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

MANAGEMENT'S DISCUSSION & ANALYSIS
Year ended December 31, 2012

This Management Discussion and Analysis is dated **April 30, 2013** and is in respect of the year ended December 31, 2012, and should be read in conjunction with the audited consolidated financial statements and corresponding notes to the financial statements of Mooncor Oil & Gas Corp. (the "Company") for the year ended December 31, 2012.

Additional information relating to the Company is available on SEDAR at www.sedar.com.

Basis of Presentation

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).The IFRS accounting polices set forth in Note 3 of the consolidated financial statements have been applied in preparing the financial statements for the year ended December 31, 2012 and 2011.

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").

Going Concern (FS)

The consolidated financial statements have been prepared on the going concern basis. The going concern basis assumes 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 Company has a working capital deficiency in the amount of $1,948,309 and has a deficit in the amount of $22,453,210. The working capital deficiency and losses incurred limit the Company's ability to fund operations. In addition, there is uncertainty as to whether the Company will be able to raise sufficient funds to finance continued operations. As a result, there is significant doubt upon the Company's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

Corporate Profile

The Company is a corporation continued under the *Business Corporations Act* (Ontario) and is an exploration stage company. The Company's principle assets are heavy oil properties which are not yet in significant commercial production.

Financial Condition

In this section, the comparative amounts are as of December 31, 2011, unless otherwise noted. At year end, total assets at December 31, 2012 were $1,256,248 (2011: $4,251,324). The Company had cash of $204,780 (2011- $602,201). Other current assets included segregated cash on hand of $40,968 (2011 - $40,815) (used to secure a letter of credit for an oil & gas property in Saskatchewan), sundry receivable of $135,382 (2011 - $210,810), and prepaid expenses of $20,737 (2011 - $33,443).

Current assets decreased to $360,899 at December 31, 2012 from $846,454 at December 31, 2011.

Financial Condition (continued)

Other assets include:

i) Property and equipment (net book value) of $505,000 (2011 - $448,546) – during 2011, the Company commenced production on its heavy oil wells in Lloydminster, Alberta and as a result has reclassified it's Lloydminster E&E asset to property and equipment. The assets were reclassified as of December 31, 2012 and 2011. During 2012, the Company recorded depletion on its Lloydminster property in the amount $6,357 (2011 – $8,475). Net book value of property and equipment increased from $449,547 in 2010 to $448,546.

ii) Intangible assets (net book value) of $NIL (2011 - 15,000 and 2010 - $37,500) – decrease due to amortization taken in the periods. This asset relates to a proprietary database of technical data on shale gas properties located in Alberta and northeast British Columbia, which was acquired in 2008.

iii) Deposits relating to oil and gas properties of $349,381 (2011 - $342,956) – increase during the period as a result of further amounts advanced to the Energy Resources Conservation Board (relating to the two oil wells at Lloydminster, Alberta). Deposits increase from $252,580 in 2010 to $342,956 in 2011 as there was two wells producing and productive longer that previous years

iv) The carrying value of exploration and evaluation assets ("E&E") decreased to NIL at December 31, 2012 from $2,557,553 at December 31, 2011 and $3,859,656 at December 31, 2010.

Accounts payable and accrued liabilities were $1,139,166 at December 31, 2012 ($855,835 at December 31, 2011) consisting of amounts owing to suppliers, consultants and others incurred in the normal course of business. The balance increased during the period due to exploration expenditures incurred in December 2012. Accounts payable and accrued liabilities increased from $184,349 in 2010 to $855,835 in 2010 due to the fact that the company was running into cash flow problems.

Convertible debentures payable (the "Debentures"), originally issued by the Company on September 28, 2007, were $1,099,515 December 31, 2012, up from $1,021,438 at December 31, 2011. The face amount of the Debentures outstanding as of the year end is $1,021,438. Convertible debentures as of December 31, 2010 were $1,018,716. The debentures matured during December 2011 and are currently being renegotiated with the holders.

