# Terra Nova Energy Ltd.

## Condensed Interim Consolidated Financial Statements
## (Unaudited)

### Three months ended October 31, 2012

*(Expressed in Canadian Dollars)*

# Notice of no Auditor Review of

# Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# Terra Nova Energy Ltd.

Condensed Consolidated Statement of Financial Position

**(unaudited)**

*[Expressed in Canadian Dollars]*

| | October 31 2012 | July 31 2012 |
|---|---|---|
| | | $ |
| **Assets** | | |
| **Current** | | |
| Cash | **26,665** | 4,181,307 |
| Cash held-in-trust - notes 2 and 3 | **5,788,491** | 4,629,037 |
| GST/HST recoverable | **370,877** | 71,677 |
| Recoverable withholding taxes paid on interest earned | **13,570** | 13,795 |
| Funds deposited on account - note 3 | **-** | 263,400 |
| Pre-paid expenses | **47,265** | 2,677 |
| | **6,246,868** | 9,161,893 |
| Equipment | **43,222** | |
| Exploration and evaluation interests - notes 1 and 3 | **4,818,198** | 1,129,332 |
| | **11,108,288** | 10,291,225 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accruals - note 6 | **522,050** | 354,378 |
| Promissory notes- note 4 and 7 | **300,000** | - |
| | **822,050** | 354,378 |
| **Equity Attributable to Shareholders** | | |
| Share capital - note 5 | **23,472,532** | 23,013,555 |
| Contibuted surplus | **6,021,651** | 5,789,878 |
| Accumulated other comprehensive income | **344,585** | 280,800 |
| Deficit | **(19,552,530)** | (19,147,386) |
| | **10,286,238** | 9,936,847 |
| | **11,108,288** | 10,291,225 |

**Nature of operations** - note 1
**Basis of presentation and going concern** - note 2
**Commitments and contingencies -** notes 2, 3, 4, 5, 6 and 7
**Subsequent events** - notes 1, 3, 4, 5 and 7

These financial statements were approved by the board of directors on December 21, 2012.

***The accompanying notes are an integral part of these financial statements.***

# Terra Nova Energy Ltd.

Consolidated Statement of Loss and Comprehensive Loss

**(unaudited)**

Three Months ended October 31

*[Expressed in Canadian Dollars]*

| | 2012 | 2011 |
|---|---|---|
| | **$** | $ |
| **Expenses** | | |
| Audit | **(41,181)** | (4,551) |
| Filing and transfer agent | **(26,264)** | (3,022) |
| Depreciation | **(3,930)** | - |
| Legal | **(99,431)** | (3,300) |
| Management - note 6 | **(114,908)** | (8,500) |
| Office and miscellaneous | **(48,559)** | (10,564) |
| Shareholder communications | **(36,936)** | (44) |
| Stock-based compensation - notes 5 and 6 | **(33,890)** | - |
| Travel and related | **(35,064)** | - |
| | **(440,163)** | (29,981) |
| **Other income (expense)** | | |
| Interest | **35,019** | - |
| **Net loss** | **(405,144)** | (29,981) |
| **Other comprehensive income** | | |
| Exchange gain on translation of foreign accounts | **63,785** | - |
| **Net loss and comprehensive loss** | **(341,359)** | (29,981) |
| **Loss per share - basic and diluted** | **(0.01)** | (0.00) |
| **Weighted average number of shares outstanding - basic and diluted** | **57,745,240** | 14,098,897 |

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***The accompanying notes are an integral part of these financial statements.***

