# Shoal Point Energy Ltd.

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## Management Discussion and Analysis

## For The Three and Six Months Ended

## July 31, 2012 and July 31, 2011

*The following Management Discussion and Analysis of Shoal Point Energy Ltd. ("Shoal Point" or the "Company") is prepared as of September 28, 2012 and should be read in conjunction with the consolidated financial statements for the three and six months ended July 31, 2012 and supporting notes. The unaudited interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").*

**Company Profile**

Shoal Point Energy Ltd. (the "Company") was incorporated on December 22, 2006 under the Business Corporations Act (Alberta). The Company was incorporated for the purpose of acquisition, exploration and development of oil and natural gas properties in Canada. The Company is headquartered at 65 Queen Street West Toronto, Ontario Canada M5H 2M5. On October 26, 2010, the Company filed articles of continuance in Ontario under the name of Shoal Point Energy Inc.

On October 14, 2010, Allied Northern Capital Corporation ("Allied") a non-operating public enterprise, agreed on a share exchange transaction with Shoal Point Energy Inc. ("SPE"), a non-public operating enterprise, which was completed on November 9, 2010. The transaction has been accounted for as a reverse takeover acquisition, whereby SPE became a wholly owned subsidiary of Allied. On November 23, 2010, the Canadian National Stock Exchange ("CNSX") authorized the completion of the reverse takeover or qualifying transaction and the name change from Allied to Shoal Point Energy Ltd. (the "Company"). On November 23, 2010, the Company began trading on the CNSX under the symbol SHP.

Subsequent to the reverse takeover transaction on November 9, 2010, SPE amalgamated with a newly incorporated wholly-owned subsidiary of Allied, 2257054 Ontario Inc. and continued on under the name of Shoal Point Energy Inc. The amalgamation occurred on November 9, 2010. 2257054 Ontario Inc. was incorporated on September 16, 2010.

**Exploration Activities and Outlook**

During the 2nd quarter ending July 31, 2012, the Company began the search for joint venture partner to participate in the exploration and development of its acreage in the west Newfoundland Green Point oil-in-shale play. To this end, the Company moved to establish physical and virtual data rooms. A physical data room was established in the energy centre of Calgary, Alberta, while the virtual data room was set up as a Dropbox site. These facilities will enable the Company to present technical information to prospective partners once a confidentiality agreement has been signed.

Also during this period, the Company continued its planning of upcoming drilling projects, and presented at the West Newfoundland Oil and Gas Symposium at Marble Mountain in September, 2012.

During fiscal 2012, the Company and partner Canadian Imperial Venture Corp ("CIVC") commenced drilling the 3K39 well. This was designed to "twin" the 2008 2K39 well which was limited in its collection of data over the Green Point shale. 3K39 is the first well designed specifically to evaluate the oil-in-shale resource potential of the Green Point Formation in Western Newfoundland.

The 3K39 well has reached a depth of 1745 metres measured depth (1194 metres true vertical depth) and cased to 1,711 meters. Hydrocarbon shows, including mud gas and fluorescence (when samples and core were treated with solvent), were seen throughout the well. The rocks are highly tectonized and fractured on a micro- to macroscopic scale, and this may explain various indications of permeability seen in the borehole, and in rocks collected from it.
The Company has planned a testing program over four prospective zones.

To date, the Company has omitted DST#1 because of stuck drill pipe in that section of the hole, but has completed testing operations on two test intervals as follows;

***DST #2***: The first test, designated "DST #2", was designed by the Company`s consultants, NuTech Energy Alliance, of Houston, as an "Injection Test" or "Extended Leakoff Test" to measure engineering parameters for planning future stimulation of the Green Point shale reservoir, and not to flow-test the reservoir. This test involved the injection of fluid into the formation over a perforated 15 metre interval (1411-1426 metres) and monitoring of the rate at which the fluid was absorbed into the formation, from which two important parameters – permeability and pore pressure - could be measured directly. This test was completed over a period of 14 days and is considered a highly accurate, industry-standard measurement of these parameters. Permeability over this interval was measured at 20.74 microdarcies (for a 40 degree API crude), and pore pressure at 0.49 psi/foot. The Company and NuTech consider these results to be very encouraging for future development of the Green Point shale play under a full stimulation scenario (see further discussion below).

