



NEWTON ENERGY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the period ended

September 30, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management's Discussion and Analysis ("MD&A") is a review of operations, current financial position and outlook for Newton Energy Corporation ("Newton" or the "Corporation") for the three and nine months ended September 30, 2008 and 2007. This MD&A should be read in conjunction with the audited financial statements and accompanying MD&A for the eleven month period ended December 31, 2007 and the unaudited financial statements for the three and nine month periods ended September 30, 2008. This MD&A is dated November 21, 2008.

### **FORWARD LOOKING INFORMATION**

The MD&A is a review of our financial condition and results of operations. Our financial statements are prepared based upon Canadian Generally Accepted Accounting Principles ("GAAP") and all amounts are in Canadian dollars unless specified otherwise. Certain statements included or incorporated by reference in the MD&A constitute forward-looking statements or forward-looking information under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "will", "intend", "anticipate", "expect", "plan", "assure", "contemplate", "believe", "shall", "estimate", "propose", and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to reserves, crude oil and natural gas prices, operating costs, sources of income, ability to raise capital, general and administrative costs, taxation rates, and capital expenditure plans.

Such forward looking statements include assumptions which include with respect to (i) production; (ii) future capital expenditures; (iii) funds from operations; (iv) cash flow; (v) debt levels, (vi) economic conditions, (vii) competitive environments; and (viii) commodity prices. The reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect. While management believes the forward-looking statements are reasonable, all such forward-looking statements involve substantial known and unknown risks and uncertainties, certain of which are beyond the Corporation's control. Such risks and uncertainties include, without limitation, risks associated with oil and natural gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, increased competition from other producers, inability to retain drilling rigs and other services, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources, the impact of general economic conditions in Canada, the United States, The United Kingdom and overseas, industry conditions, changes in laws and regulations (including the adoption of new environmental laws and regulations) and changes in how they are interpreted and enforced, changes in federal and provincial tax laws and legislation (including the adoption of new royalty regimes), the lack of availability of qualified personnel or

management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities.

The Corporation's actual results, performance or achievements could differ materially from those expressed in, or implied by these forward looking statements (as a result of assumptions proving incorrect or due to the effect of the risks) and accordingly, no assurances can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These forward-looking statements speak only as of the date of this MD&A and Newton undertakes no obligation to publicly update or revise any forward-looking statements applicable to it, except as required by applicable securities laws. The forward looking statements contained herein are expressly qualified by this cautionary statement.

Readers should be aware that the list of factors, risks and uncertainties set forth in this document is not exhaustive.

## **THE COMPANY**

On July 31, 2007, Newton acquired all of the shares of Newton Energy Inc. and changed its name to Newton Energy Corporation on June 15, 2007. The Corporation's primary business activity is international exploration and development of petroleum properties, specifically in the onshore United Kingdom. On September 30, 2008, Newton and Newton Energy Inc. amalgamated to form "Newton Energy Corporation".

The Corporation is focused on the exploration, development and production of oil in the East Midlands Basin of the United Kingdom. The Corporation was awarded licenses on 40,000 hectares and an additional 20,000 hectares has been jointly allotted in the United Kingdom, on 6 contiguous blocks in the Onshore East Midlands Basin area of the United Kingdom. The Corporation believes that the Onshore East Midlands Basin is an overlooked source of diverse prospects and has identified six prospects in the first stage of its drilling program. The Corporation is actively preparing applications to local County Councils in the United Kingdom for planning permissions to develop and drill six prospects for the first stage of its six year drilling program, four of which are located in Nottinghamshire and one each in Leicestershire and Lincolnshire. The Corporation believes it has sufficient working capital to complete the first stage of its drilling program, subject to rig availability and cost. In addition, in order to better facilitate the Corporation's activities in the United Kingdom, Michael Frey, the Corporation's President and Chief Executive Officer will be relocating to Nottingham in the near future.

## Licenses

Petroleum and natural gas rights in the United Kingdom are held by the Crown and administered through the Oil and Gas division of the Department for Business, Enterprise and Regulatory Reform ("BERR"). Licensing rounds are held intermittently as decided upon by the BERR. Licensing rounds are announced publicly with a notice period of 90 days prior to the application deadline. Applications are awarded after consideration of the technical merits and operational and financial capability of the applicant. Licenses are awarded for up to 31 years with an initial term of 6 years, a second term of 5 years and a production period of not more than 20 years which is extendable. The length of the license terms are not guaranteed and are subject to the discretion of the BERR. Minimal rentals of £25/km<sup>2</sup>/year apply for the first six years of the license and with rental increments increasing every year beyond the initial term. A work program covering the first six years must be presented as part of the application.

