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

MANAGEMENT'S DISCUSSION & ANALYSIS
Year ended December 31, 2010

This Management Discussion and Analysis is dated May 2, 2011 and is in respect of the period ended December 31, 2010, and should be read in conjunction with the audited consolidated financial statements and corresponding notes of Mooncor Oil & Gas Corp. (the "Company") for the year ended December 31, 2010.

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

Basis of Presentation

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The financial results discussed below include the results of the Company and its wholly owned subsidiary, Mooncor Energy Inc. ("Mooncor Energy"). All intercompany balances and transactions have been eliminated.

Going Concern

The consolidated financial statements 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 the properties, entering 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.

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 oil and gas properties and deferred exploration expenditures made on properties which are not in significant commercial production. The Company is in the process of exploring its oil and gas interests. Please visit www.sedar.com for the 2010 Statement of Reserves and Other Oil and Gas Information described in Form 51-101F1 of National Instrument 51-101.

Financial Condition

Total assets as at the period end were $5,056,822 versus $7,934,219 at December 31, 2009. As at the year end, the Company has cash and cash equivalents of $238,104 (2009: $1,909,827). Other current assets included segregated cash on hand of $40,581 (2009: $40,500) (used to secure a letter of credit for an oil & gas property), sundry receivable of $92,694 (2009: $67,592) (representing HST receivables at year end and other amounts), portfolio investments carried at market value of $59,738 (2009: $79,660) and prepaid expenses of $18,430 (2009: $147,119).

Current assets decreased from $2,244,698 in 2009 to $449,547 in 2010.

Other assets include:

i) Equipment (net book value) of $7,332 (2009: $7,400) – decrease due to amortization taken in 2010;
ii) Intangible assets (net book value) of $37,500 (2009: $70,000) – decrease due to amortization taken in 2010;

iii) Deposits relating to oil and gas properties of $252,580 (2009: $218,773) – increase during the period as a result of further amounts advances;

iv) During 2010, the Company disposed of an investment made during 2009 related to a convertible debenture into a private company (East Coast Energy Inc.). The Company realized proceeds of $325,000, its original investment.

v) The carrying value of oil and gas properties and deferred exploration expenditures decreased from $5,139,044 in 2009 to $4,309,863 in 2010 (decreased as a result of write-downs during the period).

Accounts payable and accrued liabilities were $184,350 at December 31, 2010, consisting of amounts owing to suppliers, consultants and others incurred in the normal course of business, and decreased over the prior year from $603,106.

Convertible debentures payable (the "**Debentures**") (originally issued by the Company on September 28, 2007) were $1,018,716 at December 31, 2010 (down from $2,440,292 in 2009). The Debentures were repaid as to original principal of $1,000,000 in January 2010, $200,000 in April 2010 and $300,000 in August and September 2010.

On November 26, 2010, the maturity date of the Debentures was extended from December 11, 2010 to June 11, 2011. In consideration for the extension, Mooncor agreed to extend the expiry date of the 500,000 warrants (the "**Compensation Warrants**") previously issued to each Debenture holder from December 11, 2010 to June 11, 2011. Each Compensation Warrant entitles the holder thereof to purchase one common share (a "**Share**") in the capital of Mooncor at $0.225 per Share. Subsequent to 2010, the Debentures were further extended to December 31, 2011.

Working Capital

a) Working capital was a deficit of $753,519 at December 31, 2010 (deficit of $798,700 at December 31, 2009) – deficit is a result of the Debentures being classified as a current liability;

b) Shareholders' equity was $3,853,756 at December 31, 2010, down from $4,890,821 in the prior year.

During 2010, cash of $903,508 was used in operations (2009: $1,179,368). Cash used in investing activities was $453,179 of which additions to oil and gas properties and deferred exploration expenditures were $775,771 (2009: $2,810,313). Cash used for financing activities was $315,036 versus cash from financing activities of $4,042,737 in the prior year.

At year end, cash and cash equivalents was $238,104 versus $1,909,827 in 2009.

Results of Operations

During 2010, the Company earned $60,632 in interest and other income, as compared to revenue of $86,689 in the prior year.

Operating expenses were $1,100,577 versus $2,432,200 in the prior year. The loss from operations was $1,039,945 (2009: $ 2,345,511). The Company has attempted to reduce operating expenses due to current market conditions. This accounts for the reduction versus the comparable period.