***DST #3*** occurred over the interval 1250 – 1350 metres which was perforated and swabbed through several cycles to measure inflow. Although good volumes of invaded drilling mud was recovered at the beginning of each swabbing period, returns declined toward the end of each period, and no free formation fluid inflow was recovered. However, indications of gas inflow were seen in swab volumes, although these were not able to be directly measured. Considering the higher than average permeabilities measured in the injection test, and numerous and diverse indications of hydrocarbons seen while drilling this section in the spring and summer of 2011, the Company believes that severe invasion and borehole damage has precluded the recovery of hydrocarbons from the formation at this time. This situation has been exacerbated because of (1) the length of time the borehole was open to the drilling fluid, and (2) the extent of pervasive natural fractures that have been studied from core, samples and the field, and which have been noted in earlier press releases.

The Company is proceeding with plans to source equipment to stimulate the well; the timing and scale of this operation will depend on the identification of equipment that can be brought to Western Newfoundland within a reasonable time frame over the next several months. The Company also continues to prepare an application for a significant discovery license on the area covered by existing EL #1070, its principal property, where 150,000 acres are considered prospective.

***Land Acquisitions***

*EL #1070 and #1120*

In April 2011, Shoal Point concluded a farm-in agreement with Ptarmigan Energy Inc. ("PEI") of St. John's, Newfoundland and Labrador, with respect to Exploration License #1120 in western Newfoundland, as originally announced in a Letter of Intent on February 10, 2011. Under the terms of the Farm-in Agreement, Shoal Point will have the right to earn into the "Shallow Rights" within a certain area of Exploration License #1120 ("Farm-out Lands") by paying to PEI a total of $1,800,000, and by drilling a test well to assess the petroleum potential of the Green Point Formation on or before December 31, 2012. Once SPE has completed the earning requirements by making the aforementioned payments, and by drilling the test well, SPE will earn a 80% working interest in the "Shallow Rights" within the "Farm-out Lands", with PEI retaining a 20% working interest therein.

In October 2011 Shoal Point increased its interest in Exploration Licence #1070 (EL #1070) from 80.75% to 100%, and it is also now earning up to an 80% working interest in the 67,298 acre block in Exploration Licence #1120 (EL #1120) pursuant to the farmin agreement with Ptarmigan Energy Ltd. which was announced in a press release dated April 13, 2011. Prior to this purchase, Shoal Point was only earning up to a 48% interest in EL #1120. In addition, Shoal Point has acquired CIVC's interest in the Area of Mutual Agreement which governed numerous exploration lands in Western Newfoundland.

The consideration paid to CIVC includes 20 million units where each unit is comprised of one common share and one-half common share purchase warrant, where a full warrant entitles the holder to acquire an additional common share at a price of $0.40 for a 2 year period. In addition, Shoal Point paid $300,000 on closing and agreed to pay an additional $200,000 six months after the closing. Shoal Point has also issued an additional 1,000,000 common shares which have been placed in escrow and if the final payment of $200,000 is not made on the due date (April 25, 2012), these shares will be released to CIVC. If the final payment is made on the due date, the escrowed shares will then be released to Shoal Point for cancellation. Additional consideration for the purchase of these additional interests included the cancellation of CIVC's outstanding share of exploration costs related to Well 3K-39 which amounts to approximately $2.6 million.