# Terra Nova Energy Ltd.

Condensed Interim Consolidated Statement of Cash Flows

**(unaudited)**

Three months ended October 31

*[Expressed in Canadian Dollars]*

| | 2012 | 2011 |
|---|---|---|
| | **$** | **$** |
| Cash Provided From (Used in): | | |
| **Operating Activities** | | |
| Net loss for the year | **(405,144)** | (29,981) |
| Items not affecting cash: | | |
| Stock-based compensation | **33,890** | - |
| Depreciation | **3,930** | - |
| | **(367,324)** | (29,981) |
| Net change in non-cash working capital items | | |
| GST/HST recoverable | **(288,602)** | 4,834 |
| Pre-paid expenses | **(44,588)** | - |
| Accounts payable and accruals | **139,007** | 18,831 |
| | **(561,507)** | (6,316) |
| **Financing Activities** | | |
| Proceeds from securities issued | **700,000** | - |
| Share issuance costs | **(43,140)** | - |
| Proceeds on promissory notes isssued | **300,000** | - |
| | **956,860** | - |
| **Investing Activities** | | |
| Equipment | **(45,496)** | - |
| Exploration and evaluation interests | **(3,247,811)** | - |
| | **(3,293,307)** | - |
| **Foreign exchange gain on cash held in foreign currencies** | **(97,234)** | - |
| Increase in cash | **(2,995,188)** | (6,316) |
| Cash - beginning of year | **8,810,344** | 428,200 |
| Cash and cash held-in-trust - end of year | **5,815,156** | 421,884 |

**Supplemental cash flow information - note 8**

***The accompanying notes are an integral part of these financial statements.***

# Terra Nova Energy Ltd.

Condensed Interim Consolidated Statement of Changes in Equity Attributable to Shareholders

**(unaudited)**

Three months ended October 31

*[Expressed in Canadian Dollars]*

| | Number of common shares | Share Capital | Contributed Surplus | Deficit | Accumulated other comprehensive income | Total Equity |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| Balance - July 31, 2011 | 14,098,897 | 17,682,546 | 1,220,289 | (18,448,163) | - | 454,672 |
| Net loss for the period | - | - | - | (29,981) | - | (29,981) |
| Balance, October 31, 2011 | 14,098,897 | 17,682,546 | 1,220,289 | (18,478,144) | - | 424,691 |
| Balance - July 31, 2012 | 57,707,197 | 23,013,555 | 5,789,878 | (19,147,386) | 280,800 | 9,936,847 |
| Shares issued for cash | 3,500,000 | 513,702 | 186,298 | - | - | 700,000 |
| Issue costs paid in consideration for | | | | | | |
| Cash | - | (43,140) | - | - | - | (43,140) |
| Finders' warrants | - | (11,585) | 11,585 | - | - | - |
| Stock-based compensation | - | - | 33,890 | - | - | 33,890 |
| Net loss for the period | - | - | - | (405,144) | - | (405,144) |
| Exchange gain on translation of foreign accounts | - | - | - | - | 63,785 | 63,785 |
| **Balance, October 31, 2012** | **61,207,197** | **23,472,532** | **6,021,651** | **(19,552,530)** | **344,585** | **10,286,238** |

***The accompanying notes are an integral part of these financial statements.***

## 1. Nature of operations

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, shareholders voted in favour 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 Company’s 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 corporate head office is located at Suite 700, 444 Fifth Avenue SW, Calgary, Alberta, T2P 2T8.

These unaudited condensed interim financial statements include the accounts of the Company and its wholly owned subsidiary Terra Nova Resources Inc. (incorporated under the laws of Alberta on March 2020, 2012) and its wholly-owned Australian subsidiaries, Terra Nova Holdings (Australia) Pty. Ltd. and its wholly-owned subsidiary Terra Nova Energy (Australia) Pty. Ltd. both of which were incorporated on June 5, 2012 under the laws of the State of Queensland, Australia.

In conjunction with the completion of a $10,652,075 brokered private placement Financing (the "May 2012 Financing"), the Company executed an oil and gas farm-in agreement to secure the right to earn up to a 55% working interest in petroleum and natural gas rights on certain on-shore Australian Petroleum Exploration Licenses ("PEL's"), known as PEL's 112 and 444 (the "Exploration and Evaluation Interests" or "E&E Interests") in Australia (the "Farm-in Agreement").

On executing the Farm-in Agreement, the Company ceased to operate as a mineral resource entity.

