Terra Nova Energy Ltd.

(Formerly "Terra Nova Minerals Inc.")

Management's Discussion and Analysis ("MD&A")

For the year ended July 31, 2012

Terra Nova Energy Ltd. (formerly "Terra Nova Minerals Inc") is a public company (the "Company" or "Terra Nova"). At a special meeting of shareholders held on August 13, 2012 the "August 2012 Special Meeting", shareholders voted in favor of a continuation of the Company from the federal jurisdiction into Alberta (the "Continuance") and approved a name change to Terra Nova Energy Ltd. The Continuance did not result in any change in the business of the Company.

The following information, prepared as of November 27, 2012 should be read in conjunction with the audited consolidated financial statements of the Company for the year ended July 31, 2012 (the "2012 Financial Statements"). The 2012 Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Financial information presented herein that pertains to fiscal periods ending prior to and including July 31, 2010 are in accordance with Canadian generally accepted accounting principles ("CGAAP").

The 2012 Financial Statements are presented in Canadian dollars ("C$") which is Terra Nova's reporting currency. Terra Nova's foreign subsidiaries transact in currencies other than the Canadian dollar and have a functional currency of Australian dollars ("A$").

All amounts presented herein are expressed in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

Forward-looking statements look into the future and provide an opinion as to the effect of certain events and trends on the business. Forward-looking statements may include words such as "plans", "intends", "anticipates", "should", "estimates", "expects", "believes", "indicates", "suggests" and similar expressions.

This MD&A, and in particular, the "Outlook" section contains forward-looking statements. These forward-looking statements, include without limitation: statements about the Company's exploration plans and outlook; interpretations and discussion of seismic, drilling and well testing results and financing obligations with regard to future exploration of the petroleum exploration licences or properties owned by, or, under option to the Company. As such, all forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors. Information concerning the interpretation of seismic, drill or well testing results may also be considered a forward-looking statement as such information constitutes a prediction of what hydrocarbons might be found to be present if and when hydrocarbons are discovered and recovered in economic quantity.

It is important to note that unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of November 27, 2012. Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Such risks and other factors include, among others, risks related to the integration of acquisitions or new discoveries, if any; risks related to operations; actual results of current exploration activities; actual results of current reclamation activities, if any; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of hydrocarbons; accidents, labour disputes and other risks of the oil and gas exploration industry; delays in obtaining governmental approvals or financing or in the completion of wells or integration with hydrocarbon collection infrastructure, as well as those factors discussed in the section entitled "Risk Factors" appearing elsewhere herein. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize; and subject to applicable laws, the Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see **Risks and Uncertainties**.

General

The Company's common shares are listed on the TSX Venture Exchange (the "TSX V") on which the Company has been classified as an "oil and gas company" since May 11, 2012 and the Frankfurt Stock Exchange. Prior to May 11 2012, the Company was classified on the TSX V as a "mineral resource company". The Company's principal business is the acquisition and exploration of petroleum and natural gas properties.

The Company's head office is located at Suite 700, 444 Fifth Avenue Southwest, Calgary, Alberta, T2P 2T8.

Highlights

1 On March 15, 2012 Norman J. Mackenzie was appointed Chairman and Chief Executive Officer ("CEO") of Terra Nova with the mandate to seek out international oil and gas opportunities for the Company.

2. On March 19, 2012 the Company signed a Letter of Intent to acquire up to a 55% working interest in two onshore petroleum exploration licenses ("PEL", "PEL's" or "Licenses"), known as PEL 112 and PEL 444 in South Australia.

3. On March 23, 2012 Terra Nova signed an Engagement Letter with Macquarie Private Wealth Inc. (Canada) ("Macquarie") to complete a brokered private placement to raise $10.0 million with a potential to increase this amount to $11.0 million.

4. On March 29, 2012 the Company announced the appointment of Michael Kamis as Chief Operating Officer, Andrew Williams as Chief Financial Officer and Chas Lane as Vice President, Exploration.

5. On May 11, 2012 the Company closed the private placement raising gross proceeds of $10,652,075 ($9,384,680 net of financing costs) upon the issuance of 42,608,300 units, each unit comprising one common share and one common share purchase warrant ("the May 2012 Financing").

6. On May 11, 2012 a definitive farm-in agreement was signed whereby the Company, together with a wholly-owned subsidiary company, Terra Nova Resources Inc. ("Alberta Co.") acquired up to a 55% working interest in two onshore Licenses in South Australia (the "Farm-in Agreement"), pursuant to which the Company concurrently made a A$4,700,000 payment into escrow, to fund a seismic program (the "Seismic Earn-in Obligation").

7. On May 25, 2012, Terra Nova terminated its option agreement on the El Capitan mineral property in British Columbia.

8. On July 17, 2012 the Company signed an agreement with Geokinetics (Australia) Pty. Ltd., to undertake a 127 KM^2 3D seismic survey on PEL 112 in South Australia.

9. At a Special Meeting of Shareholders held on August 13, 2012 approval was received to change the name of the Company to Terra Nova Energy Ltd., and the appointment of Norman J. Mackenzie, Peter Miles, Steven Harding, Henry Aldorf, Mark Stevenson and Nico Civelli as directors of the Company.

10. On August 28, 2012 Terra Nova appointed KPMG LLP as the Company's auditor replacing Morgan and Company.

11. On September 19, 2012 the field operations of the seismic survey on PEL 112 were completed.

12. On October 19, 2012 the Company announced a proposed non-brokered private placement financing for up to $2.0 million in gross proceeds upon the issuance of up to 10,000,000 units, each unit comprising one common share and one common share purchase warrant ("the October 2012

Financing") on which as at October 31, 2012, the Company had closed with respect to 3,500,000 units ($700,000). As of November 27, 2012 the Company had closed with respect to a further 2,550,000 units ($510,000).Funds that had been received as of October, 31, 2012 were combined with corporate funds on hand to fund the A$4,500,000 drilling commitment payment on November 1, 2012 (Item 14 below). Funds received since October 31, 2012 were used for general working capital purposes and to repay promissory notes (see item 13 below).

13. On October 31, 2012, in exchange for 3% demand promissory notes, two directors advanced the Company $300,000 (the "Director Promissory Notes"). The funds were combined with corporate funds on hand to fund the A$4,500,000 drilling commitment due on November 1, 2012 (Item 14 below). As of November 27, 2012, the Director Promissory Notes were repaid in full.
14. In accordance with the terms of the Farm-in Agreement, on November 1, 2012 the Company paid A$4,500,000 into escrow to be applied against 100% of the dry-hole costs to drill up to 3-wells (the "Initial 3 - well Program Earn-in Obligation).
15. On November 13, 2012 Terra Nova announced it had signed a Letter of Intent with an Australian drilling contractor for up to three wells as proposed under the Initial 3 - Well Earn-in Obligation on either PEL 112 or PEL 444. Drilling is tentatively set to begin in the first quarter of 2013 upon the signing of a definitive on-shore drilling contract.

