EAGLEFORD ENERGY INC

Management's Discussion and Analysis
For the Three and Nine Months Ended
May 31, 2013

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OVERVIEW

Eagleford Energy Inc. ("Eagleford" or the "Company") is amalgamated under the laws of the Province of Ontario. The Company's business focus consists of acquiring, exploring and developing oil and gas interests. The recoverability of the amount shown for these properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development, and future profitable production or proceeds from disposition of such property. The Company's oil and gas interests are located in Alberta, Canada and Zavala County, Texas. In addition the Company holds a 0.3% net smelter return royalty on 8 mining claim blocks located in Red Lake, Ontario which is carried on the consolidated balance sheets at nil. The Company completed a two-for-one stock split, pursuant to which one (1) newly-issued share of the Company's common stock was issued to each holder of a share of common stock as of the close of business on March 16, 2012.

The address of the registered office is 1 King Street West, Suite 1505, Toronto, Ontario, M5H 1A1.

Eagleford's common shares trade on the Over-the-Counter Bulletin Board (OTCBB) under the symbol EFRDF.

The Company's Unaudited Condensed Interim Consolidated Financial Statements for the period ended May 31, 2013 and 2012 include the accounts of the Company, its wholly owned subsidiaries 1354166 Alberta Ltd.("1354166 Alberta") and Dyami Energy LLC ("Dyami Energy").

Our Canadian public filings can be accessed and viewed via the System for Electronic Data Analysis and Retrieval ("SEDAR") at www.sedar.com. Readers can also access and view our Canadian public insider trading reports via the System for Electronic Disclosure by Insiders at www.sedi.ca. Our U.S. public filings are available at the public reference room of the U.S. Securities and Exchange Commission ("SEC") located at 100 F Street, N.E., Room 1580, Washington, DC 20549 and at the website maintained by the SEC at www.sec.gov.

The following Management's Discussion and Analysis of Eagleford should be read in conjunction with the Company's Unaudited Condensed Interim Consolidated Financial Statements for the three and nine months ended May 31, 2013 and notes thereto.

The Company's Unaudited Condensed Interim Consolidated Financial Statements for the three and nine months ended May 31, 2013 were prepared using the same accounting policies and methods as those described in our Consolidated Financial Statements for the year ended August 31, 2012. The Unaudited Condensed Interim Consolidated Financial Statements are prepared in compliance with International Accounting Standard 34, Interim Financial Reporting (IAS 34). Accordingly, certain information and disclosure normally included in annual financial statements prepared in accordance with International Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB") have been omitted or condensed. The Unaudited Condensed Interim Consolidated Financial Statements should be read in conjunction with our Consolidated Financial Statements for the year ended August 31, 2012.

All amounts herein are presented in Canadian dollars, unless otherwise noted.

This Management's Discussion and Analysis is dated July 16, 2013 and has been approved by the Board of Directors of the Company.

FORWARD LOOKING STATEMENTS

This Management's Discussion and Analysis contains certain forward-looking statements, including management's assessment of future plans and operations, and capital expenditures and the timing thereof, that involve substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control. Such risks and uncertainties include, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources, the impact of general economic conditions in Canada, the United States and overseas, industry conditions, changes in laws and regulations (including the adoption of new environmental laws and regulations) and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds, that the Company will derive there from. Readers are cautioned that the foregoing list of factors is not exhaustive. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on its behalf are *expressly qualified in their entirety by these cautionary statements. Furthermore, the forward-looking statements contained in this Management Discussion and Analysis are made as at the date of this Management Discussion and Analysis and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.*

Non-IFRS Measurements – *Certain measures in this Management's Discussion and Analysis do not have any standardized meaning as prescribed by IFRS including "Operating net back" are considered Non-IFRS measures. Therefore, these measures may not be comparable to similar measures presented by other issuers. These measures are common with the oil and gas industry and have been described and presented in this Management's Discussion and Analysis in order to provide shareholders and potential investors with additional information regarding the company's liquidity and its ability to generate funds to finance its operations. These terms are commonly used in the oil and gas industry and are therefore presented here to provide balances comparable to other oil and gas production companies.*

GLOSSARY OF ABBREVIATIONS

Bbl	barrel
Bbl/d	barrels per day
Boe	barrels of oil equivalent (1)
Boe/d	barrels of oil equivalent per day
Mcf	1,000 cubic feet of natural gas
Mcf/d	1,000 cubic feet of natural gas per day

(1) Boe conversion ratio of 6 Mcf: 1Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Disclosure provided herein in respect of Boes may be misleading, particularly if used in isolation.

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of units (or metric units).

To Convert From	To	Multiply By
Mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
Bbls	Cubic metres	0.159
Cubic metres	Bbls	6.292
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometers	1.609
Kilometers	Miles	0.621
Acres (Alberta)	Hectares	0.405
Hectares (Alberta)	Acres	2.471

OVERALL PERFORMANCE

Revenue, net of royalties for the nine months ended May 31, 2013 was down $3,564 to $29,891 compared to $33,455 for the nine months ended May 31, 2012. The decrease in net revenue during 2013 is primarily attributed to declines in production volume from the Company's Botha, Alberta property. Net loss for the nine months ended May 31, 2013 was $708,124 compared to a net loss of $2,454,382 for the nine months ended May 31, 2012. The decrease in net loss during 2013 was primarily related to a decrease of $1,465,465 to Nil in loss on settlement of debt compared to $1,465,465 in 2012, a decrease in foreign exchange loss of $58,091 to $134,378 compared to $192,469 in 2012 and a decrease in operating costs of $51,987 to $7,761 compared to $59,748 in the prior period in 2012. These decreases were partially offset by an increase of $30,075 in general and administrative costs to $419,868 compared to $389,793 in the prior period in 2012.

During the nine months ended May 31, 2013 the Company completed financings through the issuance of 2,249,790 units in the capital of the Company for net proceeds of $405,650.

For the nine months ended May 31, the Company recorded additions of $350,039 in exploration and evaluation assets.

As part of the Company's oil and gas development program, management of the Company anticipates further expenditures to expand its existing portfolio of proved reserves. Amounts expended on future exploration and development is dependent on the nature of future opportunities evaluated by the Company. Any expenditure which exceeds available cash will be required to be funded by additional share capital or debt issued by the Company, or by other means. The Company's long-term profitability will depend upon its ability to successfully implement its business plan.

The Company's past primary source of liquidity and capital resources has been proceeds from the issuance of share capital, shareholders' loans and cash flow from oil and gas operations.