*EL #1097R*

In January 2012, the Company agreed to a transaction with NWest Oil and Gas Inc. ("NWest") to acquire up to a 100% undivided working legal and beneficial interest in and to EL #1097R (see note 10 to the interim consolidated financial statements). A 50% working interest in the license (the "First Transfer") was completed during fiscal 2012. The transfer of the remaining 50% interest in EL #1097R (the "Second Transfer") was executed during the three months ended April 30, 2012. The Second Transfer was for 1,000,000 shares of the Company to NWest and 1,000,000 common share purchase warrants, where each warrant entitles the holder to acquire one common share of the Company at a price equal to the 20 day weighted average price of the common shares prior to the date of issuance of the Second Transfer warrants plus an additional 20 % for a period of two years from the date of issuance. If the Company spuds a well on the property, the Company is required to make an additional payment of 4,000,000 common shares to NWest, issue an additional 4,000,000 common share purchase warrants to NWest, where each additional warrant entitles NWest to acquire one common share at an exercise price equal to the 20 day weighted average price of the common shares prior to the date of issuance of the additional payment plus an additional 20% for an exercise period of two years from the date of issuance, and grant to NWest a 2% royalty on the property, with the Company having the right to purchase 0.75% of the royalty for $2,000,000 at any time. A well must be spudded on the property by January 15, 2013 with an extension given to January 14, 2014 if a further $1,000,000 property deposit is made to the Canadian-Newfoundland and Labrador Offshore Petroleum Board. ("C-NLOPB")

**Resource Evaluation**

*EL #1070, #1120 and #1097R*

During the period ended April 30, 2012, the Company received a Resource Evaluation from AJM Deloitte of Calgary for Exploration Licenses 1070, 1120, and 1097R, offshore western Newfoundland. The report is dated March 12, 2012 and evaluates resources of the Green Point Formation within the Humber Arm Allochthon structural unit. The report utilizes and considers a variety of geological and geophysical data, including historical and modern wells in the Port au Port and Parsons Pond areas, a large dataset of offshore 2D seismic data, regional geological mapping and interpretation, and evidence for mature hydrocarbons in shallow wells and seeps.

Summary of Results

The **Total Undiscovered Petroleum Initially-in-Place (PIIP)** for the combined Exploration Licenses, in barrels of oil, are: 11.2 billion (low estimate), 22.5 billion (best estimate), and 49.4 billion (high estimate).

The **Total Prospective Oil Resources** (defined as potentially recoverable) for the combined Exploration Licenses, in barrels of oil, are: 0.475 billion (low), 0.968 billion (best), and 2.172 billion (high).

Tabulation of Results by Property

| **Total Undiscovered Petroleum Initially - In –** | | | Low | Best | High |
|---|---|---|---|---|---|
| EL 1070 | Green Point Shale | Mstb | 693,289 | 2,352,512 | 7,982,691 |
| EL 1120 | Green Point Shale | Mstb | 704,329 | 2,420,715 | 8,319,780 |
| EL 1097R | Green Point Shale | Mstb | 9,822,002 | 17,687,031 | 33,066,136 |
| Undiscovered PIIP | | | 11,219,620 | 22,460,258 | 49,368,607 |
| | | | | | |
| **Total Undiscovered Petroleum - In - Place** | | | Low | Best | High |
| EL 1070 | Green Point Shale | Mstb | 28,401 | 99,809 | 350,763 |
| EL 1120 | Green Point Shale | Mstb | 28,886 | 102,702 | 365,157 |
| EL 1097R | Green Point Shale | Mstb | 418,122 | 766,044 | 1,456,179 |
| Prospective | | | 475,409 | 968,555 | 2,172,099 |

As AJM defines in its report, "**Undiscovered Petroleum Initially-In-Place** (equivalent to undiscovered resources) is that quantity of petroleum that is estimated, on a given date, to be contained in accumulations yet to be discovered. The recoverable portion of Undiscovered Petroleum Initially-In-Place is referred to as Prospective Resources; the remainder as Unrecoverable", and furthermore, **"Prospective Resources** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development". "Low" (conservative), "Best" and "High" (optimistic) estimates refer to the range of uncertainty of estimated recoverable volumes.

It should be noted that these resource estimates apply to the total distribution of the Green Point Shale in offshore west Newfoundland, of which the Company's interests currently include approximately 91% by surface area.

