise capital, thus making these transactions more difficult to consummate and less economic. Additionally, the current economic situation has affected the demand for natural gas and oil and has resulted in lower prices for natural gas and oil, which could have a negative impact on any possible future revenues related to possible future oil and gas production.

Our business model is based on growing the Company by completing one or more acquisitions of producing properties with upside proven locations to be drilled and by participating in drilling prospects

generated in-house and by third parties. As discussed above, acquisitions and access to capital may be difficult in the current economic environment. Acquisitions will have associated production equipment. We currently have two senior management team members focused on acquisitions. The number of acquisitions we complete and number of prospects in which we participate, if any, will determine whether we will hire additional consultants and/or employees. There is the potential for a significant increase in the number of consultants and/or employees in the event that we acquire or develop additional oil and gas properties and related assets.

Senior Secured Notes and Subordinated Notes

On November 13, 2008, the Company restructured its financing arrangements ("Financial Restructuring") by entering into two transactions, as more fully discussed in "Item 1. Financial Statements—Note 1. Basis of Presentation". Under the first transaction, the Company entered into a Securities Exchange Agreement (the "New Securities Exchange Agreement") with The Longview Fund, L.P. ("Longview") and Longview Marquis Master Fund, L.P. ("Marquis") under which Marquis acquired a warrant (the "Marquis Warrant") to acquire (a)(i) 1,000,000 shares of the Company's common stock, par value $0.001 per share ("Common Stock"), subject to adjustment, at an initial exercise price per share of $0.01, and (ii) an unsecured subordinated promissory note in the original aggregate principal amount of $9,440,000 (the "Marquis Subordinated Note"), bearing interest at 11% per annum; and Longview acquired (b)(i) an unsecured promissory note in the original aggregate principal amount of $2,210,551 (the "Longview Subordinated Note"), bearing interest at 11% per annum, and (ii) $1,000,000 in cash as principal repayment of the Old Notes described below.

As part of the consideration to the Company under the New Securities Exchange Agreement, Longview agreed to surrender to the Company warrants to acquire 3,000,000 shares of the Company's Common Stock at an exercise price of $0.30210709 per share (out of that certain Warrant to Purchase Common Stock dated February 14, 2008 to acquire up to 4,958,678 shares of the Company's Common Stock that Longview held prior to such transaction) (the "Old Longview Warrant"), and Longview surrendered to the Company the following notes payable by the Company in the aggregate outstanding principal amount of $3,000,000 (collectively, the "Old Longview Notes"): (i) that certain Amended and Restated Senior Secured note dated February 14, 2008 (amended and restated May 16, 2008); and (ii) that certain Senior Secured Note dated May 22, 2008.

Contemporaneously with the closing of the New Securities Exchange Agreement, the Company entered into a second transaction pursuant to a Securities Purchase Agreement (the "Securities Purchase Agreement") between the Company and Marquis. Under the Securities Purchase Agreement, the Company issued and sold to Marquis, and Marquis purchased from the Company, for consideration of $8,075,000, a senior secured promissory note in the principal amount of $8,875,000, bearing interest at 13% per annum, subject to certain adjustments (the "Senior Secured Note"), and a warrant to acquire 1,050,000 shares of Common Stock at an initial exercise price of $0.01 per share. As additional consideration under the Securities Purchase Agreement, the Company also granted Marquis a limited conveyance of overriding royalty interests (the "Overrides") of 3% of the Company's interest in the hydrocarbon production from all of the Company's (i) current oil and gas properties (the "ORRI") and (ii) oil and gas properties acquired in the future with $5,000,000 of proceeds (the "Acquisition Funds") from the sale of the Senior Secured Note, which sum has been deposited in the Acquisition Fund Account. The proceeds from the Securities Purchase Agreement were used in part to pay $1,000,000 of principal under the existing indebtedness owed to Longview pursuant to the Old Notes, to fund the Company's share of the completion costs of the State Tract 127-1 Unit, and for general corporate purposes.

Under the Securities Purchase Agreement, from November 13, 2009 until November 12, 2010, the Company had the right to purchase from Marquis all (but not less than all) of the Overrides issued to Marquis prior to November 13, 2009 by delivering to Marquis, at its election, either Override Warrants (as defined in the Securities Purchase Agreement) or any combination of Common Override Exchange Shares (as defined in the Securities Purchase Agreement) and Preferred Override Exchange Shares (as defined in

the Securities Purchase Agreement), but the right has expired. In connection with the Securities Purchase Agreement, certain subsidiaries of the Company guaranteed payment of the Senior Secured Note and the Company and certain of its subsidiaries granted a security interest in substantially all of their real and personal property to Summerline, as collateral agent for Marquis, as the secured party, and executed a security agreement, a mortgage, guarantees and pledges to evidence the same

The descriptions of the above agreements are qualified in each case, in their entirety, by reference to the complete texts of such agreements, which have previously been filed with the SEC.

Other Notes

As part of the acquisition of the Velocity entities, the Company assumed a $75,000 promissory note, plus accrued interest, payable to our President and Chief Executive Officer, which bears interest at 8%, compounded annually ("Vandenberg Note"). The Vandenberg Note has been subordinated to the Senior Secured Note, the Marquis Subordinated Note, and the Longview Subordinated Note.

Capital Expenditures and Commitments

No capital expenditures were made in the three month period ended March 31, 2011, nor were any commitments entered into.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2010, nor as of March 31, 2011.

Inflation

We do not believe that inflation has had a significant impact on our operations since inception.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Risk

Our notes have fixed interest rates so we are not exposed to changes in interest rates.
Commodity Price Risk

Our revenues, profitability, and future growth depend substantially on prevailing prices for oil and natural gas. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow and raise additional capital, as, if and when needed. Lower prices may also reduce the amount of oil and natural gas that we can economically produce. We may periodically use derivative instruments to hedge our commodity price risk, although we do not currently have any derivative instruments in place.

Item 4T. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our filings with the Securities and Exchange Commission are recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our chief executive and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934.

An evaluation was carried out under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were not effective as of December 31, 2008, due to a material weakness regarding timely filing as reported in Management's Annual Report on Internal Control Over Financial Reporting, as of December 31, 2008, which in management's opinion had not been remediated as of December 31, 2009 and has not been remediated as of December 31, 2010.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II
OTHER INFORMATION

Item 1. Legal Proceedings

We currently are not aware of, or a party to, any legal proceedings. Additionally, our officers and directors, in their capacity as such, are not a part to any legal proceedings.

Item 1A. Risk Factors

Because we are a smaller reporting company, we need not provide the information required by this Item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable.

Item 3. Default upon Senior Securities

Effective January, 2011, interest on the Marquis Senior Secured Note, the Summerview Senior Secured Note and the Longview Subordinated Note became payable on a monthly basis to the respective debtors. The Company did not have sufficient funds to pay the interest and hence have defaulted on the notes.

Item 4. Submission of Matters to a Vote of Securities Holders

Not Applicable.

Item 5. Other Information

Not Applicable

Item 6. Exhibits

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 17, 2011

VELOCITY ENERGY INC.

By: /s/ Donald J. Sebastian

Donald J. Sebastian
Chief Financial Officer
(Principal Financial and Accounting Officer)