Write-down of oil and gas properties and deferred exploration expenditures was $1,604,951 in 2010 (2009: $1,055,895). Abandoned project costs were $7,249 in 2010 as compared to $NIL in 2009. The Company recorded a one-time gain on settlement of debt of $70,695 from the disposal of its investment in East Coast Energy Inc. Proceeds on sale of oil and gas properties were $151,544 (2009: $204,000).

Loss before recovery of income taxes was $2,429,906 (2009: $3,361,855), and after recovery of future income taxes of $202,952, net loss for the year was $2,226,954 (2009: future income tax recovery of $28,276 and a net loss for the year of $3,333,579). Unrealized loss on portfolio investments of $19,923 (2009: unrealized gain of $6,612) resulted in comprehensive loss of $2,246,877 in 2010, versus $3,326,967 in 2009 (per share loss of $0.021 and loss of $0.037 respectively).

The largest components of expenses were:

a) Professional fees (including non-recoverable taxes and disbursements) of $108,622 compared to $620,204 in the prior period, which decreased due to the normal course of business, including legal fees and audit fees.
b) Consulting fees of $356,940 compared to $486,076. This includes amounts paid to certain officers and directors for services rendered. Reductions were made as a cause of market conditions.
c) Office and general decreased to $166,140 compared to $353,312 as a result of reduced business activities due to market conditions.
d) Interest expense of $203,140 (total 2009 expense is $351,767) which includes the interest on the Debentures less an adjustment for accreted income since inception as a result of the payment of outstanding principal and interest.
e) Stock based compensation of $108,284 (2009: $321,896) is calculated using the Black-Scholes option pricing model.
f) Travel of $91,775 (2009: $208,020) – The Company incurs these costs in relation to travel to and from Western Canada, Eastern Canada, and Europe in relation to efforts to identify a potential transaction related to its Hamburg-Chinchaga, Alberta property, as well as to raise capital.

During 2010, $1,604,951 (2009: $1,055,895) of oil and gas properties and deferred exploration expenditures were written down and $7,249 of expenditures relating to abandoned project costs were also written off during the year (2009: $NIL).

Commitments and Contingencies

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 mineral property exploration expenditures to investors. Proceeds received on the issuance of these shares have been credited to capital stock and the related exploration costs will be charged to oil and gas properties and deferred exploration costs 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.

The Company has spent all of the flow-through funds raised to date at December 31, 2009. In 2010, the Company raised $811,808 from the sale of flow-through shares, and has until December 31, 2011 to expend these funds on qualified exploration expenditures, using the look back rule as per the *Income Tax Act* (Canada).

Gross Overriding Royalties

In addition to the gross overriding royalty ("**GOR**") agreements entered into in connection with the various oil and gas projects undertaken, as described in the notes to the consolidated financial statement, 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 owing or have been accrued as there has been no production on these subject lands at December 31, 2010.

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 owing or have been accrued as there has been no production on these lands at December 31, 2010.

Lease Commitments

The Company entered into a lease agreement for office premises beginning on October 1, 2008 and expiring September 29, 2011. The Company vacated these premises during the period. Due to economic circumstances the Company attempted to renegotiate lease terms with its landlord but was unable to do so. The landlord has initiated legal proceedings against the Company and the Company has filed a statement of defense. The Company is unable to determine the outcome of this action at this time.

Quarterly Results

	Quarter Ended Dec 31, 2010	Quarter Ended Sep 30, 2010	Quarter Ended Jun 30, 2010	Quarter Ended Mar 31, 2010
Revenue	$59,075	$1,428	$83	$46
Net Loss	$(1,626,262)	$(49,518)	$(358,322)	$(192,852)
Net Loss per share	$(0.015)	$(0.000)	$(0.004)	$(0.012)

	Quarter Ended Dec 31, 2009	Quarter Ended Sep 30, 2009	Quarter Ended Jun 30, 2009	Quarter Ended Mar 31, 2009
Revenue	$(93,647)	$98,209	$40,658	$41,467
Net Loss	$(1,775,172)	$(609,627)	$(657,088)	$(291,692)
Net Loss per share	$(0.019)	$(0.007)	$(0.007)	$(0.004)