## NuTech's Comparison Study of Green Point Shale to U.S. Shale Basins

The Company has received a study from NuTech which compares average parameters of well known shale plays in the United States with those over the four test intervals, DST's #2 through #5, in the 3K39 well (DST #1 was not carried out after drillstring became stuck in the hole, as announced on April 19, 2012). This information is tabulated in the addendum affixed hereto. The Company emphasizes that these data represent *average* values compiled by NuTech from summary of past projects, literature search on the respective shale basins, and analysis of their NuView histograms of public area studies.

Several important results of the comparison are noted, as follows: (1) Green Point porosities (measured from logs) and permeability (measured on the injection test in DST #2) are considerably higher than the U.S. basins average, indicating that the Green Point has a high proportion of "cleaner", non- shale material within its cycles, and that pervasive fracturing may be contributing to porosity and permeability; (2) pore pressure (from the injection test) is comparable to that of the U.S. basins, *i.e.*, the zone is slightly overpressured; (3) clay volumes are comparable to those of the U.S. basins; (4) TOCs are comparable to those of the U.S. basins; (5) oil content (total for the four combined DST intervals only, which represent approximately 82% of the net pay in the well), is 123.6

MMBOE/section, and is considerably larger than that for the two liquids plays presented in Table 1 (Niobrara, 21 – 43 MMBOE/section, and Utica/Mt. Pleasant, 4-16 MMBOE/section). The reader is also referred to previous petrophysical analysis of the Shoal Point 2K39 well and Long Point M-16 well, which returned values of 380 MMBOE/section, and 930 MMBO/section, respectively

**Overall Performance**

As at July 31, 2012 the Company's cash position decreased slightly to $249,874 from $857,656 at the January 31, 2012 year end, mainly due to funds spent on oil and gas exploration and operating expenses during the period, which exceeded the funding raised in private placements. Significant amounts were dedicated to the drilling program. The Company will continue to focus on financing the oil and gas exploration program and maintenance of the Company's interest in its three licensed properties.

Cash financing during the period consisted of:

(a) Unit financing for gross proceeds of $1,114,000;

**Selected Financial Information**

The following table reflects the summary of results for the periods set out.

| **For the three months ended July 31,** | **2012** | **2011** |
|---|---|---|
| Net loss and comprehensive loss for the period | ($423,066) | ($639,168) |
| Basic and fully diluted earnings (loss) per share | ($0.00) | ($0.00) |
| **As at:** | **July 31, 2012** | **January 31, 2012** |
| Assets | $40,619,938 | $31,327,063 |
| Liabilities | $4,672,924 | $2,416,990 |

**Results of Operations**

During the three months ended July 31, 2012, the Company recorded a net loss and comprehensive loss of $423,066, compared to a net loss and comprehensive loss of $639,168 for the three months ended July 31, 2011. The net loss and comprehensive loss for the three months ended July 31, 2012 was primarily attributable to office, general and administrative costs, management fees and professional fees related to the operations of the drilling of the well, and stock-based compensation, which was partially offset by the recognition of the renunciation of the flow-through share premium comparable to the three months period ended July 31, 2011.

For the three months ended July 31, major expenses consisted of

| | July 31, 2012 | July 31, 2011 |
|---|---|---|
| Office, general and administrative | $239,510 | $114,727 |
| Management fees | $120,000 | $59,400 |
| Consulting fees | $95,830 | $237,546 |
| Stock-based compensation | $129,323 | $19,881 |
| Professional fees | $92,057 | $23,200 |
| Interest | $- | $160,734 |

The increase in office, general and administrative was as a result of the opening of a new Newfoundland office, which saw telecommunication expense, salaries and office supplies increase. In addition, the Company spent $33,627 for advertising to raise awareness in the investor community. Furthermore, in 2012 project administration increased by approximately $24,924 as a result of increased utilization of consultants during the three-month period ended July 31, 2012.

The increase in management fees for the three-month period ended July 31, 2012 reflects the increase in the scale of activities for the Company, including financing and project management.

The stock-based compensation for the three-month period ending July 31, 2012 was $129,323 for options that vested during the period.

The increase in professional fees of $68,857 was a result of increased audit fees, as well as higher legal fees in connection with the #EL1070 interest sale.

