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 discussion and analysis of the unaudited interim results of the operations and financial condition of Terra Nova Energy Ltd ("Terra Nova" or "Company") for the three month periods ended October 31, 2012. For a full understanding of the financial position and results of operations of the Company, this Management Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed interim consolidated financial statements and the notes attached thereto for the three months ended October 31, 2012 (the "October 2012 Unaudited Statements") and the audited consolidated financial statements and the MD&A for the years ended July 31, 2012. All of the above financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Company's critical accounting estimates, significant accounting policies and risk factors as disclosed in the audited consolidated financial statements for the year ended July 31, 2012 have remained substantially unchanged and are still applicable to the Company unless otherwise indicated. For a description of material factors that could cause the Company's actual results to differ from the forward-looking statements in this MD&A, please see the discussion headed "Risks and Uncertainties" as presented elsewhere herein

The above 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.

This MD&A is at December 21, 2012 except where 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, drilling 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 December 21, 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") and the Frankfurt Stock Exchange. 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. 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.
2. On August 28, 2012 Terra Nova appointed KPMG LLP as the Company's auditor replacing Morgan and Company.
3. On September 19, 2012 the field operations of the seismic survey on PEL 112 were completed.
4. 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 December 5, 2012 the Company had closed with respect to a further 2,950,000 units ($590,000).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 due on November 1, 2012 (Item 6 below). Funds received since October 31, 2012 were used for general working capital purposes and to repay promissory notes (see item 5 below).
5. 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 6 below). As of November 27, 2012, the Director Promissory Notes have been repaid in full.
6. In accordance with the terms of the Farm-in Agreement, as of October 31, 2012 the Company had 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).
7. 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.
8. On December 17, 2012, the Company announced that Mr. James Hutton has been appointed as a director to replace Mr. Peter Miles who has resigned.

Exploration operations

On May 11, 2012 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 onshore Australian Petroleum Exploration Licenses ("PEL" or "PEL's), known as PEL's 112 and 444 (the "Exploration and Evaluation Interests" or "E&E Interests") in Australia, (the "Farm-in Agreement").

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 December 21, 2012, the Company had incurred approximately A$3,500,000 in expenditures against the overall A$4,700,000 Seismic Earn-in Obligation leaving a net balance of approximately A$1,200,000 (the "A$1,200,000 Seismic Balance"). As of December , 2012, Company consultants have processed and interpreted the PEL 112 seismic data and identified the most highly prospective drilling locations. The Company is now in a position to commence the process of submitting applications to the government and local indigenous community authorities for access to the selected drilling locations. Tentatively, drilling is scheduled to commence late in the first quarter of 2013, subject to rig availability, site accessibility, weather conditions and securing necessary regulatory approvals and permits and the availability of adequate funding.

As at December 20, the Company had modeled a 3-D seismic program on PEL 444 (the "PEL 444 Seismic Program") and was evaluating bids from 2 seismic contractors. Barring any hurdles beyond the Company's control, such as, but not exclusive of weather factors or equipment shortages, seismic fieldwork must commence not later than January 10, 2013. The company expects to be able to meet the January 10, 2013 commencement date pursuant to the PEL 444 Seismic Program commencement date. Any PEL 444 Seismic Program with a cost in excess of approximately A$1,200,000 will require additional financing by the Company as to 55% of the costs in excess of A$1,200,000 and the remaining 45% will be funded by third-party joint working interest holders.

Financing activities

Since July 31, 2012, the Company has completed the following financing transactions:

- *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 (the "Director Promissory Notes"). 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. (See also Related party transactions)

- 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 Director Promissory Notes.

Exploration and evaluation interests

Concurrently with 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. On October 31, 2012, the company paid an additional A$4,500,000 into trust to fund 100% of the dry hole costs pertaining to an Initial 3 - Well Program Earn-in Obligation. .

As at October 31, 2012, in addition to the two aforementioned trust payments totalling A$9,200,000, 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 has paid 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. As at October 31, 2012 the Company had spent a total of $3,652,623 (approximately A$3,550,000) on seismic projects, of which all but approximately A$150,000 had been incurred on PEL 112.

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 production is achieved from any of the six wells, 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 had intended that it would 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 late in the first quarter of 2013. Financial constrictions have since caused the Company to re-think its overall exploration strategy and the Company is currently working with its joint working-interest partners to develop an optimal exploration strategy within the confines of the Company's current financial restrictions.

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 approximately A$1,200,000 that can be used to fund seismic work now under consideration for the PEL 444 3-D Seismic Program. Any seismic costs incurred on PEL 444 in excess of approximately A$1,200,000 will be funded as to 55% by the Company and as to 45% by the joint working-interest partners. Accordingly, the Company will require additional funding in order to meet its portion of the cost of a PEL 444 Seismic Program that exceeds approximately A$1,200,000.