Results of Operations (Year ended December 31, 2012)

During the year ended December 31, 2012, the Company earned $67,366 (2011 - $192,609 and 2010 $60,632) on oil production from one of its Lloydminster, Alberta heavy oil wells. Although we have engaged a services company to rework both wells, due to the company's financial conditions and the cash flow we have put all plans going forward on both wells on hold.

Operating expenses were $895,831 (2011 - $2,268,898 and 2010 - $1,157,919). Included in the amount above was production and operating expenses of $195,224 (2011 - $273,010 and 2010 - $nil) relating to the Llodyminster well.

Impairment of exploration and evaluation assets was $2,745,029 (2011 - $2,371,978 and 2010 - $1,604,951) representing E&E costs not deemed recoverable ($2,158,553 relates to Hamburg-Chinchaga and $586,476 to Southwestern Ontario).

Net loss and comprehensive loss for the year was $3,559,505 (2011 - $4,543,956 and 2010 - $2,499,923).

There was a loss per share of $0.03 (2011 - $0.04 and 2010 - $0.02).

The largest components of expenses were:

a) Professional fees (including non-recoverable taxes and disbursements) of $205,557 (2011 - $313,158 and 2010 - $212,973), which decreased due to reduced activity.
b) Consulting fees of $43,529 (2011 - $588,157 and $266,970), which also reduced significantly as a result of reduced activity;
c) Office and general decreased to $76,553 (2011 - $182,147 and 2010 - $166,139), as a result of decreased business activities.
d) Share based compensation of $146,483 (2011 - $329,087 and 2010 – 158,378) is calculated using the Black-Scholes option pricing model. The amount recognized as expense is a result of the vesting terms for options issued in 2011.
e) Travel of $8,964 (2011 - $91,154 and 2010 - $77,424) – decreased as a result of reduced corporate activity.
f) Finance costs decreased to $104,484 (2011 - $174,650 and 2010 - $203,140) and represents interest costs on the Debentures.

During the year, $39,464 (2011 - $261,932 and 2010 - $7,249) of exploration and evaluation assets were recorded to the statement of operations relating to costs incurred in evaluating properties prior to acquisition, in accordance with IFRS.

Auditors and Transfer Agents

The auditors of the Company are Collins Barrow Toronto. The Transfer Agent and Registrar for the common shares of the Company is Computershare Investor Services Inc. of Vancouver, British Columbia.

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 resources property 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 $169,000 by December 31, 2012 on qualified exploration expenditures. The Company met all of 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 (note 4 to the consolidated financial statements), 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 2012 or prior years.

- 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, 2012 or prior years.

Legal claims

During 2012, the Company was served with a statement of claim for payment of amounts incurred in relation to a work-over performed on the Company's Lloydminster oil and gas well, for $191,586. The supplier also placed a lien against the oil well. The Company has accrued the amount outstanding and is working on a plan to settle the payment.

During 2012, the Company was served with a statement of claim for payment of amounts incurred in relation to a site survey work-over performed on the Company's Hamburg Chinchaga properties, in the amount of $150,337. The Company has filed a statement of defense on account that the amounts incurred were excessive and not authorized. The issue is currently in pretrial. As at December 31, 2012, the Company has accrued for this potential claim.

Annual Information

	2012	2011	2010
Revenues	$67,366	$192,609	$60,632
Net Loss and Comprehensive loss for the year	$3,559,505	$4,543,956	$2,499923
Loss Per Share	$(0.03)	$(0.04)	$(0.02)
Assets	$1,256,248	$4,251,324	$5,056,822
Taxes Payable	Nil	Nil	Nil
Dividends	Nil	Nil	Nil

Amounts for all years have been reported in accordance with IFRS.