Interest expense was $160,734 lower in the three months ending July 31, 2012 as the only debt during this period consisted of an unsecured convertible promissory note in the amount of $300,000.

Overall, total expenses for the three month period ended July 31, 2012 of $729,243 were higher in comparison to the three month period ended July 31, 2011 for which they totaled $639,569.

## Summary of Quarterly Results

**Quarterly Financial Information (unaudited)**

| For the three months ended | | July 31, 2012 | | April 30, 2012 | | January 31, 2012 | | October 31, 2011 |
|---|---|---|---|---|---|---|---|---|
| Net Income (loss) (in thousands) | $ | (423) | $ | (586) | $ | (98) | $ | (775) |
| Net Income (loss) per share (Basic & Fully Diluted) | $ | (0.00) | $ | (0.00) | $ | (0.00) | $ | (0.00) |
| Total Assets (in thousands) | $ | 40,620 | $ | 39,420 | $ | 31,327 | $ | 25,990 |
| Shareholders' equity (in thousands) | $ | 35,947 | $ | 35,205 | $ | 28,910 | $ | 23,936 |

| For the three months ended | | July 31, 2011 | | April 30, 2011 |
|---|---|---|---|---|
| Net Income (loss) (in thousands) | $ | (639) | $ | (373) |
| Net Income (loss) per share (Basic & Fully Diluted) | $ | (0.00) | $ | (0.00) |
| Total Assets (in thousands) | $ | 19,834 | $ | 20,234 |
| Shareholders' equity (in thousands) | $ | 18,817 | $ | 16,956 |

Prior to the first quarter of 2011, the Company was private and reporting quarterly earnings was not required.

## Recent accounting pronouncements

The IASB has issued IFRS 9 "Financial Instruments" which proposes to replace IAS 39. The replacement standard has the following significant components: establishes two primary measurement categories for financial assets-amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held to maturity, available-for-sale, and loans and receivable categories. This standard is effective for the Company's annual year end beginning January 1, 2015. The Company will evaluate the impact of the change to its consolidated financial statements based on the characteristics of its financial instruments at the time of adoption.

IAS 1, "Presentation of Financial Statements" ("IAS 1") requires grouping of items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, amendments to IAS 1 also require that taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Company does not anticipate the amendments to IAS 1 to have a material impact on its consolidated financial statements.

The IASB also has issued the following standards, which are effective for annual periods beginning on or after January 1, 2013, for which the Company has not yet determined the impact on its consolidated financial statements:

IFRS 12 “Disclosure of Interests in Other Entities” is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and structured entities. This standard carries forward the disclosures that existed under IAS 27, IAS 28 and IAS 31, and also introduces additional disclosure requirements that address the nature of, and risks associated with, and entity’s interests in other entities.

IFRS 10, “Consolidated Financial Statements” (“IFRS 10”), which replaces parts of IAS 27, “Consolidated and Separate Financial Statements” (“IAS 27”) and all of SIC-12, “Consolidation – Special Purpose Entities”, changes the definition of control that is the determining factor in whether an entity should be consolidated. Under IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IAS 27, “Separate Financial Statements was reissued and now only contains accounting and disclosure requirements for when an entity prepares separate financial statements, as the consolidation guidance is now included in IFRS 10.

IFRS 11, “Joint Arrangements” (“IFRS 11”), which replaces IAS 31, “Interests in Joint Ventures” (“IAS 31”) and SIC-13, “Jointly Controlled Entities – Non-Monetary Contributions by Venturers” (“SIC-13”) requires a venturer to classify its interest in a joint arrangement as either a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting. The existing option to account for joint ventures using proportionate consolidation has been removed. For a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation.

IFRS 13, “Fair Value Measurement” (“IFRS 13”) provides guidance on how fair value should be applied where its use is already required or permitted by other IFRS standards, and includes a definition of fair value and is a single source of guidance on fair value measurement and disclosure requirements for use across IFRS.