On October 31, 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, the seismic objective formulated on PEL 112 has been substantially completed. The Company is now in the process of assessing the economics and financial requirements attached to the potential PEL 112 drill site locations. With respect to initiating and planning the PEL 444 3-D Seismic Program in conjunction with its drilling options, the Company is working with its joint working-interest partners to develop an optimal exploration strategy that addresses the Company's current financial restrictions. 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. While the Company is in a position to initiate seismic field-work on PEL 444 by January 10, 2013, the extent of the ultimate seismic expenditure will depend on a finalized exploration strategy that can be executed within the confines of the Company's current financial constrictions, as well as the ability of the joint working-interest partners to fund their 45% portion of any seismic costs incurred on PEL 444 in excess of A$1,200,000.

A secondary consideration in the development of an exploration strategy focuses on the importance of rig selection and the need to have sufficient funds on hand for completion costs if warranted. In order to keep costs within reason, the need to minimize rig mobilization and demobilization costs is key to drilling economics in terms of best management of capital costs. This consideration demands that the Company and its joint working-interest partners have the financial strength to commit to keeping the rig over an extended number of wells and an extended time. This consideration means that the greater the drilling commitment the Company can make, the more economic drilling and completion costs become. At the present time, with A$4,500,000 for dry hole costs for the initial three wells, and potential increased drilling costs the Company will need to address this issue.

Regardless of the exploration strategy employed going forward, the Company is in need of additional financing. 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.

	Fiscal Quarters Ended			
	October 31 2012	**July 31 2012**	**April 30 2012**	**January 31 2012**
	$	**$**	**$**	**$**
Total assets	**11,108,288**	10,291,225	730,363	430,384
Mineral property interest expenditures	**-**	-	17,869	-
Exploration and evaluation interest expenditures	**3,688,866**	790,142	339,190	-
Working capital (deficiency)	**5,424,818**	8,807,515	(358,382)	361,061
Net loss for the quarter	**(405,144)**	(581,629)	(72,384)	(15,229)
Net loss per share	**(0.01)**	(0.02)	(0.01)	(0.00)

	Fiscal Quarters Ended			
	October 31 2011	**July 31 2011**	**April 30 2011**	**January 31 2011**
	$	**$**	**$**	**$**
Total assets	473,041	484,192	499,422	551,072
Mineral property interest expenditures	-	-	18,401	30,000
Exploration and evaluation interest expenditures	-	-	-	-
Working capital (deficiency)	376,290	406,271	417,733	463,621
Loss for the quarter	(29,981)	(39,326)	(278,243)	(72,090)
Loss per share	(0.00)	(0.00)	(0.04)	(0.01)

Results of operations

In the period prior to January 31, 2012, under the predecessor management, with exception of costs incurred pursuant to a reactivation (as that term is used under TSX V regulations) in the quarter ended January 31, 2011, with minimal corporate activity, operating expenses mainly consisted of sustaining regulatory requirements 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, on initiation of the transition to oil and gas operations, the new management expected that operating expenses on a going-forward basis would be in the $100,000 per month range.

This cost structure roughly contemplated:

- monthly management fees and/or a salary of $20,000 each for CEO and COO compensation of which $10,000 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 services are directly attributable to development and monitoring of E&E activities. In addition management fees include CFO compensation as determined on a per diem basis in the amount of approximately $$5,000 per month plus other non-key management compensation such as non-audit accounting services of about $5,000 per month;
- a provision for audit fees of $20,000 per quarter; and,
- 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 month periods ended October 31, 2012 and July 31, 2012, with operating expenses excluding stock-based compensation and depreciation at $402,460 and $277,624 respectively, operating costs have generally held within this framework with some exceptions that pertained to unforeseen expenditures especially as they related to audit and legal costs that arose in the process of establishing a management and corporate infrastructure as well as income tax planning between Canada and Australia which have amounted to approximately $20,000 in auditor fees and another $50,000 in legal fees. After exclusion of these two factors, overall monthly operating expenses for the six month through October 2012 have held closely to the $100,000 expectation. As noted in the MD&A for the year ended July 2012, the Company was still undergoing a transition to oil and gas operations 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 in the three months ended October 2012 compared to those for the three months ended October 2011 would not be meaningful and the following discussion of operating results for the three months ended October 31, 2012 is presented in the foregoing context.

- Three months ended October 31, 2012

The net loss for the quarter ended October 31, 2012 amounted to $405,144 or $0.01 per share (2011 net loss $29,981 or $0.00 per share).

During the three months ended October 31, 2012, the Company incurred operating expenses totaling $440,163 (2011 - $29,981) or 402,343 (2011 - $29,981) excluding provisions for depreciation of $3,930 (2011 - $nil) and stock-based compensation of $33,890 (2011 - $nil) recorded on the unvested portion of the incentive stock options granted during the three months ended July 2012.