Operations

PEL's 112 and 444 comprise approximately 2,196 km² and 2,358 km² respectively. These properties are located on the Western flank of the Eromanga Cooper Basin in the northeastern sector of the state of South Australia (the "Exploration and Evaluation Interests" or "E&E Interests")

During the period following execution of the Farm-in Agreement, the Company's primary objective was to initiate, develop and complete an exploration plan and strategy to permit, gain access to and complete a 3-D seismic survey over 127 km² located on PEL 112. As of November 27, 2012, the Company had incurred approximately A$3,300,000 in expenditures against the overall A$4,700,000 Seismic Earn-in Obligation leaving a net balance of approximately A$1,400,000 (the "A$1,400,000 Seismic Balance"). As of November 27, 2012, Company consultants are processing and interpreting the PEL 112 seismic data in order to identify the most highly prospective drilling locations. It is expected that this work will be completed in late November 2012, at which time the Company will be in a position to commence the process of submitting applications to the government and, where applicable; the local indigenous community authorities for access to selected drilling locations and drilling permits as well as to initiate discussions with drilling contractors. Tentatively, drilling is scheduled to commence early in 2013, subject to rig availability, site accessibility, weather conditions and securing necessary regulatory approvals and permits.

As at November 27, the Company was modeling a 3-D seismic program on PEL 444 (the "PEL 444 3-D Seismic Program"). Barring any hurdles beyond the Company's control, such as but not exclusive of weather factors or equipment shortages, seismic fieldwork must commence by not later than January 10, 2013. Funding for the proposed A$2,500,0000 PEL 444 Seismic Program will be provided from the A$1,400,000 Seismic Balance with the remaining A$1,100,000 to be funded by the Company as to 55% or approximately A$605,000 (approximately C$630,000) with the remaining 45% or approximately A$495,000 to be funded by the joint working-interest partners. Completion of the minimum PEL 444 3-D Seismic Program will be contingent on securing the additional A$1,100,000.

At the August 13, 2012 Special Meeting of shareholders, in addition to approving the Company's name to Terra Nova Energy Ltd., the shareholders also voted to confirm the nominations of Henry Aldorf, Steven Harding, Nico Civelli and Mark Stevenson as directors. Former directors Gunther Roehlig and Robert McMorran did not stand for re-election. Norman J Mackenzie and Peter Miles were also re-elected as directors. Following the August 2012 Special Meeting, the board also reconfirmed the appointments of Norman J Mackenzie as Chairman and CEO, Michael Kamis as COO and Andrew R Williams as CFO. On May 17, 2012, the Company announced that director, David Stein had resigned.

Financing Activities

- Director Promissory Notes

On October 31, 2012, two directors advanced the Company $300,000 pursuant to the terms of unsecured 3% promissory demand notes. As of November 27, 2012, the Director Promissory Notes plus accrued interest costs were repaid in full. Gross proceeds from the Director Promissory Notes were combined with funds on hand to fund the A$4,500,000 Initial 3 - Well Program Earn-in Obligation that was due on November 1, 2012 and for general working capital purposes.

- the October 2012 Financing

On October 19, 2012, the Company announced the October 2012 Financing pursuant to the terms of a non-brokered private placement under which the Company proposed to offer up to 10,000,000 units at a price of $0.20 per unit to result in gross proceeds of up to $2,000,000. Each unit consists of one common share and one non-transferable share purchase warrant entitling the holder thereof to purchase one additional common share at a price of $0.30 each for a period of 24 months from closing (a "November 2014 Unit Warrant'). A Finder's fee consisting of a 5% cash payment and a 5% Finder's warrant (the "November 2014 Finder's Warrants") is payable on sale of certain of the units offered. The November 2014 Finder's Warrants are exercisable on the same basis as the November 2014 Unit Warrants.

On October 31, 2012, the Company completed a partial closing of the October 2012 Financing upon the sale of 3,500,000 units resulting in the receipt of gross proceeds of $700,000. As of November 27, 2012, the Company had closed on the sale of a total of an additional 2,550,000 units resulting in additional gross proceeds of $510,000 for combined gross receipts pursuant to the October 2012 Financing $1,210,000 on sale of 6,050,000 units.

As at November 27,2012, under the terms of the October 2012 Financing, the Company was committed to pay $60,500 in finder's fees and issue 302,500 November 2014 Finder's Warrants.

Proceeds from the October 31, 2012 closing amounting to approximately $700,000 were combined with funds on hand to fund the A$4,500,000 Initial 3 - Well Program Earn-in Obligation that was due on November 1, 2012 and for general working capital purposes. Proceeds from closings subsequent to October 31, 2012 totaling $510,000 were used for general capital purposes and to repay $300,000 in promissory demand notes extended on October 31, 2012 from two directors.

- the May 2012 Financing

On May 11, 2012, pursuant to the terms of an agency agreement, the Company completed the May 2012 Financing that resulted in gross proceeds of $10,652,075 on the issuance of 42,608,300 units at a price of $0.25 each (the "Agency Agreement"). Each unit consisted of one common share and one non-transferable share purchase warrant entitling the holder thereof to purchase one additional common share at a price of $0.30 each at any time up until May 11, 2014 (a "May 2014 Unit Warrant"). Under the terms of the Agency Agreement, the agent was entitled to a cash commission equal to 8% of gross proceeds ($852,166) plus an option to purchase 3,408,664 common shares at a price of $0.25 at any time up until and including May 11, 2014, being 8% of the total number of units sold (the "May 2014 Agent Option"). In addition to the 8% cash commission, the Company has incurred cash issue costs amounting to another $452,229 to cover the Company's related legal, printing, filing, and audit expenses as well as out-of-pocket costs incurred by the Agent resulting in net proceeds to the Company of $9,384,680.

The estimated fair market value of the May 2014 Agent Options totaling $583,712 was determined using the Black-Scholes option pricing model under the following assumptions: a prevailing share market price of $0.30 per share; a risk-free interest rate of 1.5%; an expected life of 2.0 years; expected market volatility of 100% and an expected dividend rate of nil.

The allocation of unit proceeds from the May 2012 Financing was made using the relative residual fair value method under which the estimated fair market value of the warrants is determined using the Black Scholes option pricing model (the "Black Scholes Unit Warrant Value"). The Black Scholes Unit Warrant Value is then added to the quoted market value of the shares and taken as a ratio of the total and applied to the unit offering price to arrive at the Relative Value of the Unit Warrants. The Relative Value of the Unit Warrants is then deducted from the unit offering price to yield the Residual Value of the financing proceeds attributable to the shares. On this basis, $3,719,959 of the gross proceeds from the May 2012 Financing have been allocated as warrant proceeds with the residual balance of $6,932,117 credited to share capital.

The assumptions used in applying the Black-Scholes option pricing model included the prevailing market value of $0.30 per share, volatility of 100%, expected life of 2 years, a risk-free interest rate of 1.5% and a strike price of $0.30 per share and an expected dividend rate of nil.

- December 2010 Reactivation Financing

On December 30, 2010, immediately following the Share Consolidation, the Company completed a non-brokered private placement of 10,245,000 units at a price of $0.15 per unit, for aggregate gross proceeds of $1,536,750. Each unit consisted of one common share and one share purchase warrant entitling the holder thereof to acquire one additional share at a price of $0.30 each at any time up until and including December 30, 2012 (the "December 2012 Unit Warrants"). The proceeds from each unit were allocated as to $0.145 cents per share and as to $0.005 per share purchase warrant.