Pursuant to the United Kingdom land tenure system, all rights are held by the Crown and a Petroleum Exploration and Development License ("PEDL") covering the areas of proposed activity in the United Kingdom is required. On May 28, 2008, in the 13th Round of Onshore Licensing, Newton Energy UK Ltd. ("Newton UK") was offered by the United Kingdom Secretary of State three PEDL's in the East Midlands Basin onshore in the United Kingdom numbered PEDL 204, PEDL 205 and PEDL 208. These three licenses cover a contiguous area of 40,000 hectares located near the city of Nottingham. Newton UK accepted the licenses on October 8, 2008. Newton UK was also offered, subject to a joint operating agreement, a fourth and fifth license, PEDL 254 and PEDL 255, for an additional and adjacent 20,000 hectares with another United Kingdom company. These licenses have a July 1 anniversary. Initial terms of a joint operating agreement have been agreed to by both parties and a final agreement is expected to be completed by the end of 2008.

The licenses were awarded in two stages, the first being a six year period with a designated minimum work program and a second stage of an additional 25 years for additional development, exploration and exploitation. PEDL 204 has a firm one well commitment to a depth of at least 1000 meters in the initial period. PEDL 205 has geochemical and seismic work commitments in the first 3 years and a drill or drop well commitment (a well can be drilled at the election of the Corporation or else the license can be dropped) to a depth of at least 1000 meters in the second three years. PEDL 208 has a firm seismic acquisition and one well commitment to a depth of at least 850 meters. PEDL 254 has a firm seismic acquisition and one well commitment to a depth of at least 800 meters during the initial two years. PEDL 255 has a drill or drop one well commitment. There is a clerical error on the original license documents regarding the work commitments on PEDLs 254 and 255 in which the work commitments were reversed. The work commitment for PEDL 254 is currently attached to PEDL 255 and the work

commitment for PEDL 255 is currently attached to PEDL 254. The Corporation is working with the BERR to correct this error. The Corporation has a 100% working interest and is the owner and operator of licenses PEDL 204, 205 and 208. The Corporation owns, subject to the finalization of a joint operating agreement, a 100% working interest in the non coalbed petroleum rights on 20,000 hectares jointly operated with another United Kingdom company covering PEDL 254 and 255. All of Newton's interest in the licenses is subject to a 3% gross overriding royalty pursuant to the GORR Agreement. The license award will allow Newton to proceed with the acquisition of the necessary permits, consents and permissions required to execute its drilling program.

The Corporation plans to finance the commitments of PEDL's 204, 205, 208, 254 and 255 through its existing capital, future financings and possibly debt.

The fiscal terms of the PEDL's are: 0% royalty and surface rentals of £25/km<sup>2</sup>/year for the first six years escalating thereafter. After the initial six year term, generally not less than 50% of the licences area reverts to the government. The PEDLs can be continued past the 25 year term with continuing production. The corporate tax rate for "ring fenced activity" (oil and gas production classified as a "ring fenced activity") is 30% with supplementary petroleum industry surcharges of an additional 20% to the 30% rate for tax rate of 50% on net taxable revenue.

Once an award offer announcement is made the Corporation must indicate its acceptance of the offer and then the BERR will generate the licenses and send them to the Corporation for signatures. They are then returned to the BERR (along with the first years rentals in advance) for the department to sign. Once the BERR has signed and attached their seal to the licenses they are official and available for operations. The Corporation has signed all of the PEDL's and has returned them, with the fees for the rentals, to the BERR. The BERR has signed PEDLs 204, 205, 208, 254 and 255.

For each drilling site, a Minerals Planning Permission ("MPP") is required from the County authority in which the location resides. A prerequisite for submission of the planning applications are the signing of the surface owners certificate which requires that a surface lease be in place. The MPP cover most operational issues such as noise, traffic, site operations, visual impact and environmental concerns and typically take two to three months to receive. The Corporation is currently in negotiations to obtain surface lease rights and expects that the negotiations will be complete in the first quarter of 2009.