Quarterly Results

	Quarter Ended Dec 31, 2012	Quarter Ended Sep 30, 2012	Quarter Ended June 30, 2012	Quarter Ended March 31, 2012
Revenue	$(27,924)	$NIL	$21,097	$74,193
Net Loss and Comprehensive loss for the year	$(1,190,671)	$(889,162)	$(1,202,413)	$(277,259)
Net Loss per share	$(0.03)	$(0.007)	$(0.01)	$(0.002)

	Quarter Ended Dec 31, 2011	Quarter Ended Sep 30, 2011	Quarter Ended June 30, 2011	Quarter Ended March 31, 2011
Revenue	$85,387	$35,401	$65,015	$6,806
Net Loss and Comprehensive loss for the year	$(2,962,146)	$(545,094)	$(673,363)	$(363,353)
Net Loss per share	$(0.04)	$(0.004)	$(0.006)	$(0.003)

During the fourth quarter of 2012, the Company did not complete any financings. It focused on efforts to identify potential joint venture partners for its Hamburg – Chinchaga property, but with the current conditions of the industry in general and the status of the capital markets we have fallen short of completing any financing or progress on marketing the properties potential as well as working with Madeira Minerals Ltd. (“Madeira”) with relation to the latter’s proposed acquisition of the Lloydminster, Alberta heavy oil wells (the purchase and sale agreement was signed in November 2011). Although our ultimate goal is to divest of the Lloydminster wells to Madeira Minerals, Madeira is not been able to fund or close the deal.

Liquidity and Capital Resources

As at December 31, 2012, cash and cash equivalents were $204,780.

At this time the Company does not generate any revenue from its oil and gas properties, as all production is currently on hold. Accordingly, does not have significant cash flow from operations. In prior years, the Company raised 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.

As market conditions improve, the Company intends to continue. To seek prospective deals and entertain any future opportunities pending the companies condition, the capital market and the industry in general

Working Capital

Working capital was a deficit of $1,948,309 at December 31, 2012 (deficit of $1,044,808 at December 31, 2011 and deficit of $759,347 at December 31, 2010). The Debentures are shown as current liabilities at December 31, 2012;

During 2012, cash of $574,832 was used in operations (2011 - $1,661,777 and 2010 – $(554,447)). Cash used in investing activities was $187,476 (2011 - $1,011,419 and 2010 – $(453,179)). Cash from financing activities was $NIL (2011 - $2,589,545 and 2010 - $(315,036)).

Private Placements

No private placements occurred during 2012.

Property Description

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

	Dec 31, 2011	Additions	Write-offs	Dec 31, 2012
Lloydminster[(i)]	$ -	$ -	$ -	$ -
Hamburg - Chinchaga[(ii)]	2,026,145	132,408	(2,158,553)	-
South Western Ontario[(iii)]	531,408	55,068	(586,476)	-
	$ 2,557,553	$ 187,476	$ (2,745,029)	$ -

(i) Lloydminster (Alberta)

In 2008, Company acquired two suspended heavy oil wells and leases and related P&NG rights in the Lloydminster area of Alberta from an arm's length party for cash proceeds of $400,000.

The Company's interest in the first lease is a 60% working interest subject to:

(i) an obligation to pay a 60% share of the variable Crown royalties;

(ii) a 60% share of a 1% GORR payable to an arm's length party; and

(iii) a 3% GORR payable to an arm's length party on the 60% share of production.

The Company's interest in the second lease is a 100% working interest before payout of the approximate $485,000 payout account associated with the well on the lease and includes the right to recoup the payout account. The interest in the well will decline to 60% after recoupment of the payout account. This lease is subject to:

(i) a 60% share of the Crown royalty;

(ii) a 60% share (36% after payout) of a 1% GORR payable to an arm's length party on oil production;

(iii) a 5% to 15% variable convertible GORR payable to an arm's length party in respect of oil production;

(iv) a 15% convertible GORR payable to an arm's length party in respect of gas production; and

(v) a 3% GORR payable to an arm's length party on the Company's 60% share of production. The 5% to 15% variable convertible GORR and 15% convertible GORR are convertible to a 40% working interest payable to the arm's length party once payout has been achieved.

The wells include the right to complete one infill well on each of the leases. Upon completion and payout of any infill well, the Company will have a 60% working interest in the applicable well subject to the encumbrances on the applicable lease.

