MOONCOR OIL & GAS CORP.
(AN EXPLORATION STAGE ENTERPRISE)

MANAGEMENT'S DISCUSSION & ANALYSIS
Period ended March 31, 2012

This Management Discussion and Analysis ("MD&A") is dated **May 30, 2012** and is in respect of the period ended March 31, 2012, and should be read in conjunction with the consolidated interim financial statements and corresponding notes to the financial statements for the three months ended March 31, 2012 and the audited annual financial statements for the year ended December 31, 2011, the most recently completed fiscal period. All amounts discussed herein are denominated in Canadian dollars which is the Company's functional and reporting currency.

Additional information relating to the Company is available on SEDAR at www.sedar.com. The Board of Directors of the Company approved these financial statements and MD&A on May 30, 2012.

Basis of Presentation

The Company's financial statements and the financial data included in the MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee that are effective as at March 31, 2012.

The financial results discussed below include the results of the Company and its wholly owned subsidiary, Mooncor Energy Inc. ("Mooncor Energy") and DRGN Energy Inc. ("DRGN"). All intercompany balances and transactions have been eliminated.

The common shares of the Company are listed for trading on the TSX Venture Exchange ("TSXV") under the symbol " **MOO**".

Going Concern

The financial statements of the Company have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The continuation as a going concern is dependant upon the discovery of economically recoverable resources, the ability of the Company to obtain necessary financing to continue exploration and development, the ability of the Company to secure and maintain title and beneficial interest in its properties, entering into agreements with others to explore and develop the properties, and upon future profitable production or proceeds from disposition of such properties. Failure to continue as a going concern would then require that stated amounts of assets and liabilities be reflected on a liquidation basis of valuation that could differ materially from the going concern basis of accounting. See discussion under "Financial Condition" and "Convertible Debenture Extension".

Corporate Profile

The Company is a corporation continued under the *Business Corporations Act* (Ontario) and is an exploration stage company. The Company's principal assets are exploration and evaluation assets relating to it's oil and gas properties which are not yet in significant commercial production. The Company is in the process of exploring these assets. Please visit www.sedar.com for additional disclosures.

Financial Condition

In this section, the comparative amounts are as of December 31, 2011, unless otherwise noted. At March 31, 2012, total assets were $4,038,055 (2011: $4,190,208). The Company had cash of $345,900 (2011: $602,201). Other current assets included segregated cash on hand of $40,891 (2011: $40,815) (used to secure a letter of credit for an oil & gas property in Saskatchewan), sundry receivable of $90,380 (2011: $149,694) (representing predominantly harmonized sales tax receivables at period end), portfolio investments carried at market value of $Nil (2011: $Nil) and prepaid expenses of $45,461 (2011: $33,443).

Current assets decreased to $522,631 at March 31, 2012 from $826,153 at December 31, 2011 representing use of cash in operations.

Other assets include:

i) Property and equipment (net book value) of $540,916 (2011: $448,546) – increased as a result of a $95,000 work program on one of the Company's wells in Lloydminster, Alberta;

ii) Intangible assets (net book value) of $9,375 (2011: $15,000) – decrease due to amortization taken in the period. This asset relates to a proprietary database of technical data on the Company's shale gas properties located in Alberta and northeast British Columbia, which was acquired in 2008;

iii) Deposits relating to oil and gas properties of $342,956 (2011: $342,956) – no increase during the period.

iv) The carrying value of exploration and evaluation assets ("E&E") increased slightly from $2,557,553 at December 31, 2011 to $2,622,176 at March 31, 2012 (expenditures on the E&E assets).

Accounts payable and accrued liabilities were $953,069 at March 31, 2012 ($855,835 at December 31, 2011) consisting of amounts owing to suppliers, consultants and others incurred in the normal course of business,

Convertible debentures payable (the "**Debentures**"), originally issued by the Company on September 28, 2007, were $1,021,438 at March 31, 2012(2011: $1,021,438). The face amount of the Debentures outstanding as of the period end did not increase from the year end. The Debentures came due on December 31, 2012, and the Company is in the process of negotiating extension and repayment terms with the holders of the Debentures. There can be no assurance that the Debentures will be extended.