**Liquidity**

As at July 31, 2012, the Company had cash of $249,874, accounts receivable of $193,616 consisting of HST receivable of $193,116, interest-bearing loans receivable of $313,734 and prepaid expenses of $2,181,537, consisting primarily of exploration and property deposits, resulting in total current assets of $2,938,761. Current liabilities totaled $4,672,924 leaving a working capital deficit of $1,734,163. However, ongoing oil and natural gas exploration expenditures will ultimately exhaust the resources of the Company and it will be necessary for the Company to raise capital in the future to finance its planned exploration activities.

**Capital Resources**

The Company relies primarily on equity financing to fund its working capital needs. The Company anticipates seeking a capital infusion from private investors to continue to fund exploration and corporate administrative activities.

As at July 31, 2012, the Company's the shareholders` equity was $35,947,014 (January 31, 2012 - $28,910,073). At July 31, 2012, the common shares issued and outstanding were 272,597,962 (January 31, 2012 – 240,240,750) and there were 103,939,041 warrants (January 31, 2012 – 86,993,035) exercisable at varying prices (see note 11(c) of the interim consolidated financial statements).

The Company's share capital was $51,457,839 (January 31, 2012 - $45,099,943) and the deficit was $27,021,645 (January 31, 2012- $26,012,305) as at July 31, 2012.

**Off-Balance Sheet Transactions**

The Company has no off balance sheet transactions.

**Commitments and Contingencies**

As part of the Company's acquisition of Canadian Imperial Venture Corp's ("CIVC's") interest in the Green Point oil-in-shale, the Company has provided for $200,000 for well suspension costs expected to be incurred in fiscal 2013 with respect to the Company`s 3K-39 oil well located on the areas covered by EL 1070.

During fiscal 2012, the Company agreed to a transaction with NWest Oil and Gas Inc. ("NWest") to acquire up to a 100% undivided working legal and beneficial interest in and to EL #1097R (see note 11). A 50% working interest is the license (the "First Transfer") was completed during fiscal 2012. The transfer of the remaining 50% interest in EL #1097R (the "Second Transfer") occurred during the period ended April 30, 2012. The Second Transfer was for 1,000,000 shares of the Company to NWest and 1,000,000 common share purchase warrants, where each warrant entitles the holder to acquire one common share of the Company at a price equal to the 20 day weighted average price of the common shares prior to the date of issuance of the Second Transfer warrants plus an additional 20 % for a period of two years from the date of issuance. If the Company spuds a well on the property, the Company is required to make an additional payment of 4,000,000 common shares to NWest; issue an additional 4,000,000 common share purchase warrants to NWest, where each additional warrant entitles NWest to acquire one common share at an exercise price equal to the 20 day weighted average price of the common shares prior to the date of issuance of the additional payment plus an additional 20% for an exercise period of two years from the date of issuance; and grant to NWest a 2% royalty on the property, with the Company having the right to purchase 0.75% of the royalty for $2,000,000 at any time. A well must be spudded on the property by January 15, 2013, with an extension given to January 15, 2014 if a further $1,000,000 property deposit is made to the Canada-Newfoundland and Labrador Petroleum Board

In order to earn its working interest of 80% in EL #1120 Shallow Rights pursuant to the farm-in agreement with Ptarmigan Energy Ltd., the Company is required on or before December 31, 2012, to spud a test well and thereafter drill the test well to assess the petroleum potential of the Green Point formation. At the time the Company spuds the well, the Company is required to make a payment of $300,000 within two business days of such date.

Future minimum rentals payable under non-cancellable operating leases as at April 30, 2012 are $113,686 payable within one year and $405,212 payable after one year but not more than five years.

The Company also has two stand-by letters of credit in the amount of $1,000,000 each, as disclosed in note 9 of the interim consolidated financial statements. The stand-by letters of credit mature on January 24, 2013 and December 21, 2012, respectively.

## RELATED PARTY TRANSACTIONS

Technical and administrative support is received from directors and officers of the Company and paid for at rates representative of fair market value.