Selected Annual Financial Information

Years Ended December 31	**2010**	**2009**	**2008**
Revenue (Interest income)	$ 60,632	$ 86,689	$ 95,934
Net loss	$ (2,226,954)	$ (3,333,579)	$ (4,416,034)
Loss per share – basic and diluted	$ (0.021)	$ (0.037)	$ (0.07)
Total assets	$ 5,056,822	$ 7,934,219	$ 6,317,128
Future income taxes	$ NIL	$ NIL	$ NIL
Dividends	$ NIL	$ NIL	$ NIL

Fourth Quarter

During the fourth quarter, the Company incurred a net loss of $1,626,262 (2009: $1,775,172). Loss before recovery of taxes was $1,829,214 (2009: $1,780,587). The largest components comprising this was the write-down of oil and gas properties of $1,604,951 (2009: $1,055,894), stock based compensation of $347,909 (2009: $228,961), interest on convertible debentures of $203,140 (and which includes the amortization of the discount), and professional fees of $108,622.

Recovery of income taxes was $202,952. Loss per share was $0.015.

There were no private placements completed during the fourth quarter.

The Company expended $241,058 (2009: $840,443) on oil and gas deferred exploration expenditures before the write-downs discussed above.

Liquidity and Capital Resources

As at December 31, 2010, cash and cash equivalents were $238,104.

On November 26, 2010, the Company negotiated an extension to the expiry of its Debentures to June 11, 2011 (the "**Maturity Date**"). In consideration for the extension, Mooncor has agreed to extend the expiry date of the 500,000 warrants (the "**Compensation Warrants**") previously issued to each Debenture holder from December 11, 2010 to June 11, 2011. Each Compensation Warrant entitles the holder thereof to purchase one common share (a "**Share**") in the capital of Mooncor at $0.225 per Share. As at December 31, 2010, the outstanding principal is $1,018,716.

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, as well as monies raised through the issuance of the debentures.

The Company also funds exploration activities at certain of its properties through option agreements with other companies who have agreed to fund exploration in exchange for the right to earn an interest in the properties.

In addition to the funds in the Company's treasury, the Company intends to continue raising funds for future exploration, general overhead and other working capital through the continuing issuance of shares from treasury and through earn-in or option agreements with other oil and gas companies. In addition, the Company is reviewing alternatives of potential proceeds from the disposition of its Lloydminster well.

During 2010, the Company completed a non-brokered private placement financing (the "**Private Placement**")for $1,321,103 by issuing 3,395,300 common share units ("**Units**") and 4,510,045 "flow-through" units ("**FT Units**") at a price of $0.15 per Unit and $0.18 per FT Unit. Each Unit consists of one Share and one common share purchase warrant (a "**Warrant**") of the Company. Each FT Unit consists of one flow-through common share of the Company and one-half of one Warrant. Each whole Warrant entitles the holder thereof to acquire one Common Share at an exercise price of $0.25 per Common Share until 24 months from closing.

In connection with the Private Placement, the Company paid cash commissions and fiscal advisory fees to registered agents equal to $100,719 and issued 749,535 finders warrants (each finders warrant exercisable for one Unit at $0.15 per Unit expiring 24 months from closing).

In March 2011, the Company completed a brokered private placement financing for $2,661,200, by issuing 10,818,110 common share units ("**Units**") and 3,399,714 "flow-through" units ("**FT Units**") at a price of $0.18 per Unit and $0.21 per FT Unit. Each Unit consists of one common share in the capital of the Company and one common share purchase warrant (a "**Warrant**"). Each FT Unit consists of one flow-through common share of the Company (a "**FT Share**") and one-half of one Warrant. Each FT Share will qualify as a "flow-through share" for the purposes of the Income Tax Act (Canada). Each whole Warrant shall entitle the holder thereof to acquire one Common Share at an exercise price of $0.30 per Common Share for a period of 24 months following the closing of the financing.

In connection with this financing, the Company paid cash commissions and fees of $229,590, and issued compensation warrants to purchase 1,233,450 Units at an exercise price of $0.18 per Unit exercisable for a period of 24 months following the closing of the financing.

In April 2011, the Company completed a non-brokered private placement financing by issuing 876,056 common share units ("**Units**") and 300,000 "flow-through" units ("**FT Units**") at a price of $0.18 per Unit and $0.21 per FT Unit for gross proceeds of $220,690. Each Unit consists of one common share in the capital of Mooncor (a "**Common Share**") and one common share purchase warrant (a "**Warrant**") of Mooncor. Each FT Unit consists of one flow-through common share of Mooncor and one-half of one Warrant. Each whole Warrant entitles the holder thereof to acquire one Common Share at an exercise price of $0.30 per Common Share until April 26, 2013. Certain officers and directors of Mooncor subscribed for an aggregate of $29,710 of Units.