RISK AND UNCERTAINTIES

There have been no material changes during the nine months ended May 31, 2013 to the risks and uncertainties as identified in the Management Discussion and Analysis for the year ended August 31, 2012.

The following table illustrates the contractual maturities of financial liabilities:

May 31, 2013	**Payments Due by Period**				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Trade and others payables	$1,512,861	$1,512,861	-	-	-
Secured note payable (1)	992,544	992,544	-	-	-
Shareholders' loans (1)	2,269,444	2,269,444	-	-	-
Total	$4,774,849	$4,774,849	-	-	-

August 31, 2012	**Payments Due by Period**				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Trade and others payables	$1,039,959	$1,039,959	-	-	-
Secured note payable (1)	946,848	946,848	-	-	-
Shareholders' loans (1)	2,179,778	2,179,778	-	-	-
Total	$4,166,585	$4,166,585	-	-	-

(1) Translated at current exchange rate.

Capital Management

The Company's objectives when managing capital are to ensure the Company will have sufficient financial capacity, liquidity and flexibility to funds its operations, growth and ongoing exploration and development commitments on its oil and gas interests. The Company is dependent on funding these activities through debt and equity financings. Due to long lead cycles of the Company's exploration activities, the Company's capital requirements currently exceed its operational cash flow generated. As such the Company is dependent upon future financings in order to maintain its flexibility and liquidity and may from time to time be required to issue equity, issue debt, adjust capital spending or seek joint venture partners.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of any underlying assets in order to meet current and upcoming obligations. Current plans for the development commitments of the Company's Texas leases include debt or equity financing or seeking and obtaining a joint venture partner.

The board of directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management and favourable market conditions to sustain future development of the business.

As at May 31, 2013 and August 31, 2012 the Company considered its capital structure to comprise of shareholders equity and long-term debt.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's capital management during the period ended May 31, 2013.

The Company is not subject to any externally imposed restrictions on its capital requirements.

RESULTS OF OPERATIONS

Historical Production	For the Three Months Ended		For the Nine Months Ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Natural gas – mcf/d	49	54	49	53
Historical Prices				
Natural Gas - $/mcf	$3.05	$1.56	$2.80	$2.39
Royalties costs - $/mcf	$0.57	$0.41	$0.54	$0.61
Production costs - $/mcf	$0.43	$2.55	$0.53	$2.18
Net back - $/mcf	$2.05	$(1.40)	$1.73	$(0.40)
Operations				
Revenue, net of royalties	$10,206	$13,275	$29,891	$33,455
Net loss	$(116,520)	$(646,432)	$(708,124)	$(2,454,382)
Loss per share, basic and diluted	$(0.001)	$(0.008)	$(0.007)	$(0.048)

Production Volume
For the three months ended May 31, 2013 average natural gas sales volumes were down slightly to 49 mcf/d compared to 54 mcf/d for the same period in 2012. Total production volume for the three months ended May 31, 2013 was 4,201 mcf compared to 4,941 mcf for the same three month period in 2012.

For the nine months ended May 31, 2013 average natural gas sales volumes were down slightly to 49 mcf/d compared to 53 mcf/d for the same period in 2012. Total production volume for the nine months ended May 31, 2013 was 13,269 mcf compared to 14,535 mcf for the same three month period in 2012.

The decrease in production volume for the three and nine months periods in 2013 compared to 2012 was attributed to natural production declines.

Commodity Prices
For the three months ended May 31, 2013 average natural gas prices received per mcf increased to $3.05 compared to $1.56 for the three months ended May 31, 2012.

For the nine months ended May 31, 2013 average natural gas prices received per mcf increased to $2.80 compared to $2.39 for the nine months ended May 31, 2012.

The increase in average natural gas prices received for the three and nine month period was attributed to escalating commodity prices for natural gas.

Natural Gas Sales, Net of Royalties

	For the Three Months Ended		For the Nine Months Ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Natural gas sales	$12,812	$7,740	$37,224	$34,738
Royalties	(2,606)	5,535	(7,333)	(1,283)
Natural gas sales, net of royalties	$10,206	$13,275	$29,891	$33,455

Natural gas sales for the three months ended May 31, 2013 increased by $5,072 to $12,812 compared to $7,740 for the three months ended May 31, 2012 primarily as a result of higher commodity prices.

Natural gas sales for the nine months ended May 31, 2013 were up $2,486 to $37,224 compared to $34,738 for the nine months ended May 31, 2012. The increase in sales during 2013 was primarily attributed to higher commodity prices.

Royalties for the three months ended May 31, 2013 were $2,606 versus a recovery of $5,535 for the comparable three month period in 2012 as a result of royalty credits received.

Royalties for the nine months ended May 31, 2013 were $7,333 versus $1,283 for the comparable nine month period in 2012. The decrease in royalties during the nine months ended May 31, 2012 was primarily attributed to receipt of royalty credits in 2012.

Natural gas sales, net of royalties for the three months ended May 31, 2013 decreased by 23% to $10,206 compared to $13,275 for the same three month period in 2012.

Natural gas sales, net of royalties for the nine months ended May 31, 2013 decreased by 11% to $29,891 compared to $33,455 for the nine month period ended May 31, 2012.

Operating Costs
For three months ended May 31, 2013 operating costs were $1,961 down $38,465 compared to operating costs of $40,426 for the three months ended May 31, 2012.

For nine months ended May 31, 2013 operating costs were $7,761 down $51,987 compared to operating costs of $59,748 for the nine months ended May 31, 2012.

The decrease in operating costs for the three and nine months ended May 31, 2013 was attributed to decreases in gas processing charges and lower maintenance costs.

Depletion and Accretion
Depletion and accretion for the three months ended May 31, 2013 decreased by $1,332 to $3,914 compared to $5,246 for the three months ended May 31, 2012.

Depletion and accretion for the nine months ended May 31, 2013 decreased by $2,830 to $12,293 compared to $15,123 for the nine months ended May 31, 2012

The decrease in depletion and accretion for the three and nine months ended May 31, 2013 was primarily attributed to lower carrying costs and production volume for the Company's Botha, Alberta property.