Working Capital

a) Working capital was a deficit of $1,458,355 at March 31, 2012 (deficit of $1,065,109 at December 31, 2011).

b) Shareholders' equity decreased from $2,298,946 at December 31, 2011 to $2,057,339 at March 31, 2012.

Results of Operations (Period ended March 31, 2012)

During the period ended March 31, 2012, the Company earned $74,193 (2011: $6,806) on oil production from one of its Lloydminster, Alberta heavy oil wells (04/28). A service company had been engaged to rework one of the two wells owned by the Company to address well sanding issued. The service company continuously undertook work on the well throughout the period. A program on the second well (03/28) was undertaken in 2012 with limited production. The cost of the program was $95,000 and was required to be expended in accordance with the terms of operatorship of the lease.

Operating expenses were $359,233 (2011: $363,229). The loss from operations was $285,040 (2011: $363,353). Included in the amount above was production and operating expenses of $135,696 (2011: Nil) relating to well 04/28 (Lloydminster, Alberta).

Net loss and comprehensive loss for the period was $277,259 (2011: $363,353).

Per share loss for the period ended March 31, 2012 was $0.002 (2011: $0.003).

The largest components of expenses were:

a) Professional fees (including non-recoverable taxes and disbursements) of $19,819 (2011: $42,883), which decreased from the prior period as a decrease in the level of activity.
b) Consulting fees of $55,500 (2011: $108,345). The amount decreased from the prior year due to reduced activity. The Company has no employees and consultants are used for almost all services.
c) Office and general decreased to $30.016 (2011: $105,199), as a result of reduced business activity.
d) Share based compensation of $35,652 (2011: $13,583) is calculated using the Black-Scholes option pricing model. This amount increased as a result of the vesting of options during the period.
e) Travel of $2,933 (2011: $46,901) – Decreased significantly from the prior period as a result of reduced activity.
f) Finance costs increased to $25,466 (2011: $25,260) and represents interest costs on the Debentures.

During the period, $40,781 (2011: $10,098) of E&E assets were recorded to the statement of operations relating to costs incurred in evaluating properties prior to acquisition which were not capitalized to E&E assets.

Commitments and Contingencies

Flow-Through Shares

The Company raises some of its equity as a result of the issuance of flow-through shares. Under this arrangement, common shares are issued which transfer the tax deductibility of prescribed exploration expenditures to investors. Proceeds received on the issuance of these shares are credited to capital stock and the related exploration costs are charged to exploration and evaluation assets in the year in which they are incurred. Proceeds received from the issuance of flow-through shares are restricted to be used only for allowable Canadian exploration expenditures, within a two year period.

During the prior year, the Company raised $776,940 from the sale of flow-through shares and is committed to expending the balance of $75,000 by December 31, 2012 on qualified exploration expenditures. The Company expects to meet these commitments by December 31, 2012.

Gross Overriding Royalties

The Company has entered into the following GOR agreements:

- Database – As part of the purchase of the database of technical information, the Company entered into a GOR agreement with the vendor. Pursuant to the agreement, the Company has committed to pay royalties equal to 3% on all production from certain lands in Alberta included in the database. No royalties are owed or require to be accrued as there has been no production on these subject lands, during the current period.

- Study – The Company entered into an agreement with an arm’s length party to obtain consulting services to study certain pieces of land under development by the Company. Pursuant to the agreement, the Company has committed to pay a GOR equal to 5% on all production from the lands included in the study. No royalties are owed or have been accrued as there has been no production on these lands, in the current or prior periods.

Lease Commitments

During 2011, the Company entered into a lease agreement for its London, Ontario field office premises covering a period of 12 months and three weeks. Annual rent is $13,600. The lease expires July 31, 2012 and is not expected to be renewed.

Currently, office premises for the Calgary and Toronto offices are provided on a month to month basis.