During the period October 31, 2012 through December 5, 2012 the Company completed a $1,290,000 non-brokered private placement financing (the "October 2012 Financing").

## 2. Basis of preparation and going-concern

### a) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including *IAS 34 - Interim Financial Reporting.* These unaudited financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended July 31, 2012 which have been prepared in accordance with IFRS as issued by the IASB.

In the preparation of these unaudited interim condensed consolidated financial statements, the Company has used the same accounting policies and methods of computation as those disclosed in the audited annual consolidated financial statements for the year ended July 31, 2012.

### b) Going concern

Since inception, operations of the Company have primarily been funded by the issuance of common shares. In addition to assessing the merits of the E&E Interests currently held by the Company, it is likely the Company will seek additional E&E opportunities, which will require additional financing.

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS") on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company’s ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. While the Company is employing its best efforts in this regard, the outcome of these matters cannot be predicted at this time. Accordingly, these financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments in other than the normal course of business and at amounts different from those reported in these consolidated financial statements.

*[Expressed in Canadian Dollars]*

There is significant doubt about the Company's ability to continue as a going concern. As at October 31, 2012 the Company had spent approximately A$3,300,000 to complete seismic work required to earn its interests on PEL 112. The Company's remaining earn-in obligations will require a minimum additional expenditure of another A$10,700,000 exclusive of any drilling cost overruns, completion and equipping costs if warranted, and additional funds required to complete seismic on PEL 444. The exact amount of additional funding required to meet these obligations will depend on how the Company is able to address these issues and the outcome of drilling results. As at October 31, 2012, the Company has $5,788,491 (approximately A$5,560,000) deposited in trust that is available to meet these obligations.

During the three months ended October 31, 2012, the Company incurred net losses of $405,144 (year ended July 2012 - $699,223) and as at October 31, 2012 had accumulated losses of $19,552,530 (July 31, 2012 - $19,147,386) and can be expected to incur losses for the foreseeable future. As at October 31, 2012, the Company had working capital available for future operations amounting to 5,424,812 that includes the $5,788,491 held in trust (July 31, 2012 - $8,807,515) which is insufficient to meet operating and property exploration requirements as contemplated under the Farm-in Agreement over the next twelve months. Accordingly, in order to meet its operating obligations as currently contemplated and any incremental exploration expenditures, the Company will require additional financing.

There can be no assurance that any additional financing can be secured.

## 3. Exploration and evaluation interests

Exploration and evaluation interests consist of two components as follows:

| | **October 31 2012** | July 31 2012 |
|---|---|---|
| | **$** | $ |
| Holloman Farm-in Agreement acquisition costs | **996,352** | 941,616 |
| Deferred Seismic Earn-in Obligation expenditures | **3,652,623** | 132,980 |
| Effects of translation of foreign accounts | **169,223** | 54,736 |
| | **4,818,198** | 1,129,332 |

### a) Farm-in Agreement

The purchase price paid for the E&E rights totaled $996,352 included cash payments that totaled $351,165 (US$350,000), 1,000,000 common shares having a market value of $250,000, an A$100,000 (approximately C$105,000) contingency for Australian stamp duties (note 3(d) below), transaction costs including directly attributable due diligence and legal fees of $235,448.

The salient terms of the Farm-in Agreement require staged payments into trust against earn-in obligations as follows:

*[Expressed in Canadian Dollars]*

| **Earn-in Obligation stage** | **Due date** | **Trust account payment** | **Working interest earned on completion** |
|---|---|---|---|
| | | **A$** | |
| Seismic | Paid | 4,700,000 | 0.20 |
| Initial 3 - Well Program | Paid | 4,500,000 | 5.8333% per well |
| Option 3 - Well Program | later of March 1, 2013 or 45 days after completion of the Initial 3 - Well Program | 4,500,000 | 5.8333% per well |
| **Total** | | **13,700,000** | **up to 55%** |

The above referenced working interests cover interests earned in both PEL 112 and 444. The A$4,500,000 Payment on the Initial 3 - Well Program Earn-in Obligation was made on October 31, 2012.