General and Administrative	**Three Months Ended**		**Nine Months Ended**	
	May 31, 2013	**May 31, 2012**	**May 31, 2013**	**May 31, 2012**
Professional fees	$35,449	$113,534	$170,958	$216,145
Head office costs	11,250	17,912	37,600	36,000
Management fees	18,750	18,750	56,250	56,250
Transfer and registrar costs	1,172	16,868	4,962	27,055
Shareholders information	1,694	10,645	32,084	36,646
Office and general costs	3,670	10,925	4,648	17,697
Advisory fees	2,417	-	65,724	-
Directors fees	700	1,500	2,500	-
Reserve report fees	-	1,655	4,560	-
Consulting fees and expenses	-	52,831	40,582	-
Total	$75,102	$244,620	$419,868	$389,793

General and administrative expenses for the three months ended May 31, 2013 were $169,518 lower to $75,102 compared to $244,620 for the three months ended May 31, 2012. The decrease in expenses during 2013 was primarily attributed to a decrease in professional fees of $78,085 to $35,449 compared to $113,534 in 2012 and a decrease in consulting fees of $52,831 to Nil compared to consulting fees of $52,831 in the prior three month period in 2012. In addition, transfer and registrar fees decreased by $15,696 during 2013 to $1,172 compared to $16,868 in 2012 and shareholders information costs decreased by $8,951 to $1,694 in 2013 compared to $10,645 for the same three month period in 2012.

General and administrative expenses for the nine months ended May 31, 2013 were $30,075 higher to $419,868 compared to $389,793 for the nine months ended May 31, 2012. The increase in expenses during the nine month period in 2013 was primarily attributed to an increase in advisory fees of $65,724 compared to Nil in 2012 and an increase of $40,582 in consulting fees compared to Nil in 2012. The increases in the 2013 period were partially offset by a decrease in professional fees of $45,187 to $170,958 compared to $216,145 in the same nine month period in 2012. In addition, transfer and registrar fees decreased by $22,093 to $4,962 in 2013 compared to $27,055 for the comparable nine month period in 2012.

Interest Expense
For the three months ended May 31, 2013 the Company incurred interest costs of $20,555 versus interest costs of $29,587 for the three months ended May 31, 2012.

For nine months ended May 31, 2013 the Company incurred interest costs of $61,371 versus interest costs of $65,858 for the nine months ended May 31, 2012.

The decrease in interest for the three and nine months ended May 31, 2013 was primarily attributed to a decrease in shareholder loans and changes in foreign exchange rates on US dollar note interest accrued.

Loss on Foreign Exchange
For the three months ended May 31, 2013 the Company recorded a loss on foreign exchange of $8,656 compared to a loss of $156,114 for the same three month period in 2012.

For nine months ended May 31, 2013 the Company recorded a loss on foreign exchange of $134,378 compared to a loss of $192,469 for the comparable nine month period in 2012

These foreign exchange losses are attributed to the translation of monetary assets and liabilities not denominated in the functional currency of the Company.

Loss on Derivative Warrant Liabilities
For the three months ended May 31, 2013, the Company recorded an unrealized loss on derivative warrant liabilities of $10,288 compared to an unrealized loss of $21,311 for the three months ended May 31, 2012.

For nine months ended May 31, 2013 the Company recorded an unrealized loss on derivative warrant liabilities of $89,666 compared to an unrealized loss of $93,259 for the nine months ended May 31, 2012.

The Company has warrants issued with an exercise price in US dollars which is different from the functional currency of the Company (Canadian Dollars) and accordingly the warrants are treated as a derivative financial liability and the fair value movement during the period is recognized in the statement of operations.

Loss on Settlement of Debt
For the three months ended May 31, 2013 the Company recorded a loss on settlement of debt in the amount of Nil compared to a loss on settlement of debt in the amount of $566 for the same three month period in 2012. During the three month period ending May 31, 2012, the Company issued 171,386 common shares and full settlement of interest due on shareholder loans in the amount of $43,981. The amount allocated to common shares based on fair value was $44,547 and $566 was recorded as a loss on settlement of debt.

For nine months ended May 31, 2013 the Company recorded a loss on settlement of debt in the amount of Nil compared to a loss on settlement of debt in the amount of $1,465,465 for the nine months ended May 31, 2012. During the nine month period ending May 31, 2012, the Company converted debt and shareholder loans of $857,500 through the issuance of a total of 17,150,000 units in the capital of the Company at $0.10 per unit. The fair value of the units issued on the settlement date was $2,252,715 and $1,395,215 was recorded as a loss on settlement of debt. During the nine month period ended May 31, 2012, the Company issued 3,278,392 common shares as full settlement of interest due on shareholder loans in the amount of $369,885. The amount allocated to common shares based on fair value was $440,136 and $70,250 was recorded as a loss on settlement of debt.

Marketing and Public Relations
For the three months ended May 31, 2013 the Company recorded marketing and public relations expenses of $6,250 compared to marketing and public relations costs of $1,987 for the same three month period in 2012.

For nine months ended May 31, 2013 the Company recorded marketing and public relations expenses of $12,678 compared to marketing and public relations costs of $46,272 for the nine months ended May 31, 2012.

Stock Based Compensation Expense
For the three months ended May 31, 2013 the Company recorded stock based compensation of Nil compared to $95,910 for the same three month period in 2012.

For the nine months ended May 31, 2013 the Company recorded stock based compensation of Nil compared to $95,910 for the comparable nine month period in 2012.

On March 1, 2012, the Company granted options to purchase 600,000 common shares to directors and recorded non-cash stock based compensation costs of $95,910.

Stock Based Compensation-Non Employees
For the three months ended May 31, 2013 the Company recorded stock based compensation to non-employees of Nil compared to $63,940 for the same three month period in 2012.

For the nine months ended May 31, 2012 the Company recorded stock based compensation of Nil compared to $63,940 for the comparable nine month period in 2012

On March 1, 2012, the Company granted options to purchase 400,000 common shares to a consultant and recorded non-cash stock based compensation costs of $63,940.

Net Loss
Net loss for the three months ended May 31, 2013 was $116,520 compared to a net loss of $646,432 for the three months ended May 31, 2012. The decrease in net loss during 2013 was primarily related to a reduction in general and administrative

costs of $169,518, a decrease in loss on foreign exchange of $147,458, a decrease in stock based compensation of $95,910 as well as a reduction in stock based compensation for non-employees in the amount of $63,940.

Net loss for the nine months ended May 31, 2013 was $708,124 compared to a net loss of $2,454,382 for the nine months ended May 31, 2012. The decrease in net loss during 2013 was primarily related to loss on settlement of debt in the amount of Nil compared to a loss on settlement of debt in the amount of $1,465,465 recorded in the prior period in 2012. In addition during the 2013 period, the Company recorded a decrease in stock based compensation of $95,910 as well as a reduction in stock based compensation for non-employees in the amount of $63,940.

Foreign Currency Translation
For the three months ended May 31, 2013 the Company incurred a gain on foreign currency translation of $25,973 versus a gain of $195,026 for the same three month period in 2012.