Quarterly Results

	Quarter Ended Mar 31, 2012	Quarter Ended Dec 31, 2011	Quarter Ended Sep 30, 2011	Quarter Ended June 30, 2011
Revenue	$74,193	$26,036	$33,725	$64,974
Net Loss	$(277,259)	$(2,715,715)	$(711,151)	$(680,728)
Net Loss per share	$(0.002)	$(0.010)	$(0.006)	$(0.006)

	Quarter Ended March 31, 2011	Quarter Ended Dec 31, 2010	Quarter Ended Sep 30, 2010	Quarter Ended June 30, 2010
Revenue	$6,806	$55,670	$98,209	$30,324
Net Loss	$(363,353)	$(1,128,392)	$(680,728)	$(358,222)
Net Loss per share	$(0.003)	$(0.007)	$(0.006)	$(0.004)

Liquidity and Capital Resources

As at March 31, 2012, cash and cash equivalents were $345,900.

At this time the Company does not generate significant revenue from its oil and gas properties, and accordingly, does not have significant cash flow from operations. The Company raises funds for exploration, development and general overhead and other expenses through the issuance of shares from treasury. This method of financing has been the principal source of funding for the Company since inception, together with monies raised through the issuance of the Debentures.

The Company intends to continue to raise funds for operations through the issuance of shares from treasury and, if possible, through earn-in or option agreements with other oil and gas companies. In addition, the Company is reviewing the possibility of raising proceeds for development of its assets through the disposition of its non-core assets, such as from the disposition of the Lloydminster, Alberta property (see discussion below) and the Company's Southwest Ontario assets. There are no assurances that the Company will be successful in securing financing for its operations.

Private Placements

No private placements occurred during the period.

Convertible Debenture Extension

The Debentures in the amount of $1,021,438 are outstanding as at March 31, 2012 and December 31, 2011. The Debentures were due on December 31, 2011.

Subsequent to 2011, the Company negotiated an extension of the Debentures. Subject to the Farmout Agreement (see section below "Hamburg – Chinchaga") being completed, the maturity date of the Debentures were to been extended to March 31, 2013. In consideration for the extension, the Company agreed to:

(i) amend the conversion price of the Debentures from $0.225 to $0.10 per unit,

(ii) extend the expiry date of the 500,000 warrants (the "Compensation Warrants") previously issued to each Debenture holder from December 31, 2011 to March 31, 2013,

(iii) amend the exercise price of the Compensation Warrants from $0.225 to $0.10 per warrant, and

(iv) pay a refinance fee of $50,000.

The Debentures accrue interest at 10% per annum and are payable on conversion or maturity, or in advance without penalty. The Company has made all required interest payments to date.

Subject to the Farmout Agreement being completed, the Debentures would be convertible into units of the Company at $0.10 per unit. Each unit shall consist of one common share and one-half of one warrant, with each whole warrant entitling the holder thereof to purchase one common share at $0.10 per share until March 31, 2013. See also "Property Description – Hamburg Chinchaga".

As the Farmout Agreement was not completed, the Company is in negotiations with the Debenture holders regarding amending the extension of expiry. There can be no assurance that the Debenture holders will agree to continue to extend the maturity date of the Debentures or whether the TSXV will approve the terms of any future extensions to expiry of the Debentures..

Property Description

The Company's exploration and evaluation assets are unproven and consist of the following:

	Dec 31, 2011	Additions	Write-offs	March 31, 2012
Lloydminster (i)	$ -	$ -	$ -	$ -
Hamburg - Chinchaga (ii)	2,026,145	-	-	2,026,145
South Western Ontario (iii)	531,408	64,623	-	596,031
	$ 2,557,553	$ 64,623	$ -	$ 2,622,176

(i) Lloydminster (Alberta)

On February 11, 2008, the Company acquired two suspended wells and related P&NG rights in the Lloydminster area of Alberta from an arm's length industry vendor for cash proceeds of $400,000. The Company has a 60% working interest in one well subject to a 1% royalty on 100% production and a 3% royalty on 60% of production as well as a 100% working interest in the other well, subject to a convertible royalty with 5-15% on oil production and 15% on gas production plus a 1% royalty on 100% production and a 3% royalty on 60% of production until payout at which time the Company will hold a 60% working interest. Limited production revenues have been earned to date as the wells continue to sand out and accordingly these assets continue to be shown as E&E assets. A service company in Lloydminster has been engaged to address the sanding issues.