In connection with the financing, Mooncor paid cash commissions of $10,948.50, and issued compensation warrants to purchase 57,075 Units at an exercise price of $0.18 per Unit exercisable until April 26, 2013

Property Description

The Company’s oil and gas properties are unproven and consist of the following:

	Opening Balance (Dec 31, 2010)	Total Expenditures	Write Downs	Ending Balance (Dec 31, 2010)
Lonestar (i)	$1,588,387	$16,564	$(1,604,951)	$-
Lloydminster (ii)	393,905	56,301	-	450,206
Hamburg - Chinchaga(iii)	2,924,130	454,387	-	3,378,517
South Western Ontario (iv)	232,621	248,519	-	481,140
Total	**$5,139,043**	**$772,771**	**$(1,604,951)**	**$4,309,863**

(i) Lonestar (Alberta)

On June 15, 2006, the Company entered into a farm-in agreement with a group of entities by which the Company could earn an undivided 65% working interest in the farm-out lands in the Lonestar Area in Alberta in consideration for drilling a test well. The well was drilled and cased in February 2007. The Company acquired two sections (1,280 acres) of P&NG rights (100%) in September 2007 and oil sands rights for two sections at Lonestar in May 2008. During 2010, the Company wrote off its carrying costs in Lonestar as management believes that these costs are not recoverable.

(ii) Lloydminster (Saskatchewan)

In February 2008, the Company acquired two suspended wells and related P&NG rights in the Lloydminster area of Saskatchewan 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 60% working interest.

Limited production revenues have been earned to date from these well. The wells continue to experience repeated sanding out. The Company continues to assess this project based on its ability to raise financing.

(iii) 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 through brokers. The Company has 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 $1,313,107 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 162 sections of P&NG rights in the Hamburg area. The advisor was not successful in identifying a potential transaction and the parties mutually agreed to terminate their relationship during 2010. The Company continues to seek other potential opportunities and partners, however no definitive agreements have been entered into by the Company to this date.

(iv) South Western Ontario

During the current fiscal year, the Company acquired 18,737 acres (18,592 net) within the Kent and Lambton Counties of Southwest Ontario from a large multi-national oil and gas company for $100,000. The leases acquired are immediately adjacent to 3,833 acres acquired by the Company in 2008. The leases acquired were prepaid to end of term, the majority of which expire in late 2011.

During the period, following a strategic review of its oil and gas properties, the Company determined to spin-off its Ontario assets into DRGN Energy Inc. ("**DRGN**"), a wholly-owned subsidiary of the Company. The Company continues to explore options as to the best strategy to spin out these assets.

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.

<u>Exploration, Development and Production Risks</u>

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.

<u>Insurance</u>

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 prior to drilling the Resulting Issuer will obtain 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.

<u>Prices, Markets and Marketing of Crude Oil and Natural Gas</u>

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.

<u>Substantial Capital Requirements; Liquidity</u>

Management of the Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Company's future revenues or future reserves decline, the Company may have limited ability to raise the capital necessary to undertake or complete future drilling programs.

<u>Competition</u>

The Company will actively compete for reserve acquisitions, exploration leases, licenses and concessions and skilled personnel with a substantial number of other oil and gas companies, many of which will have significantly greater financial resources than the Company. The Company's competitors will 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 therefrom are highly dependant on the Company’s 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 therefrom 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 will be dependant on such 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’s cash flow from its future reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may 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 are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Such price depends in part on oil quality, prices of competing oils, 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, 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 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

A significant number of transactions are effected through transactions with related parties, due to the size and nature of the Company.

During 2010, 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, non-recoverable taxes and disbursements of $114,836 (2009 - $132,479) to Garfinkle, Biderman LLP, a law firm in which Barry M. Polisuk and Robbie Grossman (the secretary and assistant secretary respectively) are partners. At December 31, 2010, $NIL (2009 - $21,115) of this amount is included in accounts payable and accrued liabilities. These services are provided pursuant to a time and billing relationship. These individuals also received $1,500 and $2,000 respectively each in their capacity of secretary and assistant secretary of the Company, pursuant to a resolution of the directors of the Company.