On November 15, 2012, the Company announced it had submitted an application to the TSX V for the extension to the terms of the 10,245,000 December 2012 Unit Warrants exercisable at a price of $.30 each to extend the expiry dates of those warrants from December 30, 2012 to June 30, 2013. All other terms of the warrants, including the exercise price of $0.30 each will remain the same. The application is subject to the approval of the TSX V.

A finder's fee consisting of 988,000 units was paid in this connection ("December 2010 Finder's Units") for a gross consideration of $148,200. In addition, the Company incurred related issuance costs totaling $14,505 that was paid in cash.

The finder's fee consideration was determined on the basis of $0.145 for each of the shares attached to the Finder's Units and the value of each warrant attached to the Finder's Units was $0.005 ("December 2010 Finder's Warrants").

Exploration and evaluation interests

Immediately subsequent to closing the May 2012 Financing, having met all of the conditions prerequisite to acquisition of the E&E Interests, the Company executed the Farm-in Agreement and paid A$4,700,000 into trust to fund seismic expenditures as contemplated under the terms of the Farm-in Agreement. The Licenses were held temporarily in the name of Alberta Co. pending their assignment to the Company's Australian subsidiary.

As at July 31, 2012, in addition to the seismic obligation, the Company had incurred a total of $996,352 in expenditures that represent acquisition costs against the Farm-in Agreement including cash payments totalling $351,165, 1,000,000 common shares having a deemed market value of $250,000, a A$100,000 (approximately C$105,000) provision for Australian transaction taxes known as stamp duties, transaction costs including due diligence, engineering and legal fees of $235,448 and gains on translation of foreign accounts that amounted to $54,736.

Under the terms of the Farm-in Agreement, the Company can earn up to a 55% working interest in PEL 112 and PEL 444 by completing the following three phases of earn-in obligations:

- Seismic Earn-in Obligation - Terra Nova is obligated to pay the initial A$4,700,000 for the completion of a seismic program sufficient to meet the minimum seismic acquisition requirements for each of PEL 112 and PEL 444 and the interpretation of the acquired data. Any amounts incurred pursuant to the Seismic Earn-in Obligation in excess of A$4,700,000 shall be borne by Terra Nova as to 55% and by the Farmors as to 45%. With respect to completion of the Seismic Earn-in Obligation on each respective PEL, the Company shall have earned a 20% working interest on each PEL. Pursuant to the terms of the Farm-in Agreement, on May 11, 2012, the Company paid A$4,700,000 into the trust account of an Australian escrow agent.

Following completion of the Seismic Earn-in Obligation, the Company shall have the right to earn up to an additional 17.5% working interest in PEL 112 and PEL 444 by completing the following drilling program:

- Initial Well Program - on November 1, 2012 the Company paid the A$4,500,000 Initial 3 - Well Earn-in Obligation into the trust account of an escrow agent. These funds shall be used to pay the dry hole costs associated with the drilling of three test wells, anyone of which must be located on either PEL 112 or PEL 444. Any dry hole costs incurred in excess of A$4,500,000 on the Initial Well Program shall be borne 100% by Terra Nova. In the event Terra Nova elects to complete any wells drilled in connection with the Initial Well Program, the Company shall pay 50% of the completion costs and joint working-interest partners shall pay the remaining 50%. Completion costs do not include any costs to tie a given well into a hydrocarbon gathering system. Upon drilling and abandonment or completion of each well drilled pursuant to the Initial Well Program, the Company shall have earned an additional 5.8333% working interest in each of the PEL's and upon completion or abandonment of the three wells, the Company shall have earned an aggregate 37.5% working interest in PEL 112 and PEL 444.

Following completion of the Initial Well Program, the Company shall have the right to earn up to an additional 17.5% working interest in PEL 112 and PEL 444 by completing the following drilling program:

- Option Well Program - by paying A$4,500,000 into the trust account of an escrow agent on or before the later of March 1, 2013 or 45 days following completion or abandonment of the third well in the Initial Well Program to cover the dry-hole costs associated with up to three option test wells to be drilled by the Company as operator, any one of which must be located on either PEL 112 or PEL 444. In the event that Terra Nova does not make this payment on or before such date, the Company shall have forfeited the right to complete the Option Well Program and to earn any additional working interest in the PEL's. Any dry-hole costs incurred with respect to the Option Well Program in excess of A$4,500,000 shall be borne by Terra Nova as to 55% and by the joint working interest partners as to 45%. In the event that Terra Nova elects to attempt completion of an Option Well, such costs shall be borne by Terra Nova as to 50% and by the Farmors as to 50%. Upon drilling and abandonment or completion of each well drilled pursuant to the Option Well Program, Terra Nova shall be deemed to have earned an additional 5.833% working interest in each of the PEL's.

Any trust funds remaining on account at the end of each of the above three phases shall be applied first as to the funding of any succeeding trust obligation and in the event that Terra Nova elects not to proceed with any of the succeeding phases, any unspent trust funds shall be for the account of the Company. Notwithstanding anything in the joint operating agreement, Terra Nova shall act as operator of the PEL's and shall have the exclusive right to propose to carry out all exploration and development work on these properties, including without limitation seismic work area clearance, Seismic Earn-in Obligation, the Initial Well Program, the Option Well Program and the completion and subsequent operation of any wells. The Farm-in Agreement also provides that with respect to production from each of the six earn-in wells, if any, Terra Nova shall be entitled to 80% of the related revenues until such time as it shall have recovered 100% of its costs associated with the drilling and testing of each respective well. The Farm-in Agreement also contains provisions for such matters as site restoration and non-participation that are typical in the oil and gas exploration industry.

Petroleum Exploration Licenses

Estimated quantities of resources disclosed herein have been prepared by Apex Energy Consultants Inc., an independent qualified reserves evaluator, as set out in its report entitled "Resource Study on PEL112 and PEL444 South Australia Prepared for Terra Nova Minerals Inc." dated April 18, 2012 and effective March 20, 2012 (the "Apex Report"). The Apex Report was prepared in accordance with *National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities*.

Pursuant to the Farm-in Agreement, Terra Nova has acquired the right to acquire from the Farmors up to a 55% working interest in PEL112 and PEL 444, located within the Cooper/Eromanga Basin in the northeast corner of the state of South Australia. The total land holdings for each License held under the Farm-in Agreement are as follows:

	Gross Undeveloped Acres
PEL 112	542,643
PEL 444	582,674
Total	**1,125,317**

Both Licenses are on trend with several discoveries made in the area. The structures on PEL 112 and PEL 444 were initially defined by 2D seismic data acquired from South Australia government sources and from the Farmors.

In accordance with the Apex Report, PEL 112 has prospective resources with a high estimate (P10) of 114 MMBLs and low estimate (P90) of 27.5 MMBLs. PEL 444 has prospective resources with a high estimate (P10) of 21 MMBLs and low estimate (P90) of 6.0 MMBLs.

There is no certainty that any portion of the prospective resources will be discovered and if discovered, there is no certainty those resources or any portion thereof would be commercially and economically viable to produce. Further, even if a discovered resource proved to be commercially viable there is no certainty that the Company could secure the financing or expertise required to put the resources into economically viable production.