For nine months ended May 31, 2013 the Company the Company incurred a gain on foreign currency translation of $216,093 versus a gain of $95,883 for the nine months ended May 31, 2012.

These gains and losses are related to translation differences between Dyami Energy's US dollar functional currency converted into Canadian dollars at the period end exchange rates, and the results operations converted at average rates of exchange for the period.

Comprehensive Loss
Comprehensive loss for the three months ended May 31, 2013 was $90,547 compared to a comprehensive loss of $451,406 for the three months ended May 31, 2012.

Comprehensive loss for the nine months ended May 31, 2013 was $492,031 compared to a comprehensive loss of $2,358,499 for the nine months ended May 31, 2012.

Loss per Share, Basic and Diluted
Basic and diluted loss per share for the three months ended May 31, 2013 was $0.001 compared to basic and diluted loss per share of $0.008 for the same three month period in 2012.

Basic and diluted loss per share for the nine months ended May 31, 2013 was $0.007 compared to basic and diluted loss per share of $0.048 for the nine months ended May 31, 2012.

SUMMARY OF QUARTERLY RESULTS

The following tables reflect the summary of quarterly results for the periods set out.

	2013	**2013**	**2012**	**2012**
For the quarter ending	**May 31**	**February 28**	**November 30**	**August 31**
Revenue, net of royalties	$10,206	$9,787	$9,898	$5,764
Net loss	$(116,520)	$(374,673)	$(216,931)	$(354,808)
Loss per share, basic and diluted	$(0.001)	$(0.004)	$(0.002)	$(0.005)

Revenue, net of royalties for the four quarters fluctuated as a result of changes in production volume and commodity prices. The material change in net loss during the quarters was primarily related to increases in general and administrative costs, gain or loss on foreign exchange and the fair value movement of derivative warrant liabilities during the respective periods. During the three months ended February 2013 the Company recorded a loss on foreign exchange of $111,369. During the three months ended August 31, 2012 the Company recorded compensation expense on re-pricing units of $188,625 and an impairment of property and equipment in the amount of $50,744.

	2012	**2012**	**2011**	**2011**
For the quarter ending	**May 31**	**February 29**	**November 30**	**August 31**
Revenue, net of royalties	$13,275	$8,376	$11,803	$15,558
Net income (loss)	$(646,432)	$(1,466,298)	$(341,653)	$(280,820)
Loss per share, basic and diluted	$(0.008)	$(0.020)	$(0.005)	$(0.004)

Revenue, net of royalties for the four quarters fluctuated as a result of changes in production volume and commodity prices. The material change in net income or loss during the quarters was primarily related to increases in general and administrative costs and the fair value movement of derivative warrant liabilities during the respective periods. During the quarter ended May 31, 2012 the Company recorded $159,850 in stock based compensation expense. For the quarter ended

February 29, 2012 the Company recorded a loss on settlement of debt of $1,448,361. For the quarter ended November 30, 2011 the Company recorded a loss on foreign exchange of $152,239. For the quarter ended August 31, 2011 the Company recorded marketing and public relations costs of $88,569 and an impairment of property and equipment in the amount of $48,249.

CAPITAL EXPENDITURES

For the nine months ended May 31, 2013, the Company recorded additions to exploration and evaluation assets of $350,039 (May 31, 2012: $491,088).

The Company expects that its capital expenditures will increase in future reporting periods as the Company incurs costs to explore and develop its oil and gas properties.

FINANCING ACTIVITIES

During the nine months ended May 31, 2013 the Company completed financings through the issuance of 2,249,790 units in the capital of the Company for net proceeds of $405,650.

LIQUIDITY AND CAPITAL RESOURCES

Cash as of May 31, 2013 was $388,661 compared to cash of $330,003 at August 31, 2012. During the nine months ended February 28, 2013 the Company raised net proceeds of $405,650 through the issuance of share capital.

For the nine months ended May 31, 2013 the primary use of funds was related to additions to exploration and evaluation assets and administrative expenses. The Company's working capital deficiency at May 31, 2013 was $4,340,880 compared to a working capital deficiency of $3,819,056 at August 31, 2012.

Our current assets of $433,969 as at May 31, 2013 ($347,529 as of August 31, 2012) include the following items: cash $388,661 ($330,003 as of August 31, 2012); marketable securities $1 ($1 as of August 31, 2012); and trade and other receivables $45,307 ($17,525 as of August 31, 20012).

Our current liabilities of $4,774,849 as of May 31, 2013 ($4,166,585 as of August 31, 2012) include the following items: trade and other payables $1,512,861 ($1,039,959 as of August 31, 2012); shareholders' loans $2,269,444 ($2,179,778 as of August 31, 2012); and secured note payable $992,544 ($946,848 as of August 31, 2012).

At May 31, 2013 the Company had outstanding the following common share purchase warrants: 21,050,948 warrants exercisable at $0.04 per share; 19,150,000 warrants exercisable at $0.05 per share; 8,121,627 warrants exercisable at US$0.50 per share; and 1,025,983 warrants exercisable at US$0.25. If any of these common share purchase warrants are exercised it would generate additional capital for us.

Management of the Company recognizes that cash flow from operations is not sufficient to expand its oil and gas operations and reserves or meet its working capital requirements. The Company has liquidity risk which necessitates the Company to obtain debt financing, enter into joint venture arrangements, or raise equity. There is no assurance the Company will be able to obtain the necessary financing in a timely manner.

The Company's past primary source of liquidity and capital resources has been proceeds from the issuance of share capital, shareholders' loans and cash flow from oil and gas operations.

If the Company issued additional common shares from treasury it would cause the current shareholders of the Company dilution.

Outlook and Capital Requirements

A part of our oil and gas development program, we anticipate further expenditures to expand our existing portfolio of proved reserves. Amounts expended on future exploration and development is dependent on the nature of future opportunities evaluated by us. Any expenditure which exceeds available cash will be required to be funded by additional share capital or debt issued by us, or by other means. Our long-term profitability will depend upon our ability to successfully implement our business plan.