The above referenced trust account payments with respect to each of the Initial and Option Well Programs are to cover estimated total dry-hole costs for each Program. The Company is liable for any dry hole cost overruns incurred pursuant to the Initial 3 - Well Program and up to a maximum of the first A$4,500,000 and 55% thereafter in dry-hole costs incurred pursuant to the Option 3 - Well Program. Completion, equipping and costs to tie into a hydrocarbon gathering system (if available) shall be borne Terra Nova as to 50% and by the Farmors as to 50%. Under the terms of the Farm-in Agreement, Terra Nova shall be entitled to 80% of the revenues earned from each of the wells drilled under the Initial Well Program and the Option Well Program until such time as it shall have recovered 100% associated with the drilling and testing of each respective well, otherwise known as "payout".

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 contains various provisions in clauses for such matters as site restoration and non-participation that are typical in the oil and gas exploration industry.

**b) Seismic projects**

On May 11, 2012 Terra Nova paid the initial A$4,700,000 into trust to cover costs to complete a seismic program sufficient to meet the minimum seismic acquisition requirements for each of PEL 112 and 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%. As at October 31, 2012, the balance of seismic funds in trust account amounted to A$1,083,000 (approximately C$1,122,400) plus recoverable GST expenditures in the order of A$310,000 (approximately C$321,200)).

As at October 31, 2012, the Company had made seismic expenditures totaling $3,652,623 which had substantially fulfilled the Seismic obligation on PEL 112 (July 31, 2012 - $132,980 plus a deposit of

$263,400). as at December 21, 2012, the Company and its working interest partners have yet to finalize funding and an exploration plan for fulfillment of the seismic obligation on PEL 444

**c) Initial 3 - Well Program Earn-in Obligation**

As at October 31, 2012, the Company had made the A$4,500,000 payment due pursuant to the Initial 3 - Well Program Earn-in Obligation against which minimal expenditures had been drawn.

**d) Contingencies and commitments**

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 may be subject to assessment of a 5.5% stamp duty. As at December 21, 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 $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.

Further, in order to earn all of the 55% working interests contemplated under the Farm in Agreement, the Company is required to incur minimum Earn-in Obligation expenditures in the order of A$13,700,000 ($4.5 million of which remains to be paid in the future) as well as additional seismic expenditures, dry-hole cost overruns before any provision for its share of the related costs to test, complete, and bring wells to production where merited.

## 4. Promissory notes

On October 31, 2012, pursuant to the terms of unsecured 3% demand promissory notes with two Company directors, the Company received a total of $300,000. Proceeds from the notes were used primarily to fund the A$4,500,000 Earn-in Obligation that was due and paid on October 31, 2012 to fund dry hole costs associated with the Initial 3-Well Program Earn-in Obligation. As of November 27, 2012, the Company had repaid the 3% demand promissory notes in full.

## 5. Share capital

**a) Authorized:**

An unlimited number of common shares without par value.

**b) October 2012 Financing**

On October 19, 2012, the Company announced a proposed non-brokered private placement for 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 (the "October 2012 Financing"). As of the final closing on December 5, 2012, the October 2012 Financing had resulted in the sale of a total 6,450,000 units to result in gross proceeds of $1,290,000. 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 "October 2012 Financing Unit Warrant"). A Finder's fee consisting of a 5% cash payment and a 5% Finder's warrant (the "December 2014 Finder's Warrants") is payable on sale of certain of the units offered. The December 2014 Finder's Warrants expire on December 5, 2014 and are exercisable on the same basis as the October 2012 Financing Unit Warrants.

As at October 31, 2012, the Company had 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 against which the Company is liable for cash issue costs totaling $43,140, including finders' fees of $35,000 and related legal, filing and transaction costs of $8,140.

The allocation of unit proceeds received up until October 21, 2012 from the October 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. Accordingly, based on the total $700,000 in proceeds received as at October 31, 2012, $186,298 has been allocated as warrant proceeds with the residual balance of $513,702 credited to share capital.