- Included in professional fees are $93,380 (2009 - $122,722) paid to Nick Tsimidis, a director and officer, or to related companies for corporate and financial services, accounting and related services provided to the Company during the year. These services are provided pursuant to a consulting agreement.

- Fees in the amount of $165,000 and $134,880 (2009 - $180,000 and $166,250) were paid to Darrell Brown and Richard Cohen, respectively or to entities in which these directors hold a financial interest for consulting services rendered during the year. Fees paid to Darrell Brown of $150,000 (2009 - $93,750) were capitalized to various oil and gas properties during the year**.** These services are provided pursuant to consulting agreements.

- Included in sundry receivable are $39,498 (2009: $NIL) relating to advances made to entities in which these directors hold a financial interest pursuant to consulting services rendered.
- Included in accounts payable and accrued liabilities is $4,637 (2009: $NIL) relating to services rendered by entities in which these directors hold a financial interest pursuant to consulting services rendered.

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.

Changes in Accounting Policy including Initial Adoption

The Company has adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (“**CICA**”) relating to financial statements.

Financial instruments disclosure, presentation and fair value measurements

The Company has adopted CICA Handbook Sections 3862, Financial Instruments - Disclosures and 3863, Financial Instruments - Presentation, which has replaced Section 3861, Financial Instruments - Disclosure and Presentation. These new standards place increased emphasis on disclosures with respect to the nature and extent of risks arising from financial instruments and how the Company has managed those risks.

The Company adopted the amendments to CICA Handbook Section 3862, Financial Instruments - Disclosures on January 1, 2009. CICA Handbook Section 3862 establishes a three tier hierarchy as a framework for disclosing fair value based on the inputs used to value the Company's investments. The hierarchy of inputs is summarized below.

Level 1 - Quoted prices in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3 - Inputs for the assets or liability that are not based on observable market data

The Company’s portfolio investments are Level 1
The Company’s investment in East Coast Energy Inc. is Level 3

Intangible Assets

Effective January 1, 2009, the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaces CICA Handbook Section 3062, Goodwill and Other Intangible Assets. Section 3064 establishes standards for the recognition, measurement, presentation, and disclosure of intangible assets and goodwill subsequent to initial recognition. The adoption of this section did not have any impact on the Company's financial position, results of operations, or cash flows.

Credit Risk

Effective January 1, 2009, the Company adopted the new recommendations of CICA EIC 173, Credit risk and fair value of financial assets and liabilities. The EIC guidance requires entities to consider counterparty credit risk when measuring the fair value of financial assets and liabilities, including derivatives. The adoption of this guidance did not have any impact on the Company's financial results position, results of operations, or cash flows.

Upcoming Changes to Accounting Standards

Business Combinations

The Accounting Standards Board (ACSB) issued section 1582, Business Combinations which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This section aligns GAAP with International Financial Reporting Standards and is applicable prospectively to business combinations for which the acquisition date is on or after

January 1, 2011, with earlier adoption permitted. The Company does not anticipate material changes to arise on the adoption of this standard.

Consolidated Financial Statements and Non-controlling Interests

The ACSB issued sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards align GAAP with International Financial Reporting Standards and are effective for the first annual reporting beginning on or after January 1, 2011 with earlier adoption permitted. The Company does not anticipate material changes to arise on the adoption of these standards.

International Financial Reporting Standards (IFRS)

The ACSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The ACSB strategic plan outlines the convergence of GAAP with IFRS. The transition date is for interim and financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010, and restatement of the opening balance sheet as at January 1, 2010.

The Company has developed an IFRS conversion plan which prioritizes how each IFRS standard will impact the financial statements. The Company has determined that there will be changes in accounting policies and these changes may materially impact the financial statements but the impact cannot be reasonably estimated at this time.

The Company has implemented a four stage conversion process into IFRS. Phase 1 – preliminary plan and scoping, Phase 2 – detailed assessment, conversion planning and development, Phase 3 – Implementation and parallel reporting and Phase 4 – ongoing monitoring and IFRS updates. As of December 31, 2010 the Company is in Phase 3.

Phase 1 identified some areas where there is the most potential for a significant impact. These areas did not represent a complete list of expected changes. These areas were:

- IFRS 1 – First Time Adoption of International Financial Standards requires that an entity apply all standards effective at the end of its first reporting period retrospectively, and provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas. The Company is currently analyzing the various exemptions available and will elect those determined to be most appropriate. The IFRS 1 exemptions that are the most significant to the Company are noted against each specific area that we have identified to date.