"*Prospective Resources*" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

"*Low Estimate or P90*" means a conservative estimate of the quantity that will actually be recovered from the accumulation. It is likely that the actual remaining quantities discovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the low estimate.

"*High Estimate or P10*" means an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10 percent probability that the quantities actually recovered will equal or exceed the high estimate.

Exploration activities

As initially conceived, the Farm-in Agreement contemplated 2-D seismic work on both PEL 112 and PEL 444. In the course of planning this work, management determined that the more successful recent discoveries in the area had relied on 3-D seismic survey data. In this light, and given the geological environment under consideration, management determined that the potential for a successful discovery increased significantly with reliance on the more expensive 3-D seismic data. Accordingly, the Company together with its joint working-interest partners agreed that the development of a 3-D seismic program was in order.

In the period since May 11, 2012, under the provisions of a A$3,870,000 authority for expenditure ("AFE"), the Company initiated, planned and completed a 3-D seismic survey on approximately 127 km² located on PEL 112 (the "3-D PEL 112 Seismic Program"). Following completion of the planning process, the Company secured the services of a seismic contractor who completed the fieldwork on September 19, 2012. Since that time, the Company has been working to process and interpret the data with a view to high-grading the most prospective drilling locations. By late November 2012, the Company anticipates it will be in a position to commence the process of submitting drilling and access applications to the Australian government and where applicable, to indigenous community authorities on proposed drilling sites. On November 13, 2012 Terra Nova announced it had signed a Letter of Intent with an Australian drilling contractor to drill up to three commitment wells on either PEL 112 or PEL 444 in the first quarter of 2013 upon the signing of a definitive on-shore drilling contract. Total cost to complete the 3-D PEL 112 Seismic Program is expected to be in the order of A$3,300,000 leaving a balance of A$1,400,000 that can be used to fund seismic work now being proposed for the PEL 444 3-D Seismic Program.

On November 1, 2012, the Company paid the A$4,500,000 deposit in escrow required to commence drilling on the Initial 3 - Well Program Earn-in Obligation. The proceeds will be applied against 100% of the dry-hole costs incurred to bring the Initial 3-Wells to total depth.

Exploration Plans

Under the terms of the Farm-in Agreement, Terra Nova's first objective was to shoot 3D seismic on PEL 112 and PEL 444. The seismic objective formulated on PEL 112 has been substantially completed and the Company is now in the process of initiating and planning the PEL 444 3-D Seismic Program. Under the provisions of the underlying license agreement for PEL 444, barring any hurdles beyond the Company's control, such as but not exclusive of weather factors or equipment shortages, seismic fieldwork must commence by not later than January 10, 2013.

Under the provisions of the Farm-in Agreement, third-party joint working-interest owners will fund 45% of the proposed A$2,500,000 PEL 444 3-D Seismic Program that exceed A$1,100,000 or approximately A$630,000. This leaves the Company with a requirement for additional financing in the amount of approximately A$770,000. Completion of the PEL 444 3-D Seismic Program will be subject to the Company's ability to secure additional financing in the amount of A$770,000 (approximately C$800,000) as well as receipt of approximately A$630,000 from its third-party joint working-interest partners.

In addition to the results from the PEL 112 3-D Seismic Program, results from the completion of the PEL 444 3-D Seismic Program and the expenditure of A$4,500,000 on dry-hole costs pertaining to the Initial 3-Well Program will significantly impact the Company's ability to secure additional financing that will be required to fund any dry-hole cost overruns incurred in the process of completing the Initial 3-Well Program commitment, as well as to complete, equip, tie-in and produce any successful wells. Accordingly, pending the degree of success in the Initial 3 - Well Program, the Company will be in a position to better assess and define its future exploration plans and requirements. There is no assurance that the Company will be able to secure any additional future financing whatsoever, regardless of whether or not the exploration plans set for the period through April 2013 are successful.

Summary of Unaudited Quarterly Results

All information presented in the table below is in accordance with IFRS. As disclosed in note 13 to the Company's 2012 Financial Statements conversion to IFRS did not result in an adjustment to any of the Company's accounts from those that were previously filed under CGAAP in the period from August 1, 2010 through July, 31, 2011.

	Fiscal Quarters Ended			
	July 31 2012	April 30 2012	January 31 2012	October 31 2011
	$	$	$	$
Total assets	**10,291,225**	730,363	430,384	473,041
Mineral property interest expenditures	**-**	17,869	-	-
Exploration and evaluation interest expenditures	**790,142**	339,190	-	-
Working capital (deficiency)	**8,807,515**	(358,382)	361,061	376,290
Net loss for the quarter	**(581,629)**	(72,384)	(15,229)	(29,981)
Net loss per share	**(0.02)**	(0.01)	-	-

	Fiscal Quarters Ended			
	July 31 2011	April 30 2011	January 31 2011	October 31 2010
	$	$	$	$
Total assets	484,192	499,422	551,072	27,073
Mineral property interest expenditures	-	18,401	30,000	-
Exploration and evaluation interest expenditures	-	-	-	-
Working capital (deficiency)	406,271	417,733	463,621	(956,534)
Loss for the quarter	(39,326)	(278,243)	(72,090)	(34,895)
Loss per share	(0.00)	(0.04)	(0.01)	(0.00)

All comparative loss per share figures presented above reflect the Share Consolidation completed on December 30, 2010 .

Results of operations

Since the change in management that occurred pursuant to the December 2010 Reactivation through the six-months ended January 31, 2012, with exception of costs incurred pursuant to the Reactivation in the quarter ended January 31, 2011, with minimal corporate activity, operating expenses mainly consisted of sustaining regulatory requirements and have generally trended down. However with the transition to oil and gas operations that was initiated during the three months ended April 30, 2012, operating expenses increased significantly. As reported in the MD&A for the nine months ended April 30, 2012, the Company was expecting that operating expenses on a going-forward basis would be in the $100,000 per month range.

This cost structure roughly contemplated:

- management fees and/or a salary of $20,000 each for CEO and COO compensation of which $30,000 is being expensed as management fees with the remaining $10,000 of COO capitalized against E&E expenditures (in accordance with the Company's accounting policies and IFRS) in view of the fact that a large proportion of the COO time was directly spent in the development and monitoring of E&E activities;
- non-audit related accounting fees of $7,500 per month for the cost of the CFO who is retained on an hourly per diem and bookkeeping services provided by a Company in which the CFO is an associate;
- a provision for audit fees of $10,000 per month; a provision for executive travel to and from Australia and other incidental travel of $10,000 per month.

The remaining $42,500 would cover the remaining expenses including legal, office, shareholder communications, filing and transfer agent fees and any other incidentals.

Over the three months ended July 31, 2012, operating expenses at $277,624 generally held within this framework. However it is important to note that during this period, the Company was still undergoing a transition to oil and gas operations with respect to certain facets of the operation such as travel which only amounted to $4,281 did not necessarily reflect a normalized level of operations. Conversely, some expenses such as legal which amounted to $65,421 were considered higher than what would normally be incurred given that the fact that the Company was in the process of completing its corporate organizational structure and related planning.