During 2011, the Company entered an agreement to sell to Madeira Minerals Ltd. ("Madeira"), all of the Company's right, title and interest in the two wells. Madeira is a capital pool company, and the transaction is intended to constitute Madeira's qualifying transaction under Policy 2.4 of the TSX Venture Exchange ("TSV"). 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 which include completion of due diligence reviews by the parties, successful negotiation of a definitive purchase agreement (completed during the prior year), completion of a concurrent financing by Madeira (not yet completed), and receipt of all required regulatory and TSXV approvals. Any gain realized on disposal of these wells, representing the share consideration of Madeira over the carrying value, will be recorded on closing of the transaction. Included in accounts receivable is $33,131 related to costs incurred by the Company to be reimbursed from Madeira on closing.

(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 Hamburg - Chinchaga, Alberta. 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 2012, the Company entered into an agreement ("Farmout Agreement") with a private Alberta based company (the "Farmee") over its Hamburg Chinchaga property in Alberta (the "Hamburg Lands"). The Farmout Agreement had been approved by the TSXV and by shareholders representing more than 50% of the issued and outstanding shares of the Company. The Farmee had until April 30, 2012 to demonstrate dedicated funds of a minimum $16.5 million in order to meet its obligations pursuant to the Farmout Agreement. On April 27, 2012, the Company was notified by the Farmee that it was terminating the Farmout Agreement.

The leases on the subject sections (162 in total) expired March 31, 2013. During 2012, the Company wrote down the Hamburg Chinchaga E&E assets by $2,158,553 (2011: $2,026,145), effectively reducing the carrying amount to $nil as management does not intend to pursue this project.

The Company is liable to undertake reclamation and abandonment work on all leases. Currently no obligations have been incurred.

(iii) Southwestern Ontario

Prior to 2011, the Company acquired 22,570 acres (22,425 net) in Southwestern Ontario, from arm's length individuals. The terms of the transaction were lease agreements on freehold land for a three year minimum period.

During 2011, the Company acquired an additional 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.

The Company is not acquiring any new leases at this time pending an analysis of the direction of this project. During 2012, the Company wrote down the Southwestern Ontario E&E by $586,476 (2011: $345,833), effectively reducing the carrying amount to $nil as management does not intend to pursue the project.

The Company is liable to undertake reclamation and abandonment work on all leases. Currently no obligations have been incurred.

The company is not planning on revewing any of the expired leases or exploring any of the Southwestern Ontario properties

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. Decommissioning liabilities are 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, based on current legal and constructive requirements and technology. The estimated liabilities and actual costs may change significantly due to changes in regulations, technology, timing of the expenditure, and the discount rates used to determine the net present value of the obligations. Actual obligations may differ from estimates accrued.

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

During 2012, the Company had the following transactions with officers, directors or entities under the control or significant influence of officers and directors that have not been disclosed elsewhere in the consolidated financial statements:

> Included in professional fees are legal fees and disbursements of $37,502 (2011 - $60,495) to Garfinkle, Biderman LLP, a law firm in which Robbie Grossman and Barry M. Polisuk (the secretary and assistant secretary respectively) are partners. At December 31, 2012, $11,016 (2011 - $6,398) of this amount is included in accounts payable and accrued liabilities.
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> Included in professional fees are $68,800 (2011 - $139,000) paid to Nick Tsimidis, a director and officer, or to related companies for CFO services pursuant to a consulting agreement. In addition, Nick Tsimidis' professional accounting firm was reimbursed $18,975 (2011 - $68,323) for costs incurred. At December 31, 2012, $41,570 (2011 - $nil) was in accounts payable and accrued liabilities.
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> Fees in the amount of $62,070 (2011 - $235,000) were paid to Darrell Brown, a director and officer of the Company until April 2, 2012. These services are provided pursuant to a consulting agreement. At December 31, 2012, $13,125 (2011 - $nil) of this amount is included in accounts payable and accrued liabilities.
>
> In 2011, fees in the amount of $315,266 were paid to Richard Cohen, director and officer of the Company until June 6, 2011, for consulting services rendered during the year. 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 pay Clark Avenue Company Inc. $169,092. The amount has been accrued in the financial statements.

These transactions are in the normal course of operations.

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 matured during December 2011 and are currently under renegotiation.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 April 30, 2013, 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	7,755,125	$0.14 to $0.315	January 30, 2013 to November 29, 2021

Stock Options

No stock options were granted in 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.