During 2011, the Company engaged a service company to rework one of the two wells owned to address sanding issues (04/28). During the remainder of 2011, the Company earned $131,493 from the sale of oil. Production and operating expenses were $273,010.

During 2011, the Company entered into a letter of intent to dispose of its right, title and interest in its two Lloydminster oil wells to Madeira. Madeira is a capital pool company, and the transaction is intended to constitute Madeira's qualifying transaction under Policy 2.4 of the TSXV. Madeira will acquire the leases by issuing an aggregate of six million common shares of its capital stock to the Company at a deemed price of $0.20 per share. The transaction is subject to a number of conditions precedent including completion of a concurrent financing by Madeira, and receipt of all required regulatory and exchange approvals. Madeira received conditional TSXV approval subsequent to 2011, and is in the process of completing a concurrent financing for $1.2 million. Madeira has not yet indicated the timing for the completion of the above. It is possible that the proposed transaction will not close and the Company will maintain the oil wells.

During 2010, the Company commenced production in its wells in Lloydminster and as a result it had reclassified its Lloydminster E&E asset to property and equipment. The assets were reclassified as of December 31, 2011 and 2010. During the period ended March 31, 2012, the Company earned $74,193 (2011: $6,806) on oil production from well 04/28 (Lloydminster, Alberta). A service company had been engaged to rework one of the two wells owned by the Company to address well sanding issued. The service company continuously undertook work on the well throughout the period however the well is not producing positive cash flow.

A program on the second well (03/28) was undertaken in 2012 with limited production, costing $95,000. The amounts were incurred in order to satisfy expenditure commitments under the terms of ownership of the well.

(ii) Hamburg – Chinchaga (Alberta)

During 2008, the Company acquired for cash of $617,925, 56,960 acres of 100% working interest lands on a shale gas play in the Western Canadian Sedimentary Basin. This property was acquired at Crown land sales. The Company also acquired a cased, suspended wellbore and four associated sections (2,560 acres net) of land on this shale gas play (included in the acreage mentioned above). During 2009, the Company acquired an additional 46,720 acres (73 sections) of 100% working interest land in the above area for $993,098 and incurred $875,987 in exploration work and a pilot well program and ancillary work.

During 2009, the Company engaged Macquarie Tristone (the acquisitions and divestitures business of Macquarie Capital Markets Canada Ltd.) as its exclusive advisor in respect to a potential transaction (farm-out, sale and/or other similar transaction) of all or any portion of the Company's interest in the above lands. The advisor was not successful in identifying a potential transaction and the parties mutually agreed to terminate their relationship during 2010. Throughout 2011, the Company continues to seek other potential opportunities and partners; however no definitive agreements have been entered into by the Company to this date.

During the period, the Company entered into a farmout agreement ("Farmout Agreement") with a private Alberta based company (the "Farmee") over its Hamburg Chinchaga property in (the "Hamburg Lands"). The Farmout Agreement was conditionally approved by the TSXV and by shareholders representing more than 50% of the issued and outstanding shares of the Company.

Under the terms of the Farmout Agreement, the Farmee was required to drill eleven (11) test wells on the lands and log and test all formations prospective of containing petroleum substances under rights held by the Company. The Farmee was to commence drilling operations on or before May 30, 2012 at its sole cost, risk and expense. Upon fulfilling its obligations to drill all eleven test wells, the Farmee would earn:

(i) 100% of the Company's interest in each of the eleven drill spacing units subject to a 6% overriding royalty payable to the Company (subject to specific deductions) which is convertible into a 20% undivided participating interest upon payout; and

(ii) 80% of the Company's interest in the remaining Hamburg Lands. The eleven test wells will validate as qualified land of a licence to extend from the primary term (4 years) to an intermediate term (additional 5 year extension).