The BERR at its discretion may revoke any licenses for non performance during the term of each license. The BERR's approval is required for the drilling and the production of wells on each license and such approvals are subject to safety and "good oilfield practise" reviews. The BERR is responsible to monitor the efficient economic exploitation of the resources covered by the licenses.

The Corporation will also require a surface lease from the surface rights owner giving permission for the operations. The Corporation is currently in negotiations on all six prospects and has received a verbal consent to the concept and are presently working on the details. The Corporation expects to have these all within the next six weeks.

The Corporation also requires a drilling license from the BERR, which requires that a Petroleum Operating Notice ("PON") be submitted. The well program must be reviewed by a certified engineer before the PON will be granted. As of the date hereof, the Corporation does not have its drilling license from the BERR but expects it will obtain such approval by February, 2009.

There are no explicit health and safety permits required. The BERR approves the Corporation as an "Approved Operator" which is bound by the test of "good practice" and BERR will not issue a licence to anyone that is not an "Approved Operator". The Health and Safety Executive ("HSE") uses a series of guidelines backed by workplace legislation under which the company must acknowledge its awareness of and adherence to the HSE. When operations are to commence, the Corporation must send the HSE a notification via fax a week prior to the date of commencing operations.

If a discovery is made, an automatic testing period of 30 days is allowed without any additional permission. An extended well test of an additional 90 days is available through the submission of an additional PON, extended well tests are generally universally approved, especially in cases of new reservoirs and multi-zone production. All of the Corporation's six prospects fit one or both of the aforementioned descriptions.

In order for sustained production to be allowed from a well, an application (via another PON) for production must be made to the BERR. The application details the manner of production and outlines the field development plan. It is the duty of the BERR to ensure the resource is being managed to the benefit of her majesty (all crown rights). There are no set standards for spacing units, pump capacities etc. These issues are settled by the company proposing its plan and the BERR either approves or rejects the plan. A company may need to reapply after making modifications to the plan suggested by the BERR. The 90 day extended well test is designed to give sufficient time for the production and development plan to be in place and not interrupt production.

A description of the 13<sup>th</sup> round award and maps can be found at:  
[https://www.og.berr.gov.uk/upstream/licensing/onshore\\_13th/index.htm](https://www.og.berr.gov.uk/upstream/licensing/onshore_13th/index.htm).

The Corporation is currently in the process of seeking approval from the TSX Venture Exchange to lift the trading halt, subject to the Corporation meeting the minimum listing requirements of the TSX Venture Exchange.

## FINANCIAL SUMMARY

	<u>September 30, 2008 (Unaudited)</u>	<u>June 30, 2008 (Unaudited)</u>	<u>March 31, 2008 (Unaudited)</u>	<u>December 31, 2007 (Unaudited)</u>	<u>September 30, 2007 (Unaudited)</u>	<u>July 31, 2007<sup>(1)</sup> (Unaudited)</u>	<u>April 30, 2007<sup>(2)</sup> (Unaudited)</u>	<u>January 31, 2007<sup>(3)</sup> (Unaudited)</u>
Total Revenues	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Net and Comprehensive Loss	\$152,397	\$454,865	\$80,271	\$17,501	\$67,464	\$13,504	\$39,525	\$15,909
Net Income (loss) per share	(\$0.01)	(\$0.07)	(\$0.02)	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.03)
Total Assets	\$4,889,712	\$3,762,990	\$3,684,146	\$2,786,680	\$2,254,163	\$100,768	\$94,566	\$134,091
Weighted Average Number of Shares	13,666,653	6,764,354	5,024,079	4,803,605	4,226,822	2,005,109	1,500,000	1,500,000

Notes:

- (1) On July 31, 2007, Newton acquired all of the shares of Newton Energy Inc. ~~by of reverse take-over and as a result, the Newton Energy Inc. shareholders held approximately 49.99% of the issued and outstanding shares of the Corporation. The former Newton shareholders represent a small group of individual shareholders and the remaining issued and outstanding shares of the Corporation were widely held. The Corporation therefore concluded that for accounting purposes the former Newton shareholders will exercise control over the combined enterprise. Accordingly, the transaction has been accounted for as a reverse takeover with Newton Energy Inc. being the acquiring company. The consolidated balance sheet is a continuation of Newton Energy Inc.~~ Prior to the reverse take-over, ~~the Corporation~~ Newton Energy Inc. had a year end of January 31 therefore the comparative income statement of cash flows and G&A are for the six months ended July 31, 2007.
- (2) For the three month period ended April 30, 2007 of Newton Energy Inc. the predecessor to the Corporation.
- (3) For the year ended January 31, 2007 of Newton Energy Inc. the predecessor to the Corporation.
- (4) For the year ended January 31, 2006 of Newton Energy Inc. the predecessor to the Corporation.