Accordingly, a comparative analysis of expenses incurred this year with those incurred in the prior year would not be meaningful and the following discussion of operating results for the three months ended July 31, 2012 and the year then ended is presented in the foregoing context.

-Three months ended July 31, 2012

The net loss for the quarter ended July 31, 2012 amounted to $581,629 or $0.02 per share (2011 net loss $39,324 or $0.01 per share).

During the three months ended July 31, 2012, the Company incurred operating expenses totaling $544,542 (2011 - $38,723) or $277,624 (2011 - $10,861) excluding a $265,918 (2011 - $27,862) provision for stock-based compensation recorded on incentive stock options granted or expensed in the respective quarters ended July 31, 2012 and 2011. In the last quarter of 2011, an additional $27,862 provision for stock-based compensation was required to adjust for under-estimated stock-based compensation calculated earlier in 2011 when the 2011 options were originally granted.

In the quarter ended July 31, 2012, as indicated above, operating expenses exclusive of stock-based compensation amounted to $277,624 which was generally consistent with the $100,000 per month projection as discussed above. Major components of this expenditure included:

- management fees of $98,534 to cover compensation expense paid for COO and CEO compensation and $10,000 that was paid to former officers and directors for services they provided in the transition from a mineral resource entity to an oil and gas company;
- legal fees of $65,421 which were considered to be higher than normal in view of the fact that the Company incurred additional legal expenses that related to organizing, calling and convening the August 2012 Special Meeting at which Company shareholders approved the corporate name change, elected a new slate of directors and additional legal advice was required pursuant to the formation of the Company's corporate structure including incorporation of the two Australian subsidiary companies and related due diligence work;
- audit and accounting fees of $41,089 which in addition to approximately $18,000 in non-audit accounting fees cover an increase in the quarterly audit provision that can be reasonably be expected in the circumstances given the initiation of the oil and gas operations and the addition of the Australian subsidiaries;
- office and miscellaneous expenses of $41,150 that reflect the increased office rental expense allocated to the Company for office space occupied by the Company officers and their support staff that amounts to $10,000 per month which is charged to the Company on a month-by-month basis;
- shareholder communications expense of $14,518 and filing and transfer agent fees of $13,608 that are largely attributed to expenses that related to the May 2012 Financing, the corporate name change, the Company's transition to a petroleum and natural gas entity from that of a mineral resource entity and revisions to the company website; and
- travel expenses of $4,281 which as discussed above were lower than what might otherwise be expected on an ongoing basis.

Other income and expense recorded during the three months ended July 31, 2012 included:

- interest income in the amount of $29,183 earned on funds deposited in trust in Australia against which the Australian government withheld taxes in the amount of $13,795 which the Company expects to recover on filing its tax returns; and
- a write off of mineral property interests in the amount of $66,270 which was recognized on the abandonment of the El Capitan mineral property.

-Year ended July 31 2012

The net loss for the year ended July 31, 2012 totaled $699,223 or $0.03 per share (2011 net loss - $424,554 or $0.05 per share).

Operating expenses for the year ended July 31, 2012 totaled $667,386 (2011 - $412,539) of which $265,918 consisted of stock-based compensation (2011 - $278,618) to result in total net cash operating costs of $401,468 (2011 - $133,921). As outlined in the discussion of operations for the three months ended July 31, 2012, cash expenses totaled $271,624 or approximately 68% of total cash operating expenses incurred for the year as business activity increased in light of the Company's operational transition to and entry into the oil and gas industry. The costs associated with this transition are outlined in the preceding discussion for the quarter ended July 31, 2012.

During the year, the Company also recognized a gain of $5,250 (2011 - $1,867) on forgiveness of debt that was incurred pursuant to legacy operations prior to August 1, 2010.

In the period since July 31, 2012, although the Company continued to incur higher than normal legal and audit advisory costs associated with organizing the corporate structure that carried over from the year ended July 31, 2012, operating expenses have generally held to within the original $100,000 framework as presented above. Nonetheless, in view of the additional capital costs contemplated by the 3-D seismic strategy and the fact that the Company was unable to defer the November 1, 2012 deadline for payment of the A$4,500,000 payment into trust pursuant to the Initial 3-Well Earn-in Obligation, management and the board have initiated a determined effort to reduce operating costs commencing November 1, 2012 to the $75,000 monthly range. To this end, the COO and CEO have agreed to reduce their monthly compensation by $5,000 and $15,000 respectively in addition to foregoing approximately $3,000 per month that the CEO was charging for allocated costs of rental of office premises. All members of the management team are working together to ensure that administrative operating expenses are held to the absolute minimum.

- Other comprehensive income ("OCI") recorded in the year ended July 31 2012

In the year ended July 31, 2012, in accordance with its accounting policies, the Company recognized a $280,800 (2011 - $nil) gain that arose on the translation of the Australian subsidiary accounts from A$ into C$. As such gains and losses have not been realized, they are recognized as OCI at the end of the reporting period and carried forward by adding to or deducting from the balance of accumulated OCI ("AOCI") that is recognized as a component of equity attributable to shareholders as presented on the statement of financial position.

The $280,800 recorded in the year ended July 31, 2012 arises largely because of changes in the prevailing exchange rate starting on May 11 2012 when the Company substantially funded the operational requirements of the Australian subsidiary with the purchase of A$4,700,000 at a rate of C$1.006884 per A$1.00. At July 31, 2012, the A$ - C$ exchange rate stood at C$1.053600 per A$1.00. This change is largely attributable to the exchange gain on translation of foreign accounts recognized in OCI as at July 31, 2012.

Contingencies and commitments

IFRS requires an impairment test to assess the recoverable value of E&E Interests within each cash generating unit ("CGU") upon initial adoption and, subsequently, annually or whenever there is an indication of impairment. For purposes of impairment testing, the Company will consider its interests in PEL 112 and PEL 114 to be a single CGU. The recoverable amount of each CGU is based on the higher of value-in-use or fair value less costs to sell. As at July 31, 2012, the Company has determined that no impairment of its E&E interests is warranted.

Although the Company believes that it has title to its E&E interests, and has taken reasonable precautions appropriate in the circumstances, it cannot control or completely protect itself against the risk of title disputes or challenges. In addition, under South Australian State law, the transfer of E&E interests are subject to assessment of a 5.5% stamp duty. As at November 27, 2012, the Company had not yet secured such assessment on the transfer of its interests on execution of the Farm-in Agreement. However, as at July 31, 2012, the Company has taken a provision of $105,000 (A$100,000) which has been included in accounts payable and accruals.

As at July 31, 2012, the Company had advanced A$250,000 (approximately C$263,400) on account against a seismic contractual commitment that commenced during August 2012. The funds were subsequently applied on account in consideration for services provided.

As of November 1, 2012, the Company had advanced the A$4,500,000 Initial 3 - Well Drilling Earn-in Obligation. Under the terms of the Farm-in Agreement, the Company is liable for 100% of the dry hole drilling costs incurred on three wells to total depth. Any dry hole costs incurred to drill the Initial 3 - Well Earn-in Obligation wells in excess of A$4,500,000 will be for the Company's account. Similarly, if after drilling three wells to total depth, to the extent there remains unused funds in escrow, such funds will be for the Company's account.