The Farmout Agreement was conditional on the Farmee demonstrating dedicated funds to a minimum of $16.5 million by April 30, 2012 in order to meet its obligations pursuant to the Farmout Agreement. The Farmee has advised that it has been unable to secure the required funding and as a result have terminated the Farmout Agreement. The parties have no further obligations or liabilities to each other. The Company plans to continue to seek other options with respect to the Hamburg Lands.

(iii) Southwestern Ontario

During 2008, the Company acquired 3,833 acres (3,833 net) from arm’s length individuals. The terms of the transaction were lease agreements on freehold land for a three year minimum period.

During 2010, the Company acquired an additional 18,737 acres (18,592 net) in Southwestern Ontario from an arm's length company for $100,000. The leases acquired are immediately adjacent to the leases acquired in 2008. The majority of leases acquired in 2010 were prepaid to end of term, the majority of which were expire in late 2011.

During 2010, the Company announced its intention to spin off these assets into DRGN, a wholly owned subsidiary of the Company. The Company also announced its intention to complete a private placement into DRGN in connection with the above. However the spin off and private placement have not yet been completed to date. The Company continues to explore options as to the best strategy to spin out these assets in Southwestern Ontario.

During 2011, the Company analyzed its current lease acquisition strategy and holdings with a view to acquiring new leases in high priority locations, and acquired 6,386 acres (6,386 net) from arm’s length individuals. In addition, the Company did not renew 16,645 acres (16,645 net) of leases. Included in the statement of comprehensive loss $345,833 in impairment of exploration and evaluation assets representing the impairment of the above noted leases.

Management Changes

In April 2012, Darrell Brown, the CEO and director of the Company, resigned. . Nick Tsimidis, CFO and a director, assumed the position of Interim CEO pending identification of a new CEO. . The Company has placed all of its projects on hold pending a search for a new Chief Executive Officer.

Risk Factors

In conducting its business, the Company is subject to a wide variety of risks and uncertainties. In addition to the other information or risk factors, an investor should carefully consider each of, and the cumulative effect of, the following factors.

Exploration, Development and Production Risks

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by the Company will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Insurance

The Company’s involvement in the exploration for and development of oil and gas properties may result in the Company becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although the Company obtains insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities.

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which will be beyond the control of the Company. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices or natural gas prices, leading to a reduction in the volume of the Company’s oil and gas reserves.

Competition

The Company actively competes with other oil and gas companies for reserve acquisitions, exploration leases, licenses and concessions, and skilled personnel, many of which will have significantly greater financial resources than the Company. The Company's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies as well as individual producers and operators.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto protocol established thereunder to set legally binding targets to reduce nationwide emissions of Carbon dioxide, methane, nitrous oxide, and other so-called "greenhouse gases". The Company's exploration and production facilities and other operations and activities may emit greenhouse gases which may subject the Company to legislation regulating emissions of greenhouse gases.

Reserves Replacement

The Company's future oil and natural gas reserves, production, and cash flows to be derived there from are highly dependant on the Company successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production there from will decline over time as such existing reserves are exploited.

Reliance on Operators and Key Management

To the extent the Company is not the operator of its oil and gas properties, the Company is dependant on other operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the success of the Company will be largely dependant upon the performance of its management and consultants.

Conflicts of Interest

Certain of the directors and officers of the Company will be engaged in, and will continue to engage in, other business activities on behalf of other companies, and as a result of these and other activities, such directors and officers of the Company may become subject to conflicts of interest.

Permits and Licenses

The operations of the Company may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development of its projects.

Additional Funding Requirements

The Company has no cash flows from its operations. The Company will require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations.

Issuance of Debt

From time to time the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur.

Fluctuations in U.S. and Canadian Dollar Exchange Rates

Commodity prices and costs related to the Company's activities, if and when applicable, will generally be based on a U.S. dollar market price. Fluctuations in the U.S. and Canadian dollar exchange rate may cause a negative impact on revenue and costs and could have a materially adverse impact on the Company.