The assumptions used in applying the Black-Scholes option pricing model included the prevailing market value of $0.18 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.

As at December 14, 2012, under the terms of the October 2012 Financing, the Company had paid a total of $64,500 in finder's fees and issued 322,500 December 2014 Finder's Warrants (including 175,000 of which that were allotted with but not issued as of October 31, 2012 with respect to the 3,500,000 shares issued on that date for a total consideration of $11,585) on closing of the October 2012 Financing.

As the October 2012 Financing was completed in stages, the 6,450,000 October 2012 Financing Unit Warrants exercisable at a price of $0.30 each expire 24 months from the date of each respective closing as follows: as to 3,500,000 warrants on October 31, 2014 (the "October 2014 Unit Warrants"); as to 1,000,000 warrants on November 6, 2014 (the "November 6, 2014 Unit Warrants"; as to 1,550,000 warrants on November 26, 2012 (the November 26, 2014 Unit Warrants; and, as to 400,000 warrants on December 5, 2014 (the "December 2014 Unit 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 $590,000 were used for general working capital purposes and to repay the $300,000 promissory demand notes extended on October 31, 2012 from two directors (note 4).

**c) Per share amounts**

Per share amounts have been calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three months ended October 31, 2012 was 57,745,240 (October 31, 2011 - 14,098,897). The average number of common shares outstanding was not increased for outstanding stock options and warrants as the effect on loss per share calculations would be anti-dilutive.

**d) Warrants and Agent Options outstanding**

Changes in the balance of warrants and Agent Options outstanding during the three months ended October 31, 2012 were as follows:

*[Expressed in Canadian Dollars]*

| | Weighted average exercise price per share | Remaining life | Number issuable |
|---|---|---|---|
| | $ | (years) | (shares) |
| Total warrants and agent options outstanding, July 31, 2012 | 0.30 | 1.51 | 57,249,964 |
| Exercised during the period | - | - | - |
| Issued during the period | 0.30 | 2.00 | 3,675,000 |
| Total warrants and agent options outstanding, July 31, 2012 | 0.30 | 1.39 | 60,924,964 |

As at October 31, 2012, the balance of warrants and Agent Options outstanding was as follows:

| | Expiry date | Weighted average exercise price per share | Remaining life | Number issuable |
|---|---|---|---|---|
| | | $ | (years) | (shares) |
| December 2012 Unit Warrants | as extended from December 30, 2012 to June 30, 2013 | 0.30 | 0.66 | 10,245,000 |
| December 2012 Finder's Unit Warrants | December 30, 2012 | 0.30 | 0.16 | 988,000 |
| May 2014 Unit Warrants | May 11, 2014 | 0.30 | 1.53 | 42,608,300 |
| May 2014 Agent Options | May 11, 2014 | 0.25 | 1.53 | 3,408,664 |
| October 2014 Unit Warrants | October 31, 2012 | 0.30 | 2.00 | 3,500,000 |
| December 2014 Finder's Warrants (allotted, not issued) | December 5, 2012 | 0.30 | 2.10 | 175,000 |
| | | 0.30 | 1.39 | 60,924,964 |

In the event that the common shares trade at a price of $0.70 each for 20 consecutive trading days on the TSX-V, the expiry date of the May 2014 Unit Warrants can be accelerated upon 30 days notice from the Company to subscribers.

In addition to the above, subsequent to October 31, 2012, as at final closing of the October 2012 Financing on December 5, 2012, under the provisions of the October 2012 Financing, the Company had issued an additional 2,950,000 October 2012 Financing Unit Warrants exercisable at a price of $0.30 each and 322,500 December 2014 Finder's Warrants (of which 175,000 were allotted as at October 31, 2012). All of the for-going warrants are exercisable at a price of $0.30 each for a period of 24 months from each respective closing date as detailed in note 5(b) above.