PROVISIONS

	Decommissioning Provisions (Note a)	Other Provisions (Note b)	Total Provisions
Balance, August 31, 2011	$64,688	$61,144	$125,832
Accretion expense	2,464	-	2,464
Additions	41,243	64,866	106,109
Change in estimate	7,365	-	7,365
Foreign exchange	(1,005)	(93)	(1,098)
Balance, August 31, 2012	114,755	125,917	240,672
Accretion expense	2,209	-	2,209
Additions	-	174,019	174,019
Reductions	-	(131,644)	(131,644)
Change in estimate	(5,480)	-	(5,480)
Foreign exchange	4,876	6,640	11,516
Balance May 31, 2013	**$116,360**	**$174,932**	**$291,292**

a) Decommissioning Obligations

The Company's decommissioning obligations result from its ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of decommissioning obligations to be $116,360 at May 31, 2013 (August 31, 2012: $114,755) based on an undiscounted total future liability of $163,635 (August 31, 2012: $158,974). These payments are expected to be incurred between fiscal 2022 and 2031. The discount factor, being the risk free rate related to the liability is 2.65% (August 31, 2012: 2.37%).

b) Other Provisions

In February 2013, a vendor of Dyami Energy filed a claim in the District Court of Zavala County, Texas (Case No. 13-02-12941-ZCV) seeking payment of US$169,196 for services. Dyami Energy is disputing the amount on the basis of negligence by the vendor. The Company intends on filing a counter claim. The full amount of the provision has been recorded and any legal costs will be expensed as incurred. The outcome of this claim is uncertain at this time.

The above amounts have been classified as long term, however not discounted as the impact to the consolidated financial statements is immaterial.

In May 2012 a vendor of Dyami Energy filed a claim in the District Court of Harris County, Texas seeking payment of US$64,866. Dyami Energy is disputing the amount charged due to faulty equipment. The full amount of the provision which was accrued in the prior period has been reversed in the current period as the vendor is no longer in good standing as a Texas corporation and the vendor's attorney filed in the District Court of Harris County, Texas a motion to withdraw as counsel.

In December 2011, a vendor of Dyami Energy filed a claim in the District Court of Harris County, Texas (Case No. 2011-74035/Court: 113) seeking payment of US$62,800. Dyami Energy was disputing the claim on the basis of excessive charges. In May 2013 the claim was settled and the Company agreed to pay US$45,500. The agreed settlement amount was transferred to trade and other payables and the balance of US$17,300 recorded as a recovery of professional fees on the interim condensed consolidated statement of operations and comprehensive loss.

LITIGATION

Matthews Lease Litigation

The lessor of the Matthews lease expressed their belief that the lease has terminated and on April 30, 2012 filed a petition in the District Court of Zavala County, Texas, seeking a declaration that the Lease has terminated (Case No. 12-04-12751-ZCV). The Company disagrees and believes that it is in full compliance with the terms of the lease. The Company is defending the allegation and countersuing the lessor for repudiation of the lease and seeking damages.

The Company elected to conduct the continuous drilling program provision of the lease in order to extend the term of the lease beyond its primary term. The Company commenced actual drilling operations on a well, within the 180 day time period allowed and defined in the amended lease every such period since the end of the primary term.

In March 2012**,** the Company notified the lessor of its intention to continue drilling the No. 2-H well initiated in October 2011 and suspended, and to drill a new well, the 4-H under the continuous-drilling program.

Upon receipt of this notice, and before the 180-day deadline to commence actual drilling operations expired, the lessor informed the Company that it was taking the position that the lease had terminated because the Company allegedly failed to drill the No. 2-H well in a good faith attempt to secure production, and thus failed to comply with the continuous drilling program. The lessor later added that the Company was 2 days late having a drill bit contact the surface of the earth and turn to the right. Based on the Company's extensive logging, coring, and laboratory work and analysis, the Company was highly confident that these wells would produce in commercial quantities, which would have benefitted the lessor and the other royalty owner, and would have allowed the Company to begin to recoup its investment in the lease. Extended development drilling would have followed. Accordingly the Company is seeking specific performance or damages from the lessors.

As at May 31, 2013 and August 31, 2012, no amounts of contingent loss due to the impairment of the above mentioned lease have been recorded in these consolidated financial statements. According to the Company's legal counsel, there are no dispositive motions pending, a trial date has not been set and in their opinion it is not possible to evaluate the likelihood of an unfavorable outcome or the amount or range of potential loss.

At May 31, 2013 the Company carries its investment in the Matthews lease at approximately $4,885,262 (August 31, 2012: $4,645,534). If the final outcome of such claim differs adversely from that expected, it would result in an impairment loss equal to the carrying value of the Matthews lease, when determined.

The following table summarizes the sensitivity of the carrying value of the Company's Matthews lease as at and for the period ended May 31, 2013. When assessing the potential impact of a negative result, the Company believes that the carrying value is a reasonable measure. A negative result could impact the Company's net loss, as follows:

Sensitivity Analysis of the Carrying value of the Matthews Lease	Effect on Net Loss
Net loss at May 31, 2013	$708,124
Impairment loss on Matthews lease	$4,885,262
Net loss after impairment	$5,593,386

Other Provisions

In February 2013, a vendor of Dyami Energy filed a claim in the District Court of Zavala County, Texas (Case No. 13-02-12941-ZCV) seeking payment of US$169,196 for services. Dyami Energy is disputing the amount on the basis of negligence by the vendor. The Company intends on filing a counter claim. The full amount of the provision has been recorded and any legal costs will be expensed as incurred. The outcome of this claim is uncertain at this time.

SECURED NOTES PAYABLE

At May 31, 2013, the Company had a US$960,000, 10% per annum secured promissory note payable to Benchmark Enterprises LLC (August 31, 2012: US$960,000). The note and all unpaid and accrued interest is due on or before August 31, 2013, or within 15 days of written demand to the Company, or upon the Company closing a cash financing or series of cash financings in excess of US$2,500,000 in which case fifty cents of every one dollar exceeding US$2,500,000 will be allocated to the secured note until paid in full. For the nine months ended May 31, 2013 the Company recorded interest of $72,623 (May 31, 2012: $60,081). At May 31, 2013 included in trade and other payables is interest of $140,588 (August 31, 2012: $63,296). The note is secured by Dyami Energy's interest in the Matthews and Murphy Leases, Zavala County, Texas. The Company may, in its sole discretion, prepay any portion of the principal amount.

DERIVATIVE WARRANT LIABILITIES

The Company has warrants issued with an exercise price in US dollars which are different from the functional currency of the Company (Canadian Dollars) and accordingly the warrants are treated as a financial liability and the fair value movement during the period is recognized in profit or loss. The Company recorded loss on derivative warrant liabilities of $89,666 during the nine months ended May 31, 2013 (May 31, 2012: $93,259). For the three months ended May 31, 2013 the Company recorded a loss of $10,288 (May 31, 2012: $21,311).

On September 25, 2012 the Company issued 1,124,895 common share purchase warrants exercisable at US$0.50 and 179,983 common share purchase broker warrants exercisable at US$0.25 expiring September 25, 2015. The fair value measured using the Black Scholes valuation model was $182,830 and $56,812, respectively.