- IFRS 2 – Stock based compensation - is largely consistent with GAAP and requires estimates of the fair value of stock options to be made at the date of the grant and recognition of the related expense in income as the options vest. For stock options that vest in installments, IFRS 2 requires the Company to determine the fair value of each installment as a separate share option grant. Currently the Company records forfeitures as they occur, however under IFRS, the Company is required to make an estimate of the forfeiture rates for the use in determination of the total share based compensation expense. The Company is assessing the impact of this difference on its financial statements. The use of the Black- Scholes model is an acceptable method to estimate the fair value of the options at the date of grant, and is consistent with the Company's current practice.

- Financial Statement Disclosure - there are generally more extensive presentation and disclosure requirements under IFRS compared to GAAP.

- **IFRS 6 - Exploration for and Evaluation of Mineral Resources** - IFRS 6 requires entities recognizing exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount. The principle also requires disclosure of information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources:

- (i) its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.

- (ii) the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

The second phase involved a detailed impact assessment and gap analysis, drafting IFRS policies, planning and tracking a conversion approach and application of IFRS 1 "First Time Adoption of International Financial Reporting Standards". The third phase will be implementation where we will finalize our IFRS policies while revising accounting and business processes, create financial statement templates, consider tax implications, revise internal controls over financial reporting and calculate an opening balance sheet for January 1, 2010. The fourth phase will be post implementation when we will have fully IFRS compliant reporting and which will involve ongoing education and training planning with continuous monitoring of changes in IFRS.

Other areas that have had an impact on the Company relating to IFRS include:

- Information systems - the Company is evaluating the potential impact of IFRS on its information systems and business processes and does not anticipate any changes or material impacts with our current systems being capable of collecting financial information necessary for IFRS compliance.

- Internal controls over financial reporting - as part of the assessment of IFRS in phase two of the Company's project, internal controls over financial reporting and disclosure controls and procedures will be considered. For example, any changes in accounting policies could result in additional controls or procedures being required to address the reporting of the Company's first time adoption and on-going reporting requirements. The certifying officers are in the process of completing the design, and initially evaluating the effectiveness of any key controls implemented as a result of IFRS, to prepare for certification under IFRS in 2011.

- Financial reporting expertise – given the current size of the Company the IFRS project team is comprised only of senior management and external consultants as required, with the CFO being the lead on the project reporting to the President and Audit Committee. The CFO has attended various external IFRS training sessions that covered overall general IFRS standards as well mining industry specific training. The CFO reports to the Board of Directors on the status of the project.

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 other wise 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 debentures payable and receivable 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.

At December 31, 2009, the Company had a working capital deficit of $798,702. 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 on June 11 2010 (with a possibility for a further extension to December 11, 2010), 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 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 from the sale of petroleum and natural gas products are based on commodity prices in the oil and gas sector which are denominated in United States dollars. 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 27, 2011, 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	11,837,500	\$0.14 to \$0.50	May 3, 2011 to April 8, 2021
Warrants	40,892,696	\$0.20 to \$0.45	June 12, 2011 to April 26, 2013
Broker Warrants	4,999,095	\$0.15 to \$0.30	November 14, 2010 to April 26, 2013
Convertible Debentures	9,944,033	\$0.225	December 31, 2011
	67,673,324		

Normal Course Issuer Bid

During 2010, the Company received approval from the TSX Venture Exchange for a notice filed by the Company of its intention to make a normal course issuer bid (the "**NCIB**") to purchase up to 4,895,831 common shares commencing on February 22, 2010 and terminating on February 21, 2011.The maximum price paid per repurchased share shall be no more than \$0.25 per share. During 2010, the Company purchased 100,000 common shares for an aggregate amount of \$14,320 and cancelled these shares subsequent to the period. The NCIB was not renewed in February 2011.

Stock Options

In April 2011, the Company granted 1,700,000 stock options to certain of its officers, directors, employees and consultants at an exercise price of \$0.195 per common share expiring on April 8, 2021.

Premises Lease

Subsequent to 2010, the Company entered into a lease agreement for office premises covering a period of 12 months and three weeks. Annual rent is \$13,600.

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.