As at September 30, 2008, assuming the exercise of 1,250,000 stock options and 997,500 agent's options the Corporation would have 16,258,761 common shares issued and outstanding.

## RESULTS OF OPERATIONS

Three months and nine months ended September 30, 2008

	<u>Three months ended September 30, 2008</u>	<u>Two months ended September 30, 2007</u>	<u>Nine months ended September 30, 2008</u>	<u>Eight months ended September 30, 2007</u>
Interest income	33,141	Nil	81,149	Nil
Office and Administration	128,138	51,464	253,816	79,469
Consulting Fees	57,400	16,000	122,100	41,024
Stock based compensation	Nil	Nil	392,578	Nil
Earnings (loss) per share, basic and diluted	(0.01)	(0.02)	(0.08)	(0.05)
Weighted Average number of common shares outstanding	13,666,653	4,226,822	8,507,178	2,501,536

## Interest Income

For the three months ended September 30, 2008 interest income increased to \$33,141 from \$0 in the corresponding period of 2007. For the nine months ended September 30, 2008 interest income increased to \$81,149 from \$0 in the corresponding period of 2007. For the three and nine months ended September 30, 2008, the increase was due to a significant increase in average cash and cash equivalent balances. It is expected that the interest income will be declining as the surplus cash will be used for exploration as well as the short term interest rates have been declining.

## General and Administrative Expenses

For the three months ended September 30, 2008, General and Administrative (G&A) expenses increased to \$128,138 from \$51,464 in the corresponding two month period ended September 30, 2007. For the nine months ended September 30, 2008, G&A expenses increased to \$253,816 from \$79,469 in the corresponding eight month period in 2007. The increase for the three and nine month periods is due to higher levels of corporate activity in preparation of drilling program, and to one-time costs associated with the preparation of its reserve report and filing statement and an additional month in the period ended September 30, 2008 compared to September 30, 2007.

	<u>September 30, 2008</u>	<u>September 30, 2007<sup>(1)</sup></u>	<u>% Change</u>
Gross G & A	253,816	79,496	319%
Capitalized overhead	Nil	Nil	N/A
Net G& A	253,816	79,496	319%

Note:

(1) September 2007 numbers are for eight months.

## Breakdown of major categories G & A expenses

	<u>Nine month period ended September 30, 2008</u>	<u>Eight month period ended September 30, 2007</u>
Legal & Accounting	85,080	52,270
Travel	68,256	9,853
Transfer Agent costs	15,787	3,321
Regulatory fees & costs	10,953	7,500
Office and Misc exp	16,153	6,552
Insurance	12,155	-
Rent	9,647	-
UK Office	25,785	-
Contingency	10,000	-
Total	253,816	79,496

## Consulting Fees

For the three months ended September 30, 2008, consulting fees expenses increased to \$57,400 from \$16,000 in the corresponding two month period in 2007. For the nine months ended September 30, 2008, consulting expenses increased to \$122,100 from \$41,024 in the corresponding eight month period in 2007. The increase for the three and nine month periods is due to higher levels of corporate activity and increase in the consulting fees paid to the CEO & CFO of the Corporation due to increased business activity.

## Stock based compensation

On June 18, 2008, the Board of Directors of the Corporation approved the issuance of 1,250,000 options at exercise price of \$0.50 to the directors and officers of the Corporation and certain consultants. These options were granted for a period of 5 years and were all vested on the issue date. The Corporation has accounted for its employee stock options granted using the fair value method. The fair value of all options granted to September 30, 2008 was estimated to be \$392,578 (\$0.31 per option granted). This value was charged to stock based compensation cost for three months ended 30 June, 2008. The estimated fair value of \$0.31 a share was calculated for the options using the Black-Scholes model based on the following assumptions: risk-free interest rate of 3%, expected life of 5 years, no annual dividends and expected volatility of 75%.