The following tables sets out the number of derivative warrant liabilities outstanding at May 31, 2013:

Number of Warrants*	Exercise Price US ($)*	Expiry Date	Weighted Average Remaining Life (Years)	Fair Value CDN ($)
1,709,232	$0.50	August 31, 2014	1.25	$674,835
1,875,000	$0.50	April 13, 2015	1.87	348,005
300,000	$0.25	April 13, 2015	1.87	94,669
912,500	$0.50	July 20, 2015	2.14	127,053
146,000	$0.25	July 20, 2015	2.14	34,198
2,500,000	$0.50	August 7, 2015	2.19	348,472
400,000	$0.25	August 7, 2015	2.19	89,686
1,124,895	$0.50	September 25, 2015	2.32	192,866
179,983	$0.25	September 25, 2015	2.32	59,930
9,147,610			**1.95**	**$1,969,714**

* Reflects the March 16, 2012 two-for-one stock split

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

SEGMENTED INFORMATION

The Company's reportable and geographical segments are Canada and the United States. The accounting policies used for the reportable segments are the same as the Company's accounting policies.

For the purposes of monitoring segment performance and allocating resources between segments, the Company's executive officer monitors the tangible, intangible and financial assets attributable to each segment.

All assets are allocated to reportable segments. The following tables show information regarding the Company's reportable segments.

May 31, 2013	Three Months Ended			Nine Months Ended		
	Canada	United States	Total	Canada	United States	Total
Net revenue	$10,206	-	$10,206	$29,891	-	$29,891
Net loss	$116,731	(211)	$116,520	$602,460	105,664	$708,124

May 31, 2012	Three Months Ended			Nine Months Ended		
	Canada	United States	Total	Canada	United States	Total
Net revenue	$13,275	-	$13,275	$33,455	-	$33,455
Net loss	$554,026	92,406	$646,432	$2,353,818	100,564	$2,454,382

As at May 31, 2013	Canada	United States	Total
Total Assets	$4,448,944	5,211,241	$9,660,185
Total Liabilities	$6,529,565	506,290	$7,035,855
As at August 31, 2012	**Canada**	**United States**	**Total**
Total Assets	$3,983,791	5,014,225	$8,998,016
Total Liabilities	$5,478,773	568,890	$6,047,663

SEASONALITY AND TREND INFORMATION

The Company's oil and gas operations is not a seasonal business, but increased consumer demand or changes in supply in certain months of the year can influence the price of produced hydrocarbons, depending on the circumstances. Production from the Company's oil and gas properties is the primary determinant for the volume of sales during the year.

The level of activity in the oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas properties are located in areas that are inaccessible except during the winter months because of swampy terrain and other areas are inaccessible during certain months of year due to deer hunting season. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of the Company.

The impact on the oil and gas industry from commodity price volatility is significant. During periods of high prices, producers conduct active exploration programs. Increased commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increase in price during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service suppliers also decline.

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is therefore effected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. Material increases in the value of the Canadian dollar may negatively impact production revenues from Canadian producers. Such increases may also negatively impact the future value of such entities' reserves as determined by independent evaluators. In recent years, the Canadian dollar has increased materially in value against the United States dollar.

RELATED PARTY TRANSACTIONS AND BALANCES

The following transactions with individuals related to the Company arose in the normal course of business have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent value.

Compensation of Key Management Personnel
The remuneration of directors and other members of key management personnel during the three and nine month periods ended were as follows:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2013	2012	2013	2012
Short term employee benefits (1)	$18,750	$ 18,750	$56,250	$56,250

The following balances owing to the President of the Company are included in trade and other payables, are unsecured, non-interest bearing and due on demand:

	May 31, 2013	August 31, 2012
Short term employee benefits (1)	$187,500	$131,250
Expenses paid on behalf of the Company	-	1,896
	$187,500	$133,146

(1) The Company accrues management fees for the President of the Company at a rate of $6,250 per month.

At May 31, 2013 and the amount of directors' fees included in trade and other payables was $15,400 (August 31, 2012: $12,900).

At May 31, 2013 and August 31, 2012 the Company had promissory notes payable to the President of $28,845 and US$300,000. For the nine months ended May 31, 2013 the Company recorded interest of $25,592 (May 31, 2012: $24,515). At May 31, 2013, included in trade and other payables is interest of $56,060 (August 31, 2012 $28,687). The notes are due on demand and bear interest at 10% per annum. Interest is payable annually on the anniversary date of the notes.

At May 31, 2013 and August 31, 2012 the Company had a US$960,000, 10% per annum secured promissory note payable to Benchmark Enterprises LLC ("Benchmark"). Benchmark is a shareholder of the Company. For the nine months ended May 31, 2013 the Company recorded interest of $72,623 (May 31, 2012: $60,081). At May 31, 2013 included in trade and other payables is interest of $140,588 (August 31, 2012: $63,296) (see Secured Note Payable).

At May 31, 2013 included in trade and other payables is $2,524 due to Gottbetter & Partners, LLP for legal fees (August 31, 2012: $14,649). During the nine months ended May 31, 2013 the Company completed private placements of 2,249,790 units in the capital of the Company for gross proceeds of $441,004 and paid to Gottbetter Capital Markets, LLC, placement agent fees of $35,280 and issued 179,983 common share purchase warrants exercisable at US$0.25 for a period of three years from the date of issue. Gottbetter & Partners, LLP is a shareholder of the Company. Adam Gottbetter is the managing and principal partner of Gottbetter & Partners, LLP and the beneficial owner of Gottbetter Capital Markets, LLC.

At May 31, 2013 and August 31, 2012, the Company had shareholders' loans payable of US$1,583,740 and $293,000. For the nine months ended May 31, 2013 the Company recorded interest of $130,569 (May 31, 2012: $199,394). At May 31, 2013, included in trade and other payables is interest of $345,906 (August 31, 2012: $190,484). The notes are payable on demand and bear interest at 10% per annum. Interest is payable annually on the anniversary date of the notes (see Subsequent Events).

CHANGES IN ACCOUNTING POLICIES

The Company is currently reviewing a number of new IFRS pronouncements that have been issued but are not yet effective. Information on the new accounting policies that may affect the Company are provided in the Unaudited Condensed Interim Consolidated Financial Statements as at and for the period ended May 31, 2013.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company's management made assumptions, estimates and judgments in the preparation of the Unaudited Condensed Interim Consolidated Financial Statements. Actual results may differ from those estimates, and those differences may be material. There has been no material changes in the nine months ended May 31, 2013 to the critical accounting estimates and judgments as identified in the Management Discussion and Analysis for the year ended August 31, 2012.