Availability of Drilling Equipment and Access Restrictions

Oil and natural gas exploration and development activities are dependant on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The Company cannot predict the impact of changing demand for oil and gas producers and any major changes may have a materially adverse effect on the Company's business, financial condition, results of operations, and cash flows.

Changes to Royalty Regime

There can be no assurance that the Government of Alberta or the Federal Government will not adopt a new royalty regime or modify the methodology of royalty calculation which could increase the royalties paid by the Company. An increase in royalty could reduce the Company's earnings and or it could make capital expenditures by the Company uneconomic.

Industry Conditions

The oil and natural gas industry is subject to extensive controls and regulations governing its operations imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreements among the governments of Canada, Alberta, British Columbia, Ontario, and Saskatchewan, all of which should be carefully considered by investors in the oil and gas industry.

Pricing and Marketing – Oil and Natural Gas

The producers of oil and natural gas are entitled to negotiate sales contracts directly with purchasers, with the result that the market determines the price of the commodity. Such price depends in part on quality, prices of competing products, distance to market, the value of refined products, and the supply/demand balance. Oil exporters are also entitled to enter into export contracts with terms not exceeding one year in the case of light crude oil and two years in the case of heavy crude oil, provided that an order approving such export has been obtained from the National Energy Board of Canada.

The North American Free Trade Agreement

The North American Free Trade Agreement ("**NAFTA**") among the governments of Canada, the United States, and Mexico became effective on January 1, 1994. NAFTA carries forward most of the material energy terms that are contained in the Canada – United States Free Trade Agreement. Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to domestic use (based upon the proportion prevailing in the most recent 36 month period); (ii) impose an export price higher than the domestic price; or (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum export or import price requirements.

Provincial Royalties and Incentives

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection, and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas liquids, sulphur, and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, and the type or quality of the petroleum product produced.

Land Tenure

Crude oil and natural gas located in the western provinces is owed predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licenses, and permits for varying terms from two years and on conditions set forth in provincial legislation, including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities.

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements.

Transactions with Related Parties

Due to the nature of operations of the Company, a significant number of transactions are effected through transactions with related parties. During the year ended December 31, 2011, the Company had the following transactions with officers, directors or entities under the control or significant influence of officers and directors:

- Included in professional fees are legal fees and disbursements of $11,698 (2011 - $39,851) to Garfinkle Biderman LLP, a law firm in which Robbie Grossman and Barry M. Polisuk (the secretary and assistant secretary, respectively) are partners. At the period end, $Nil (2011 - $Nil) of this amount is included in accounts payable and accrued liabilities.

- Included in professional fees are $23,800 (2010 - $93,380) paid to Nick Tsimidis, a director and officer, or to related companies for CFO services pursuant to a consulting agreement, and includes amounts incurred contracting out for assistance with the 2011 yearend audit, administration, and related assistance. At period end, $9,800 is due to Nick Tsimidis (2011: Nil).

- Fees and expense reimbursements in the amount of $47,829 were incurred by Darrell Brown (2011 – $127,974), and $25,000 has been capitalized (2011 - $37,500) to various E&E assets during the period. These services are provided pursuant to consulting agreements and include payment for additional services rendered over and above their normal duties.

- In the prior period, fees in the amount of $315,266 were paid to Richard Cohen (2010 - $134,880) for consulting services rendered during the period. In June 2011, Richard Cohen passed away. Pursuant to the management agreement between the Company, Richard Cohen and Clark Avenue Company Inc., a company controlled by Richard Cohen, the Company is obligated to (i) pay Clark Avenue Company Inc. $195,000, being the monthly contractual fees for 24 months, and (ii) to cause the immediate vesting of any unvested stock options. The amount has been accrued in the financial statements. At year end, $170,625 remains outstanding and will be offset by other amounts owed by Clark Avenue Company Inc. to the Company.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Financial and Other Instruments

Fair Value of Financial Instruments

The fair values of cash and cash equivalents, segregated cash, cash reserved for flow-through expenditures, sundry receivable, and accounts payable and accrued liabilities approximate their carrying values due to the relatively short term maturities of these instruments. The fair value of convertible debentures receivable and payable is determined using the effective interest method and the portfolio investments are reported at market prices.