Further, in order to earn all of the 55% working interests contemplated under the Farm in Agreement, the Company is required to incur in the order of a minimum of A$13,700,000 (of which A$9,200,000 has been funded as of November 1, 2012) and quite possibly more in seismic and estimated dry-hole costs before any provision for its share of the related costs to test, complete, and bring wells to production where merited.

As detailed in note 7 to the audited consolidated financial statements for the year ended July 31, 2012, the Company has committed to the issuance of a significant number of warrants and employee stock options which if exercised will result in the dilution of shareholder interests and ultimately this dilution could have an effect on the Company's ability to complete future equity offerings. The exact quantitative effect of such dilution, if any; cannot be determined.

As outlined in note 8 to the audited consolidated financial statements for the year ended July 31, 2012, the retention of certain key management personnel is subject to management agreements the terms of which expire on April 30, 2015 unless terminated earlier in accordance with the terms of each respective contract. Upon resignation at the Company's request or in the event of a change of control, these agreements provide for termination benefits that can include up to 12 month's basic remuneration plus provisions for payments in lieu of any benefits and bonuses otherwise forfeited on early termination.

The discussion on "financial risk management", note 9 to the audited consolidated financial statements for the year ended July 31, 2012 and as elsewhere contained herein outline the financial risks and contingencies to which the Company is exposed in the course of its day-to-day operations.

The Company's provision for income tax and the related determination of deferred income tax liabilities or assets have been made on the basis of management's judgment which has been determined, in part, on professional advice secured from outside the Company. Nonetheless, there can be no assurance that on final assessment by the respective tax authorities, the amounts purported as future income tax assets and liabilities will not differ from those presented in the financial statements.

Mineral Property Interest and Abandonment

In the period since the Reactivation, the Company had incurred a total expenditure of $66,270 in order retain an option on an undivided 50% interest in a gold prospect known as the El Capitan Property ("El Capitan"). Included in the total expenditure was $17,869 incurred in the current year (2011 - $18,401) for annual filing and title fees paid to the Crown. Following receipt of regulatory approval for the Reactivation, on January 5, 2011, the Company had also made an initial $30,000 option payment to August Metal Corp., a British Columbia company ("AMC") pursuant to the terms of an option agreement with that company (the "El Capitan Option Agreement"). Prior to the end of May 2012, in conjunction with its announced intention to become an oil and gas exploration issuer, the Company exercised its right to terminate the El Capitan Option Agreement by giving 30 days written notice of such termination to AMC. Upon abandonment of this interest, the Company wrote off the total $66,270 it had incurred on El Capitan.

Liquidity

As at July 31, 2012, the Company had working capital of $8,807,515 that included A$4,393,543 (approximately C$4,629,037) held in trust pursuant to Seismic Earn-in Obligations and A$250,000 (approximately C$263,400) deposited on account with a seismic contractor against commencement of the PEL 112 Seismic Program. Accordingly as at July 31, 2012 the Company had uncommitted working capital of $3,915,078. Over the next 12 months, in addition to the A$4,500,000 Initial 3-well Earn-in Obligation due and paid on November 1, 2012, exclusive of dry-hole cost overruns, if any, the Company has monthly operating expenses in the order of at least $75,000 per month, a proposed PEL 444 Seismic Program for which the Company will require approximately an additional A$605,000 (approximately C$630,000) to complete. This results in immediately definable cash requirements excluding any requirements associated with well completion and equipping costs over the 12 months ending July 2013 to approximately $6,000,000.

In the event Terra Nova secures discovery success in the initial three well program or the Company encounters any drilling delays within the initial 3 - Well Program, additional funds will be required. While an exact determination of the amount of funds the Company may ultimately need over the period through November, 2013 is not possible at this time, these additional cash requirements will include any monies to fund the Company's share costs required beyond total depth in order to bring any of the given wells into production.

As at November 27, 2012, the Company had working capital of approximately $6,094,000 that included funds in escrow totaling A$5,660,000 (approximately C$5,900,000) that can be applied as to approximately A$1,100,0000 against the balance of the Seismic Earn-in Obligation and as to A$4,500,000 against the Initial 3 - Well Earn-in Obligation. Accordingly as at November 27, 2012, the Company has uncommitted working capital of approximately $194,000 against which over the next 12 months, it has a minimum requirement for $900,000 in general and administrative expenses and a $800,000 (A$770,000) obligation on the PEL 444 Seismic Program for a total immediate requirement of at least $1,500,000. The forgoing analysis excludes any consideration for dry-hole cost over-runs encountered in drilling the 3 wells pursuant to the upcoming Initial 3 - Well Earn-in Obligation or any related completing, equipping and tie-in costs, if merited.

There can be no assurance that the Company will be able to secure any additional financing; whatsoever, regardless of whether or not the completed seismic or drilling programs yield commercially attractive results.

Key management compensation

Key management includes current and former senior officers and directors (executive and non-executive) of the Company. The Company incurred the following expenditures for services and short-term benefits provided to the Company by key management as follows:

	2012	2011
	$	$
Non-audit accounting fees	**28,621**	11,715
Management fees	**100,000**	23,500
Exploration and evaluation interests	**148,042**	-
Share Issuance costs	**53,780**	14,505
Share-based compensation	**212,734**	278,618
	543,177	328,338

The amounts charged were the exchange amounts, which was the amount of consideration established and agreed upon by the parties.

The retention of certain key management personnel is subject to management agreements that expire, the terms of which expire on April 30, 2015 unless terminated earlier in accordance with the terms of each respective contract. Upon resignation at the group's request or in the event of a change of control, these agreements provide for termination benefits that can include up to 12 month's basic remuneration plus provisions for payments in lieu of any benefits and otherwise forfeited on early termination.

Some key management personnel, or their related parties, may hold positions in other entities whose services are retained by the Company. In such instances, these appointments result in the Company's key management personnel representing those related parties in which they hold control or significant influence over the financial or operating policies of these entities. Details of transactions with these related parties can be found in the discussion presented under the heading "**Related parties**" below.

Related parties

Following execution of the Farm-in Agreement, the chairman of the company that acts as the principal representative for the farmor group was appointed as a company director. Since that time, Terra Nova has not entered into any transactions or commitments with that company other than as they pertain to transactions incurred pursuant to the terms of the Farm-in Agreement.

On October 31, 2012, the Company received a total of $300,000 from two Company directors upon the issuance of 3% demand promissory notes. Proceeds from the notes were used to partially fund the A$4,500,000 Earn-in Obligation that was due and paid on November 1, 2012 to fund dry hole costs associated with the Initial 3-Well Program.

Included in accounts payable and accrued liabilities as at July 31, 2012 is $92,548 (July 31, 2011 - $150) due to the related parties. The amounts owing were unsecured, non-interest bearing and due on demand.

Since April 30, 2012, Terra Nova's chief operating officer who is retained on a management consulting fee as included in the disclosure under "Key management compensation" - note 8 of the Consolidated Financial Statements is also the chief operating decision-maker for the Company's primary geological consulting firm, Apex Energy Consultants Inc. ("Apex") who the Company has retained as a consultant pursuant to the terms of a formal agreement As at July 31, 2012, under the terms of the this agreement the Company had paid a total of $198,401 to Apex that included a total of $98,401 for services and out-of-pocket expenses charged to the Company other than amounts charged with respect to a monthly retainer entitlement. All payments to Apex other than out-of-pocket expenses have been included the disclosure presented under key management compensation in note 8 of the Consolidated Financial Statements.