## Earnings (loss) per share, basic and diluted

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated to reflect the dilutive effect of stock options and agent's option outstanding. Loss per share is calculated as follows:

	Net loss (\$)	Weighted average number of shares	Loss per share Basic and diluted (\$)
Nine months ended September 30, 2008	(687,345)	8,507,178	(0.08)
Eight months ended September 30, 2007	(120,493)	2,501,536	(0.05)
Three months ended September 30, 2008	(152,397)	13,666,653	(0.01)
Two months ended September 30, 2007	(67,464)	4,226,822	(0.02)

## SHARE CAPITAL

At November 21, 2008, Newton had 14,011,261 common shares, 1,250,000 stock options and 997,500 agent's option to purchase common shares outstanding. The stock options are fully vested, have an exercise price of \$0.50 per share and may be exercised until June 12, 2013. The agent's options have an average exercise price of \$0.57 and may be exercised until September 12, 2009, November 30, 2009, January 23, 2010, March 19, 2010, April 18, 2010 and February 24, 2010.

As at September 30, 2008, assuming the exercise of 1,250,000 stock options and 997,500 agent's options the Corporation would have 16,258, 761 common shares issued and outstanding.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Liquidity**

During the third quarter of 2008, the Corporation funded its capital expenditures and ongoing start-up activities from its existing working capital.

For the nine months ended September 30, 2008, cash used by operating activities was \$171,965, cash provided by financing activities was \$1,250,397 and cash used in investing activities was \$24,425. This resulted in an increase in cash and cash equivalents during the period of \$1,054,007. The Corporation has no long term debt and short term liability is only for accrued expenses that are paid within a few weeks.

## **Capital Resources**

At September 30, 2008, the Corporation's cash resources included cash and cash equivalents of \$4,813,832 which are invested exclusively in money market instruments issued by Royal Bank of Canada.

There will not be a major draw on the Corporation's cash resources in the last quarter of 2008 as the drilling activities will not commence until the second quarter of 2009. The Corporation believes that it has enough cash resources to carry out its first phase of its exploration program and does not need to raise new capital or borrow any funds. Future cash-flow from a successful exploration program will be impacted by many factors including, but not limited to, the final cost of the drilling, timing of commencement of production if any, exchange rates between the Canadian dollar and British pound as well as oil prices.

## **CRITICAL ACCOUNTING ESTIMATES**

There are no changes to the Corporation's critical accounting estimates in the nine months ended September 30, 2008.

## **ACCOUNTING POLICIES**

On January 1, 2008, the Corporation adopted the following Canadian Institute of Chartered Accountants (CICA) standards:

Section 1535 "Capital Disclosures," Section 3862 "Financial Instruments – Disclosures," and Section 3863 "Financial Instruments – Presentation."

Section 1535 requires the disclosure of the Corporation's objectives, policies and processes for managing capital, this includes qualitative information regarding the Corporation's objectives, policies and processes for managing capital and quantitative data about what the Corporation manages as capital. These disclosures are based on information that is used internally by our management.

Sections 3862 and 3863 replace Section 3861 "Financial Instruments – Disclosure and Presentation," which revises financial instruments disclosure requirements and leaves unchanged the presentation requirements. These new sections in place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Corporation manages those risks.

There is no impact on our financial position or results of operations as a result of the adoption of these sections.

## **NEW ACCOUNTING PRONOUNCEMENTS**

Accounting Guidelines (AcG) 11 “Enterprises in the Development Stage” is amended to delete references to deferred costs and to provide guidance on development costs as intangible assets under Section 3064.

On February 13, 2008, the CICA Accounting Standards Board announced that Canadian public reporting issuers will be required to report under International Financial Reporting Standards ("IFRS") in 2011. Management is currently evaluating the effects of adopting IFRS on its financial statements and has started investigating the initial diagnosis step for adopting IFRS, given the size of the Company and limited number of account balances that will be affected by the adoption, management believes that it will be able to file the financial statements in accordance with IFRS by the required deadline.

## **FINANCIAL INSTRUMENTS**

The Corporation considers its risks in relation to financial instruments in the following categories:

### **Credit Risk**

Credit risk is the risk that a counterparty to a financial instrument will not discharge its obligations, resulting in a financial loss to the Corporation. The Corporation has policies and procedures in place that govern the credit risk it will assume. We evaluate credit risks on an ongoing basis including an evaluation of counterparty credit ratings and counterparty concentrations measured by amount and percentage. The Corporation's objective is to have no credit losses.

The primary sources of credit risk for the Corporation arise from the following financial assets: (1) cash and cash equivalents and (2) accounts receivable. The Corporation has not had any credit losses in the past and the risk of financial loss is considered to be low. As at September 30, 2008, the Corporation has no financial assets that are past due or impaired due to credit risk related defaults.