Risk and Uncertainty

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions in relation to the Company's activities.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency, or credit risks arising from the financial instruments.

The Company's financial instruments are exposed to certain risks, including credit risk, interest rate risk and liquidity risk.

(a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, segregated cash and sundry receivable and deposits. Cash and cash equivalents and segregated funds are held at large Canadian financial institutions. A significant portion of sundry receivables pertains to GST refunds with the Canada Revenue Agency. The Company does not have any outstanding audit issues with the Canada Revenue Agency which would affect the recovery of these amounts. Deposits represent amounts on deposit with a financial institution, on behalf of the Province of Alberta, to cover potential environmental clean up liabilities in accordance with regulations in that Province. The Company is not aware of any issues which would impact the recovery of these deposits. The Company has no significant concentration of credit risk arising from operations. Management believes the risk of loss to be remote. The carrying amounts of accounts receivable, cash and cash equivalents, segregated cash, and deposits represents the maximum credit exposure.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company maintains a majority of its surplus funds in interest bearing accounts with Canadian financial institutions, which pay interest at a floating rate. The interest on the convertible debenture payable is fixed.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses which may damage the Company's reputation. The Company monitors and reviews current and future cash requirements and matches the maturity profile of financial assets and liabilities. This is generally accomplished by ensuring that cash is always available to settle financial liabilities.

Except for the convertible debentures payable, all of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The convertible debentures payable are due December 31, 2011, and the Company anticipates it may have to undertake a private placement to repay principal and interest in the case that principal is not converted into equity. However, with continued volatility of capital markets and the oil and natural gas sector, there is no certainty whether the Company will be able to raise capital at favorable terms.

(d) Currency risk

Substantially all of the Company's operations are in Canada; therefore, management believes the foreign exchange risk derived from any currency conversions is negligible and therefore does not hedge its foreign exchange risk. Revenues received from sales of petroleum and natural gas products are impacted by the relationship between the Canadian dollar and United States dollar since oil prices are denominated in United States dollars in worldwide markets.

(e) Market risk

Market risk is the risk that fluctuations in currency rates, interest rates, and commodity prices will affect a company's income or the value of its financial assets and liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Canadian markets for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar, but also world economic events that dictate the levels of supply and demand. Management has prioritized exploration rather than production projects in order to minimize the impact of falling oil prices on the Company's results.

Other MD&A Requirements

Outstanding Share Data

As of May 29, 2012, there were 121,953,956 shares issued and outstanding. Shares reserved for issuance pursuant to convertible securities were as follows:

Type of Convertible Security	Number of Shares Reserved for Issuance	Exercise Price	Expiry Date
Incentive Stock Options	11,061,250	$0.14 to $0.50	June 6, 2012 to November 29, 2021
Warrants *	20,194,346	$0.10 to $0.30	August 3, 2012 to April 26, 2013
Broker Warrants	4,080,120	$0.15 to $0.18	August 3, 2012 to April 26, 2013
Debentures *	12,014,380	$0.10	March 31, 2013
	47,350,096		

- The above assumes that the terms of the Debentures include the extension to March 31, 2013, and that the Compensation Warrants have been extended to March 31, 2013 (the terms of these securities were that they were to expire on December 31, 2011).

Stock Options

No stock options were granted during the period.

Investor relations

In April, 2011, the Company entered into an agreement with Contact Financial Corporation of Vancouver, BC, an investor relations service provider for a six month term that can be extended on a month-to-month basis for a monthly fee of $6,000. As per the agreement the Company granted to the service provider 300,000 stock options exercisable at $0.195 per share for a period of ten years. The agreement was terminated in April 2012.

FORWARD LOOKING STATEMENTS

This management discussion and analysis contains certain forward-looking statements relating but not limited to the Company’s expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as “anticipate”, “believe”, “expect”, “goal”, “plan”, “intend”, “estimate”, “may” and “will” or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results.

Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.