SHARE CAPITAL AND RESERVES

On March 16, 2012, the Company completed a 2-for-1 stock split, pursuant to which one (1) newly-issued share of the Company's common stock was issued to each holder of a share of common stock as of the close of business. The forward stock split has been applied retrospectively for all periods presented.

Authorized:
Unlimited number of common shares
Unlimited non-participating, non-dividend paying, voting redeemable preference shares

Issued:
The following table sets out the changes in common shares during the respective periods:

Common Shares	Number*	Amount
Balance August 31, 2011	67,122,743	$4,635,556
Debt settlement (note a)	3,107,006	395,589
Debt settlement (note b)	6,000,000	522,856
Debt settlement (note c)	11,150,000	627,511
Private placement (note d)	2,000,000	32,459
Private placement (note e)	3,750,000	342,786
Private placement (note f)	6,825,000	702,528
Debt settlement (note g)	171,386	44,547
Cancelled (note h)	(3,418,468)	(1,397,199)
Balance August 31, 2012	96,707,667	5,906,633
Private placement (note i)	2,249,790	166,008
Balance May 31, 2013	**98,957,457**	**$6,072,641**

* Reflects the March 16, 2012 two-for-one stock split

The following table sets out the changes in warrants during the respective periods:

Warrants	May 31, 2013 Number of Warrants*	May 31, 2013 Weighted Average Price*	August 31, 2012 Number of Warrants*	August 31, 2012 Weighted Average Price*
Outstanding, beginning of period	40,200,948	$0.04	21,050,948	$0.04
Debt settlement (note b)			6,000,000	
Debt settlement (note c)			11,150,000	
Private placement (note d)			2,000,000	
Balance, end of period	**40,200,948**	**$0.04**	**40,200,948**	**$0.04**

* Reflects the March 16, 2012 two-for-one stock split

(a) During the year ended August 31, 2012, the Company issued 3,107,006 common shares as full settlement of interest due on shareholders' loans in the amount of $325,903. The amount allocated to common shares based on fair value was $395,589 and $69,686 was recorded as a loss on settlement of debt in the statement of operations and comprehensive loss.

(b) On January 24, 2012, the Company converted shareholders' loans in the aggregate amount of $300,000 through the issuance of a total of 6,000,000 units in the capital of the Company at $0.05 per unit. Each unit is comprised of one (1) common share and one (1) purchase warrant exercisable until January 24, 2015 to purchase one (1) additional common share of the Company at a purchase price of $0.05 per share. The fair value of the common shares issued on the settlement date was $522,856 and the amount allocated to warrants based on relative fair value using the Black Scholes model was $507,038 and $729,894 was recorded as a loss on settlement of debt.

(c) On February 17, 2012, the Company converted debt and shareholders' loans in the aggregate amount of $557,500 through the issuance of a total of 11,150,000 units in the capital of the Company at of $0.05 per unit. Each unit is comprised of one (1) common share and one (1) purchase warrant exercisable until February 17, 2015 to purchase one (1) additional common share of the Company at a purchase price of $0.05 per share. The fair value of the common shares issued on the settlement date was $627,511 and the amount allocated to warrants based on relative fair value using the Black Scholes model was $595,310 and $665,321 was recorded as a loss on settlement of debt.

(d) On February 17, 2012, the Company completed a non-brokered private placement of a total of 2,000,000 units in the capital of the Company at a purchase price of $0.05 per unit for net proceeds of $100,000. Each unit is comprised of one (1) common share and one (1) purchase warrant exercisable until February 17, 2015 to purchase one (1) additional common share of the Company at a purchase price of $0.05 per share. The amount allocated to warrants based on relative fair value using the Black Scholes model was $67,541.

(e) On April 13, 2012, the Company completed private placements for gross proceeds of $748,425 of equity capital from arm's length private placement funding through the issuance of 3,000,000 units at a price of US$0.25 per unit. Each unit is comprised of one common share and one-half a common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at US$0.50 for a period of three years from the date of issuance. The amount allocated to derivative warrant liabilities for warrants based on fair value using the Black Scholes model was $282,604. In connection with the private placement, the Company paid cash commissions and other expenses of $45,030 and issued an aggregate of 240,000 broker warrants. Each broker warrant entitles the holder to acquire one common share of the Company at an exercise price of US$0.25 for a period of three years from the date of issuance. The amount allocated to derivative warrant liabilities based on fair value using the Black Scholes model was $78,005 with a corresponding decrease in common shares. The Company subsequently re-priced the offering at US$0.20 and issued an additional 750,000 units on July 27, 2012. The fair value of the units based on the new offering price was determined to be $188,625. The amount allocated to contributed surplus was $132,616 and the amount allocated to derivative warrant liabilities based on fair value using the Black Scholes model was $56,009. In addition, the Company issued an additional 60,000 broker warrants. Each broker warrant entitles the holder to acquire one common share of the Company at an exercise price of US$0.25 for a period of three years from the date of issuance. The amount allocated to derivative warrant liabilities based on fair value using the Black Scholes model for broker warrants was $14,109 with a corresponding decrease in contributed surplus (see Note 13).

(f) On July 20, 2012 and August 7, 2012 the Company completed private placements for gross proceeds of $1,365,561 of equity capital from arm's length private placement funding through the issuance of 6,825,000 units at a price of US$0.20 per unit. Each unit is comprised of one common share and one-half a common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at US$0.50 for a period of three years from the date of issuance. The amount allocated to derivative warrant liabilities for warrants based on fair value using the Black Scholes model was $460,907. In connection with the private placement, the Company paid cash commissions and other expenses of $82,239 and issued an aggregate of 546,000 broker warrants.

Each broker warrant entitles the holder to acquire one common share of the Company at an exercise price of US$0.25 for a period of three years from the date of issuance. The amount allocated to derivative warrant liabilities based on fair value using the Black Scholes model was $119,887 with a corresponding decrease in common shares (see Note 13).

(g) On May 8, 2012, the Company issued 171,385 common shares as full settlement of interest due on shareholders' loans in the amount of $43,983. The amount allocated to common shares based on fair value was $44,547 and $564 was recorded as a loss on settlement of debt in the statement of operations and comprehensive loss.