During the three month period ended July 31, 2012, the Company paid management fees included in management fees expense of $120,000 (2011- $59,400) and consulting fees included in consulting fees expense of $95,830 (2011- $237,546) to corporations which have common officers and directors as the Company, directors of the Company, as well as corporations with common significant shareholders. In addition, directors' fees in the amount of $30,000 (2011 - $1,000) were charged by directors for corporate governance services.

Included in accounts payable and accrued liabilities is $45,548 (January 31, 2012- $36,189) owing to directors and companies with common directors for consulting fees.

Included in rental income is $10,800 (2011- $nil) in rent charged to companies with common directors as the Company.

Included in loans receivable is $313,734 (January 31, 2012-$304,734) from corporations, which have common officers and directors as the Company, and directors and officers of the Company.

### Private Placements

In June 2012, the Company completed two financings to raise a total of $1,114,000. The first financing included the issuance of 7,142,860 units at $0.14 per unit, where each unit was comprised of one common share and one-half warrant where a full warrant entitles the holder to acquire one additional share at a price of $0.20 for a period of 18 months from the date of issuance. The balance of this financing consisted of the issuance of 625,000 flow-through units at $0.16 per a flow-through unit, where each flow-through unit was comprised of one flow-through common share and one-half warrant where a full warrant entitles the holder to acquire one additional common share at a price of $0.20 for a period of 18 months from the date of issuance. The second financing consisted of the issuance of 100,000 flow-through units at $0.14 per a flow-through unit, where each flow-through unit was comprised of one flow-through common share and one-half warrant where a full warrant entitles the holder to acquire one additional common share at a price of $0.20 for a period of 18 months from the date of issuance. In connection with these financings, the Company paid cash commissions of $99,999 and issued 466,072 broker warrants where each broker warrant entitles the holder to acquire one additional common share at a price of $0.14 for a period of 18 months from the date of issuance.

The Company filed and obtained receipt on July 5, 2012, for a preliminary prospectus in connection with a proposed best-efforts offering of units and flow-through shares. Each unit is to consist of one common share of the Company and one-half of a share purchase warrant. Each whole warrant will entitle the holder to acquire one additional common share of the Company for a period of 18 months from the date of issuance of the warrant at an exercise price to be determined. The Company has granted the agent, Kingsdale Capital Markets Inc., an overallotment option to purchase such number of additional units or flow-through shares that is equal to 15 per cent of the number of units or flow-through shares, or a combination thereof, sold under the offering, exercisable by the agent in whole or in part for a period of 30 days from closing of the maximum offering.

The net proceeds of the offering will be used to perform exploration work on the Company's properties, and for general working capital and corporate purposes.

## Outstanding Share Data

For additional detail, see Note 11 of the interim consolidated financial statements.

| | **Number Issued and Outstanding July 31, 2012** | **Number Issued and Outstanding January 31, 2012** |
|---|---|---|
| Common Shares issued and outstanding | 272,597,962 | 240,240,750 |
| Options to purchase Common Shares | 17,100,000 | 16,475,000 |
| Warrants to purchase Common shares | 103,939,041 | 86,993,035 |

## Events after Reporting Period

The Company was named as a defendant in a lawsuit relating to the NWest transactions (see note 10 of the interim consolidated financial statements) by a third party relating to certain provisions made between NWest and this third party. Management believes the claim to be frivolous towards the Company and without merit. No accruals have been made as a result.

## Risks and Uncertainties

The Company’s principal activity is oil and natural gas exploration and development. Companies in this industry are subject to many and varied kinds of risks, including but not limited to, environmental, commodity prices, political and economical.

The Company has no significant source of operating cash flow and no revenue from operations. The Company has not determined whether its resource properties contain reserves that are economically recoverable. The Company has limited financial resources. Substantial expenditures are required to be made by the Company to establish reserves.

The property interests that the Company has or has an option to earn an interest in are in the exploration stage only. Oil and natural gas exploration involves a high degree of risk and few properties, which are explored, are ultimately developed. Exploration of the Company's properties may not result in any discoveries of commercial bodies of resources. If the Company's efforts do not result in any discovery of commercial resources, the Company will be forced to look for other exploration projects or cease operations.