### **Liquidity Risk**

Liquidity risk is the risk that the Corporation will not be able to meet obligations associated with financial liabilities. The Corporation's financial liabilities are comprised of accounts payable and accrued liabilities. The Corporation frequently assesses its liquidity position and obligations under its financial liabilities by preparing regular financial forecasts. The Corporation mitigates

liquidity risk by maintaining a sufficient cash balance as well as maintaining sufficient current and projected liquidity to meet expected future payments.

### **Market Risk**

Market risk is the risk that the fair value (for assets or liabilities considered to be held for trading and available for sale) or future cash flows (for assets or liabilities considered to be held-to-maturity, other financial liabilities, and loans and receivables) of a financial instrument will fluctuate because of changes in market prices. The Corporation evaluates market risk on an ongoing basis. At September 30, 2008, all of the Corporation's financial instruments were assessed to have little or no market risk.

The Corporation has cash deposits with Royal Bank of Canada and has money market investments issued by Royal Bank of Canada. As at September 30, 2008, the amount in cash and cash equivalents was \$4,813,832 which was held in Royal Bank of Canada Bankers Acceptance Paper with maturities of less than 90 days and Royal Bank of Canada Money Market funds and cash balances with Royal Bank of Canada.

At September 30, 2008, the remaining terms on investments made by the Corporation are less than 90 days with interest fixed over the period of investment. Maturity dates for investments are established to ensure cash availability for exploration program. Investments are held to maturity and the maturity value does not deviate with changes in market interest rates.

### **Accounts Receivable**

The Corporation's accounts receivable are amounts due from the Canada Revenue Agency in relation to GST refunds which is considered to be risk free as for the credit standing of Canadian Government.

### **Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities are comprised primarily of amounts due in respect of current administrative costs of the Corporation. Payment terms on these amounts are typically 30 days from receipt of invoice and do not bear interest. The Corporation has met its obligations in respect of these liabilities. As at September 30, 2008, accounts payable and accrued liabilities were \$37,832.

### **RELATED PARTY TRANSACTIONS**

Effective June 1, 2008, the Corporation entered into a consulting agreement with Inceptum Ventures Ltd. ("Inceptum"), a company wholly-owned by Michael Frey, the President of the Corporation whereby the Corporation has agreed to pay to Inceptum \$120,000 annually for consulting services. The Inceptum Consulting Agreement provides one month's severance for each six months from the commencement of the agreement.

Effective June 1, 2008, the Corporation entered into a consulting agreement with 571021 Alberta Corp. ("571021"), a private company owned 50% by Mr. Sadrehashemi, the Chief Financial Officer of the Corporation and 50% by his wife whereby the Corporation has agreed to pay to 571021 \$96,000 annually for consulting services. The 571021 Consulting Agreement provides one month's severance for each six months from the commencement of the agreement.

During the nine month period ended September 30, 2008, the Corporation paid consulting fees in the amount of \$112,000 to Inceptum and 571021. These consulting fees were in the normal course of operations and have been valued in the financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Other than as described herein, the Corporation has not acquired any assets or services or provided any assets or services in any transaction within the twelve months prior to the date of this MD&A with any Non-Arm's Length Party.

### **Capital Expenditures**

As at November 21, 2008, The Company consolidated working capital is approximately \$4,700,000. The Company anticipates that the available fund will be expensed over the next 12 months substantially as follows

<b><u>Principal Purposes</u></b>	<b><u>Amount of Funds</u></b>
Expenditures related to exploration program for next 12 months	
Permits and Site preparation	\$ 300,000
Drilling	2,000,000
Testing and Completion	<u>1,200,000</u>
	\$3,500,000
Expenditures related to general operations and administration	360,000
Contingent Work Program Expenditure	134,000
Unallocated Working Capital	<u>706,000</u>
<b>Total expenditures</b>	<b>\$4,700,000</b>

The Corporation is of the view that expenditure of the funds as indicated above will assist in meeting the stated business objectives. Notwithstanding the proposed users of available funds as discussed above, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary. It is difficult at this time to definitively project the total funds necessary to affect the planned activity of the Company. For these reasons, management considers it to be

in the best interests of the Company and its shareholders to afford management for a reasonable degree of flexibility as to how the funds are employed among the uses identified above.