(h) On August 31, 2012 the Company cancelled 3,418,468 common shares and 1,709,234 common shares purchase warrants exercisable at US$0.50 until August 31, 2014. The common shares and warrants had been issued August 31, 2010 as partial consideration of the purchase price for Dyami Energy and held in escrow pending the satisfaction of certain conditions precedent to their release on August 31, 2012. The conditions precedent had not been satisfied and the time allowed for performance expired. The Company recorded a reduction in exploration and evaluation assets of $2,091,616, a reduction in common shares of $1,397,199, a reduction of derivative warrant liabilities of $675,487 and a reduction in contributed surplus of $18,930 (see Note 13).

(i) On September 25, 2012 the Company completed private placements for gross proceeds of $441,004 of equity capital from arm's length private placement funding through the issuance of 2,249,790 units at a price of US$0.20 per unit. Each unit is comprised of one common share and one-half a common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at US$0.50 for a period of three years from the date of issuance. The amount allocated to derivative warrant liabilities for warrants based on fair value using the Black Scholes model was $182,830. In connection with the private placement, the Company paid cash commissions and other expenses of $35,354 and issued an aggregate of 179,983 broker warrants. Each broker warrant entitles the holder to acquire one common share of the Company at an exercise price of US$0.25 for a period of three years from the date of issuance. The amount allocated to derivative warrant liabilities based on fair value using the Black Scholes model was $56,812 with a corresponding decrease in common shares (see Note 13).

The following table summarizes the outstanding warrants as at May 31, 2013:

Number of Warrants*	Exercise Price*	Expiry Date	Weighted Average Remaining Life (Years)	Warrant Value ($)
2,000,000	$0.04	February 5, 2014	0.68	$ 24,000
800,512	$0.04	February 25, 2014	0.74	9,606
18,250,436	$0.04	February 27, 2014	0.75	219,031
6,000,000	$0.05	January 24, 2015	1.65	507,038
11,150,000	$0.05	February 17, 2015	1.72	595,310
2,000,000	$0.05	February 17, 2015	1.72	67,541
40,200,948	**$0.04**		**1.20**	**$ 1,422,526**

* Reflects the March 16, 2012 two-for-one stock split

The following table summarizes the outstanding warrants as at August 31, 2012:

Number of Warrants*	Exercise Price*	Expiry Date	Weighted Average Remaining Life (Years)	Warrant Value ($)
2,000,000	$0.04	February 5, 2014	1.43	$ 24,000
800,512	$0.04	February 25, 2014	1.49	9,606
18,250,436	$0.04	February 27, 2014	1.49	219,031
6,000,000	$0.05	January 24, 2015	2.40	507,038
11,150,000	$0.05	February 17, 2015	2.47	595,310
2,000,000	$0.05	February 17, 2015	2.47	67,541
40,200,948	**$0.04**		**1.94**	**$ 1,422,526**

* Reflects the March 16, 2012 two-for-one stock split

The fair value of the warrants issued during the year ended August 31, 2012, were estimated using the Black-Scholes pricing model with the following assumptions:

Risk-free interest rate	1%
Expected volatility	218%
Expected life (years)	3
Dividend yield	-

The following table summarizes the weighted average shares outstanding:

Weighted Average Shares Outstanding*	**Three Months Ended May 31,**		**Nine Months Ended May 31,**	
	2013	**2012**	**2013**	**2012**
Weighted average shares outstanding, basic and diluted	98,957,457	83,735,892	98,759,673	51,518,105

* Reflects the March 16, 2012 two-for-one stock split

The effects of any potential dilutive instruments on loss per share are anti-dilutive and therefore have been excluded from the calculation of diluted loss per share.

Share Purchase Options

The Company has a stock option plan to provide incentives for directors, officers, employees and consultants of the Company. The maximum number of shares, which may be set aside for issuance under the stock option plan, is 20% of the issued and outstanding common shares of the Company on a rolling basis.

The following table is a summary of the status of the Company's stock options and changes during the period:

	Number of Options*	Weighted Average Exercise Price*
Balance, August 31, 2011	-	$ -
Granted	1,050,000	0.16
Balance, August 31, 2012 and May 31, 2013	**1,050,000**	**$0.16**

* Reflects the March 16, 2012 two-for-one stock split

The following table is a summary of the Company's stock options outstanding and exercisable at May 31, 2013:

Options Outstanding				Options Exercisable	
Exercise Price	**Number of Options***	**Weighted Average Exercise Price***	**Weighted Average Remaining Life (Years)**	**Number of Options***	**Weighted Average Exercise Price***
$ 0.16	1,000,000	$ 0.16	3.75	1,000,000	$ 0.16
$ 0.25	50,000	$ 0.25	4.15	50,000	$ 0.25
	1,050,000	**$ 0.16**	**3.77**	**1,050,000**	**$ 0.16**

* Reflects the March 16, 2012 two-for-one stock split

The following table is a summary of the Company's stock options outstanding and exercisable at August 31, 2012:

Options Outstanding				Options Exercisable	
Exercise Price	**Number of Options***	**Weighted Average Exercise Price***	**Weighted Average Remaining Life (Years)**	**Number of Options***	**Weighted Average Exercise Price***
$ 0.16	1,000,000	$ 0.16	4.50	1,000,000	$ 0.16
$ 0.25	50,000	$ 0.25	4.90	50,000	$ 0.25
	1,050,000	**$ 0.16**	**4.52**	**1,050,000**	**$ 0.16**

* Reflects the March 16, 2012 two-for-one stock split

The fair value of the stock options granted for the year ended August 31, 2012 were estimated on the date of the grant using the Black Scholes option pricing model with the following weighted average assumptions used.

	March 1, 2012	July 24, 2012
Weighted average fair value per option	$0.16	$0.22
Weighted average risk free interest rate	1.44%	1.12%
Forfeiture rate	0%	0%
Weighted average expected volatility	213%	233%
Expected life (years)	5	5
Dividend yield	Nil	Nil

Contributed Surplus

Contributed surplus transactions for the respective periods are as follows:

	Amount
Balance, August 31, 2011	$85,737
Imputed interest	2,334
Warrants expired (Note 13)	318,552
Warrants cancelled (note h)	(18,930)
Compensation expense on re-pricing of units (note e)	118,507
Balance, August 31, 2012 and May 31, 2013	**$506,200**

SUBSEQUENT EVENTS

Subsequent to May 31, 2013 the Company issued 3,988,803 common shares as full settlement of shareholder loans of $43,000 and interest due and payable at May 31, 2013 of $48,742.

Subsequent to May 31, 2013 the company issued 19,673,765 common shares as settlement of shareholder loans of US$150,240 (CDN$155,333) and interest due and payable at May 31, 2013 of US$287,420 (CDN$297,164).