The Company may be subject to risks which could not reasonably be predicted in advance. Events such as labour disputes, environmental issues, natural disasters or estimation errors are prime examples of industry related risks.

The Company is in the business of oil and natural gas exploration and as such, its prospects are largely dependent on movements in the price of oil and natural gas. Prices fluctuate on a daily basis and are affected by a number of factors beyond the control of the Company. The resource exploration industry in general is a competitive market and there is no assurance that, even if commercial quantities of proven and probable reserves are discovered, a profitable market may exist. Due to the current grassroots nature of its operations, the Company does not enter into price hedging programs.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters.

**Environmental Risks and Hazards**

All phases of the Company's exploration operations are subject to environmental regulations in the jurisdictions it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties on which the Company holds interests, which are unknown to the Company at present and which may have been caused by previous or existing owners or operators of the properties. The Company may become liable for such environmental hazards caused by previous owners and operators of the properties even where it has attempted to contractually limit its liability. Government approvals and permits are currently and may in the future be required in connection with the Company's operations. To the extent such approvals are required and not obtained; the Company may be curtailed or prohibited from proceeding with planned exploration or development of oil and natural gas properties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities which may cause operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in oil and natural gas operations may be required to compensate those suffering loss or damage by reason of the oil and natural gas activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of oil and natural gas companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures and production costs. They may also cause a reduction in levels of production at producing properties or they may require abandonment or delays in development of new oil and natural gas properties.

To the Company's knowledge, there are no liabilities to date which relate to environment risks or hazards.

**Critical Accounting Estimates**

The preparation of the Company's consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates used in the preparation of these interim consolidated financial statements include, but are not limited to, the recoverability of exploration and evaluation ("E&E") assets, useful lives of capital assets, provision for well suspension, valuation of share-based compensation, deferred income taxes and the premium on flow-through shares issued, as well as the bi-furcation of convertible debt between its debt and equity components. Actual results could differ from management's best estimates.

**Management's Evaluation of Disclosure Controls and Internal Controls over Financial Reporting**

Management is responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that

- material information relating to the Company is made known to us by others, particularly during the year in which the annual filings are being prepared, and

- information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with IFRS.

Changes to accounting policies or business processes as a result of the IFRS conversion did not materially affect the Company's internal controls over financial reporting. There have been no significant changes to the Company's disclosure controls and procedures and internal controls over financial reporting that occurred during the period ended July 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal control over financial reporting.

Due to inherent limitations, internal control over financial reporting and disclosure controls can provide only reasonable assurances and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as well as internal controls over financial reporting at the end of the year covered by this MD&A and has concluded that the above named control processes and procedures are appropriately designed and effective as at July 31, 2012.

***Caution Regarding Forward Looking Statements***

*Except for statements of historical fact relating to the Company, certain information contained in this MD&A constitutes "forward-looking information" under Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to the potential of the Company's properties; the future price of oil and natural gas; success of exploration activities; cost and timing of future exploration and development; the estimation of oil and natural reserves and resources; conclusions of economic evaluations; requirements for additional capital; and other statements relating to the financial and business prospects of the Company.*

*Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", "believes", or variations of such words and phrases. Forward-looking information may also be identified in statements where certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".*

*Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made.*

*Forward-looking information is inherently subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to:*

- *The Company's goal of creating shareholder value by concentrating on the acquisition and development of properties that have the potential to contain economic resources;*
- *Management's assessment of future plans for the Green Point oil-in-shale, Newfoundland, Canada.*
- *Management's economic outlook regarding future trends;*
- *The Company's ability to meet its working capital needs at the current level in the short term;*
- *Expectations with respect to raising capital;*
- *Sensitivity analysis on financial instruments may vary from amounts disclosed; and*
- *Governmental regulation and environmental liability.*

*Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, other factors could also cause materially different results. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.*

Signed

"*Brian Murray*"

Brian Murray
Chief Financial Officer
September 28, 2012