**e) Incentive Stock Options**

As at October 31, 2012, the balance of Incentive stock Options outstanding was as follows:

*[Expressed in Canadian Dollars]*

| | Expiry date | Weighted average exercise price per share | Remaining life | Number issuable |
|---|---|---|---|---|
| | | $ | (years) | (shares) |
| May 2022 Incentive Stock Options | May 16, 2022 | 0.30 | 9.55 | 2,750,000 |

Vesting privileges on the May 2022 Incentive Stock Options are: immediately when granted as to 50%; and on November 16, 2013 as to 50%. During the three months ended October 31, 2012, the Company recognized stock-based compensation in the amount of $33,390 (2011 - $nil) that pertained to unvested options that were granted in the prior year.

On December 17, 2012, the Company announced that subject to regulatory approval, it had issued 200,000 options exercisable at a price $0.30 each up until June 14, 2014. The options vested when granted.

## 6. Key management compensation

The retention of certain key management personnel is subject to management agreements that 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.

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 note 7.

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:

| | Three months ended October 31 | |
|---|---|---|
| | **2012** | 2011 |
| | **$** | $ |
| Management fees | **111,500** | 3,500 |
| Stock-based compensation | **27,112** | - |
| Exploration and evaluation interests | **106,382** | - |
| | **244,994** | 3,500 |

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

Included in accounts payable and accrued liabilities as at October 31, 2012 was $193,508 (July 31, 2012 is $92,548) due to key management members pursuant to services they had provided to the Company.

*[Expressed in Canadian Dollars]*

The amounts owing were unsecured, non-interest bearing and due on demand.

## 7. Related parties

Following execution of the Farm-in Agreement, the chairman and chief Executive officer of the corporation 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 corporation other than as they pertain to transactions incurred pursuant to the terms of the Farm-in Agreement.

As outlined in note 4, on October 31, 2012, the Company issued unsecured 3% demand promissory notes in consideration for cash advances totalling $300,00 from two directors. As of November 27, 2012, the notes were repaid in full.

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 6 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 For the three months ended October 31, 2012, under the terms of the this agreement the Company had paid a total of $181,114 (year ended July 31, 2012 - $198,401) to Apex that included a total of $138,117 (year ended July 31, 2012 - $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 in the disclosure presented under key management compensation in note 6.

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 other subsidiary interests, the accounts of which have been excluded from these consolidated financial statements.

## 8. Supplemental cash flow information

| | Three months ended October 31 | |
|---|---|---|
| | **2012** | **2013** |
| | **$** | $ |
| **Non-cash financing (investing) transactions:** | | |
| Funds deposited on account against seismic commitment | **250,000** | - |
| Accounts payable and accruals used to fund E&E Interest expenditures | **28,597** | - |
| Increase in contributed surplus recognized on Finder's Warrants | **11,585** | - |
| Estimated maket value of Finder's Warrants included in issue costs | **(11,585)** | - |
| E&E interests funded from funds deposited on account | **(250,000)** | - |
| E&E Interests funded from accounts payable and accruals | **(28,597)** | - |
| | **-** | - |
| **Cash payments information:** | | |
| Interest | **-** | - |
| Income taxes | **-** | - |

*[Expressed in Canadian Dollars]*

## 9. Segmented information

Management has presented segmented information on a geographical basis as this is the basis upon which the chief executive officer makes operating decisions.

| | **October 31 2012** | July 31 2012 |
|---|---|---|
| | **$** | $ |
| **Total assets:** | | |
| Canada | **67,159** | 4,222,952 |
| Australia | **11,041,130** | 6,068,273 |
| | **11,108,288** | 10,291,225 |
| **Net (loss) income:** | | |
| Canada | **(409,073.86)** | (703,543) |
| Australia | **3,930.00** | 4,320 |
| | **(405,143.86)** | (699,223) |
| **Capital expenditures:** | | |
| Canada | **-** | 17,869 |
| Australia | **3,293,307** | 707,656 |
| | **3,293,307** | 725,525 |