In addition, the Company's wholly-owned subsidiaries are considered to be related parties. Upon consolidation of its accounts, the Company eliminates the effect of any intercompany transactions with these companies. The Company has no subsidiary interests, the accounts of which have been excluded from these consolidated financial statements.

International Financial Reporting Standards ("IFRS")

For fiscal years beginning after January 1, 2011 Canadian publicly listed entities are required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date for the Company is August 1, 2010.

The Company's IFRS conversion team identified four phases to the Company's conversion: scoping and planning, detailed assessment, implementation and post-implementation. The Company has now completed its IFRS conversion project through the implementation phase. The post-implementation phase will continue in future periods, as outlined below.

As disclosed in notes 2, and 13 to the accompanying audited consolidated financial statements for the year ended May 31, 2012, implementation of accounting policies under IFRS did not result in any changes to the accounts.

The conversion to IFRS has had minimal impact on the financial record keeping and financial disclosures of the Company. Internal controls were unaffected by the IFRS conversion. Accounting systems have been assessed and re-configured as required to ensure accurate reporting under IFRS, both internally and externally.

Transitional Financial Impact

The Company's financial statements for the year ending July 31, 2012 are the first annual financial statements that have been prepared in accordance with IFRS. The Company adopted IFRS on August 1, 2011 with transition date of August 1, 2010.

On conversion to IFRS, the Company has elected to apply the following exemptions to:

- not restate business combinations that occurred prior to the Transition Date and the accounting thereof;
- not to restate the accounting for any compound financial instruments issued and settled by the Company prior to the Transition Date;
- apply IFRS 2 'Share-based Payments', to liabilities arising from share-based payment transactions that were settled before the Transition Date; and,

After applying the above exemptions, the Company did not recognize any adjustments on transition to IFRS as at August 1, 2010:

Post-implementation

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. It should also be noted that the standard setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that the Company has selected. In particular, there may be additional new or revised IFRS policies or further interpretations from the International Financial Reporting Issues Committee ("IFRIC") in relation to consolidation, financial instruments, and leases. It should also be noted that the International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact the Company's financial statements primarily in the areas of capitalization of exploration costs and disclosures. The Company has processes in place to ensure that potential changes are monitored and evaluated. The impact of any new policies under IFRS and IFRIC interpretations will be evaluated as they are drafted and published.

IFRS Accounting Standards Issued but not yet Applied

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not completed its assessment of the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. The following is a brief summary of the principal new standards:

IFRS-9 - *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition. IFRS-9 is expected to be published in three parts. The first part, Phase 1 – classification and measurement of financial instruments sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Phase 1 simplifies the measurement of financial assets by classifying all financial assets as those being recorded at amortized cost or being recorded at fair value. Phase 1 is effective for periods beginning on or after January 1, 2015, although earlier adoption is allowed. Except for certain additional disclosures, the adoption of this standard is not expected to have an impact on the Company's financial statements.

In 2011, the International Accounting Standards Board ("IASB") issued the following new and revised IFRSs effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted providing that IFRS-10, IFRS-11, IFRS-12, IAS-27 and IAS-28 are adopted together, except that IFRS-12 may be adopted earlier. The Company is currently assessing the impact of adopting these pronouncements.

IFRS-10 - *Consolidated Financial Statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS-10 replaces those parts of IAS-27 Consolidated and Separate Financial Statements (revised 2011) that address when and how an entity should prepare consolidated financial statements and replaces SIC-12 Consolidation – Special Purpose Entities in its entirety. IAS-27 retains the current guidance for separate financial statements.

IFRS-11 - *Joint Arrangements* provides for a more substance based reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS-11 supersedes IAS-31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures. IAS-28 Investments in Associates and Joint Ventures (revised 2011) has been amended to conform to changes based on the issuance of IFRS-10 and IFRS-11.

IFRS-12 - *Disclosure of Interests in Other Entities* requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The effective date of IFRS-12 is January 1, 2013 but entities are permitted to incorporate any of the new disclosures in their financial statements before that date.

IFRS-13 - *Fair Value Measurement* establishes a single framework for measuring fair values. This standard applies to all transactions and balances (whether financial or non-financial) for which IFRS requires or permits fair value measurements, with the exception of share-based payment transactions accounted for under IFRS-2 Share-based Payment and leasing transactions within the scope of IAS-17 Leases. IFRS-13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements.

Selected annual audited financial data

The following table sets forth selected annual financial data as extracted from the audited financial statements for each of the last three fiscal years ended:

	Fiscal years ended		
	2012	**2011**	**2010**
	$	**$**	**$**
Total assets	10,291,225	484,191	27,365
Mineral property interests	-	48,401	-
Exploration and evaluation interests	1,129,332	-	-
Working capital (deficiency)	8,807,515	406,271	(921,637)
Loss for the year	(699,223)	(424,554)	(785,515)
Loss per share	(0.03)	(0.05)	(0.40)

Off-balance sheet arrangements

The Company has not entered into any off-balance sheet arrangements other than previously discussed in the MD&A.

Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- Credit risk
- Market risk
- Liquidity risk

The following discussion presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks encountered by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. The maximum exposure to credit risk at year-end is as follows:

	July 31 2012	**July 31 2011**
	$	$
Funds deposited on account	**263,400**	**-**

- Funds deposited on account, trade and other receivables:

At July 31, 2012, the Company's credit risk related to funds deposited on account with a service provider pursuant to a contractual commitment .

Receivables from participants in the petroleum and natural gas sector, and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs. As operator, the Company will not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however the Company will generally cash call on major projects and does have the ability, in most cases, to withhold production from joint venture partners in the event of non-payment, or withhold accounts payable remittances.

The total carrying amount of accounts receivable and funds deposited on account as at July 31, 2012 totalled A$4,643,543 (approximately C$4,892,437) (July 31, 2011 - nil) represented the maximum credit exposure. As at July 31, 2012 and July 31, 2011, the Company did not have any receivables and consequently the Company does not consider any receivables to be past due.

Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return.

- Foreign currency exchange rate risk:

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at July 31, 2012, cash held-in-trust totalling A$4,393,543 (approximately C$4,629,037 related to the Seismic Earn-in expenditure obligation. Going forward, future petroleum and natural gas sales and production operations, if any, will be conducted primarily in Australia and denominated in Australian dollars. As such, the Company is exposed to any fluctuations in the Australian dollar to Canadian dollar exchange rate.

- Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Except to the extent that the balance of cash held-in trust as at July 31, 2012 totalling A$4,393,543 (approximately C$4,629,037) is earning interest at the rate of approximately 4%, the Company has no financial instruments that could otherwise be exposed to interest rate risk.

- Commodity price risk:

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian dollar and Australian dollar, the Canadian dollar and United States dollar, and global economic events that dictate the levels of supply and demand.

Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's financial liabilities consist of accounts payable and accruals. Accounts payable consists of invoices payable to trade suppliers for office, State of South Australia stamp transfer taxes, field operating activities and capital expenditures. The Company processes invoices within a normal payment period. Accounts payable have contractual maturities of less than one year. The Company maintains and monitors a certain level of cash flow which is used to finance all operating and capital expenditures.

Capital management:

The Company's objective when managing capital is to maintain a flexible capital structure which allows it to execute its growth strategy through strategic acquisitions and expenditures on exploration and development activities while maintaining a strong financial position. The Company's capital structure includes working capital and shareholders' equity. Currently, total capital resources available include working capital which as at July 31, 2012 included cash held-in trust pursuant to the terms of the Farm-in Agreement.

In addition to the possibility of securing additional joint working interest partners, that would result in a dilution of the Company's E&E interests, the Company is largely reliant on junior resource venture capital markets for additional financing requirements. There can be no assurance that funding from this source can be secured at any given time; or, if available, in quantities and under terms that meet Company requirements or that are acceptable to the Company.

The Company's capital expenditure includes expenditures in oil and gas activities which may or may not be successful. The Company makes adjustments to the capital structure in light of changes in economic conditions, and in the immediate term, the results of seismic data collected over the course of completing the Seismic Earn-in Obligation and the related proposed Post Earn-in Seismic Obligation as well as the risk characteristics of the underlying petroleum and natural gas assets. In order to maintain or adjust the capital structure, the Company may, from time to time, issue shares, adjust its capital spending or issue debt instruments. The Company is not subject to any externally imposed capital requirements other than covenants pursuant to the Farm-in Agreement.

Terra Nova has not utilized bank loans or debt capital to finance capital expenditures to date, nor can the Company be expected to be in a position to secure a loan / credit facility against production and cash flow in Australia at least until such time as the Company has demonstrable reserves and commercially viable production, if ever.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below.

Critical judgments in applying accounting policies key sources of estimation uncertainty:

Critical judgments that management has made in the process of applying the Company's accounting policies and the related key sources of estimation uncertainty that could have the most significant effect on the amounts recognized in these audited consolidated financial statements are as follows:

(i) Reserves

As at July 31, 2012, the Company did not have any petroleum and natural gas reserves. However, the estimation of reported recoverable quantities of proved and probable reserves include judgmental assumptions regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets and liabilities due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from any future Terra Nova petroleum and natural gas interests are independently evaluated by reserve engineers annually.

Any calculations of petroleum and natural gas reserves represent estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon a reasonable assessment of the future economics of such production, a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production, and evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if the ability to produce is supported by either production or conclusive formation tests. Terra Nova's petroleum and gas reserves are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

(ii) Identification of cash-generating units

Terra Nova's assets are aggregated into cash-generating units, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

(iii) Share-based payments

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

(iv) Decommissioning obligations

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows. As at July 31, 2012, the Company was not liable for any decommissioning liabilities.

(v) Impairment of petroleum and natural gas assets

For the purposes of determining whether impairment of petroleum and natural gas assets has occurred, and the extent of any impairment or its reversal, the key assumptions the Company uses in estimating future cash flows are future petroleum and natural gas prices, expected production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amounts of assets, and impairment charges and reversal will affect profit or loss. As at July 31, 2012, the Company determined that no impairment of its E&E interests was warranted.

(vi) Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

Outstanding Share Data - Subject to final determination on filing date

The following table describes the Company's share capital structure as at November 27, 2012, the date of this MD&A. These figures may be subject to minor accounting adjustments prior to presentation in future financial statements.

	Weighted average price per share	Total Number of common Shares
Common shares		63,757,197
Agent options expiring May 2014	$ 0.25	3,408,664
Warrants expiring June 2013	$ 0.30	10,245,000
Finder's Warrants expiring, December 2012	$ 0.30	9880,000
Warrants expiring, May 2014	$ 0.30	42,608,300
Warrants expiring November 2014	$ 0.30	6,050,000
Incentive options. expiring May 2022	$ 0.30	2,750,000

In addition to the above, as at November 27, 2012, under the terms of the October 2012 Financing, the Company was committed to issue 302,500 November 2014 Finder's Warrants.

Risks and Uncertainties

Certain risks are faced by the Company which could affect its financial position. In general they relate to the availability of equity capital to finance the acquisition, exploration and development of existing and future exploration and development projects. The availability of equity capital to junior oil and gas companies is affected by commodity prices, global economic conditions and economic conditions and government policies in the countries of operation, among other things. These factors are beyond the control of the management of the Company and have a direct effect on the Company's ability to raise capital.

The Company's working capital and liquidity will fluctuate in proportion to its ongoing equity financing activities. The Company requires a certain amount of liquid capital in order to sustain its operations and in order to meet various obligations as specified under the its resource property acquisition agreements. Should the Company fail to obtain future equity financing due to reasons as described above, it will not be able to meet these obligations and may lose its interests in the properties covered by the agreements. Further, should the Company be unable to obtain sufficient equity financing for working capital, it may be unable to meet its ongoing operational commitments.

All of the Company's oil and gas properties are in the exploration stage and without known reserves. Exploration, development and production of oil and gas involves substantial expenditures and a high degree of risk. Few properties which are explored are ultimately developed into producing properties. Accordingly, the Company has no material revenue, writes off its oil and gas interests from time to time, and operates at a loss. Continued operations are dependent upon ongoing equity financing activities.

Disclosure Controls and Procedures

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the audited consolidated financial statements for the year ended July 31, 2012 and this accompanying MD&A (the "Annual Filing").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Annual Filings on SEDAR at www.sedar.com.

Outlook

As outlined in the forgoing liquidity discussion, although Terra Nova has successfully performed everything it has set out to do in a timely and cost effective manner, as contemplated from the outset, the Company now has an immediate need for at least $1,500,000, and more, if drilling results merit expenditure on completion and equipping costs. Recognition for this requirement has been acknowledged ever since the Company undertook the obligations contemplated under the Farm-in Agreement when the transition into the petroleum and natural gas sector was initiated.

Since that time, the Company has secured the rights to explore more than 4500 km² underlying PEL112 and PEL 444 located on the Western Flank of the Cooper-Eromanga Basin in South Australia. The PEL's are in an area in which recent oil discoveries, based largely on 3-D seismic, suggest there is considerable potential for further discoveries. Having secured over $10,000,000 in financing in just eight months, the Company is now in the final stages of completing interpretation of an A$3,300,000, 127 km² 3-D seismic survey completed on PEL 112. The survey objective was to identify prospective drilling locations for the upcoming drilling program that is now scheduled to commence in early 2013. The Company has now funded A$4,500,000 in Escrow in Australia to cover the costs of this drilling program. In addition, the Company is now in the planning stages to initiate the proposed A$2,500,000 PEL 444 Seismic 444 Program for which the Company share will be approximately A$1,900,000 of which the Company now has A$1,100,000 in escrow leaving a requirement for additional financing of approximately A$800,000.

At this point, the Directors remain encouraged by the results experienced to date and are focused on near term operational business objectives, including high-grading drilling locations to be targeted within the initial drilling program and on the securing of additional financing that will be required to complete the proposed PEL 444 Seismic Program and meet operating requirements over the next 12 months in order to move the Company from the exploration stage into the development stage.

Other Information

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com.