In the quarter ended October 31, 2012, as indicated above, operating expenses exclusive of stock-based compensation and depreciation amounted to $402,343 which with the exception of the legal and audit fees referred to above was generally consistent with the $100,000 per month projection as discussed above. Major components of this expenditure included:

- management fees of $114,908 to cover compensation expense paid for COO, CFO and CEO compensation totaling $111,500 with the remainder having been paid to supporting administrative professionals;
- legal fees of $99,431 which were considered to be higher than normal in view of the fact that the Company unexpectedly continued to incur additional legal expenses that related to corporate organization structure and income tax considerations that were over and above legal costs that could otherwise be normally expected in an operation of this nature ;
- auditor fees of $41,181 of which in addition to a regular $20,000 quarterly accrual based on an estimated $80,000 annual audit fee, the company incurred approximately $21,181 in income tax related advice;
- office and miscellaneous expenses of $48,559 that reflect 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 $36,939 that covers, web site development and management, press release circulation and dissemination and related matters; and
- travel expenses of $35,064 which as discussed above were somewhat higher this month view to the initiation of exploration activity in Australia.

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

- interest income in the amount of $35,019 earned on funds deposited in trust in Australia.

The initial $100,000 projection for general operating expenses notwithstanding, in view of the Company's financial situation, in November 2012, the CEO and COO have agreed to reduce their contracted monthly retainers by $15,000 and $5,000 respectively as well as to forego reimbursement for office expense and related support by in excess of $5,000 in an effort to reduce monthly operating expenses to $75,000 going forward until the financial situation can be stabilized.

- Other comprehensive income ("OCI")

That Company recognizes the effect of changes in Australian asset and liability values as a result of changes in the prevailing C$ - A$ exchange rate by recognizing Australian assets and liabilities at their current value with any change charge to "OCI". In accordance with its accounting policies, the Company recognized a $63,785 (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.

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 October 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 December 28, 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 of October 31, 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 October 31, 2012) and 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 outlined in note 6 to the unaudited condensed interim consolidated financial statements for the three months ended October 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", 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 (as disclosed in the audited consolidated financial statements for the year ended July 31, 2012) 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.

Liquidity

As at October 31, 2012, the Company had working capital of $5,424,818 that included A$5,585,191 (approximately C$5,788,491) held in trust plus related GST recoverable of approximately A$320,000 (approximately C$331,000) pursuant to Drilling and Seismic Earn-in Obligations. Accordingly as at October 31, 2012, assuming the Company elects to pursue its entitlements under the provisions of the Farm-in Agreement, the Company had an uncommitted working capital deficiency of $694,673. Over the next 12 months, exclusive of dry-hole cost overruns, if any, the Company has monthly operating expenses in the order of at least $75,000 per month, an as yet undefined PEL 444 Seismic Program for which the Company will require additional funds in order to fund its 55% share of any seismic program that exceeds approximately A$1,200,000. This could result in definable cash requirements excluding any requirements associated with well completion and equipping costs over the 12 months ending October 2013, as well as A$4,500,000 the Option 3 - Well Program to in excess of $10,000,000.

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 December, 2013 is not possible at this time, these additional cash requirements will include any monies to fund the Company's share of costs required beyond total depth in order to bring any of the given wells into production.

As at December 21, 2012, following the completion of the $1,290,000 October 2012 Financing, the Company had working capital of approximately $6,118,665 that included funds in escrow and related GST totaling A$5,712,390 (approximately C$5,940,885) that can be applied as to approximately A$1,200,0000 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 December 21, 2012, the Company has uncommitted working capital of approximately $177,279.

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

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

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** as discussed elsewhere in this MD&A.

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.

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.

Off-balance sheet arrangements

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations or with respect to any obligations under a variable interest equity arrangement.

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 were as follows:

	October 31 2012	July 31 2012
	$	$
Funds Deposited On account	**-**	263,400

- Funds deposited on account, trade and other receivables:

At October 31, 2012, the Company had minimal exposure to credit risk. 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 October 31, 2012 totalled A$5,585,191 (approximately C$5,788,491) represented the maximum credit exposure. As at October 31, 2012, 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 October 31, 2012, cash held-in-trust totalling A$5,585,191 (approximately C$5,788,491 related to the Seismic and Drilling Earn-in expenditure obligations. 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 October 31, 2012 totalling A$5,585,191 (approximately C$5,781,491) 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 October 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 October 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 October 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 October 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

The following table describes the Company's share capital structure as at December 21, 2012, the date of this MD&A. These figures may be subject to minor accounting adjustments prior to presentation in future financial statements.

	Expiry date	Weighted average exercise price per share	Total number of common shares
		$	
Common shares outstanding	-	-	64,157,197
May 2014 Agent options	May 11, 2014	0.25	3,408,664
December 2014 Finder's warrants	December 5, 2014	0.30	322,500
*June 2013 Warrants	June 30,2013	0.30	10,245,000
December 2012 Finder's Warrants	December 30, 2012	0.30	988,000
May 2014 Unit Warrants	May 11, 2014	0.30	42,608,300
October 2014 Unit Warrants	October 31, 2014	0.30	3,500,000
November 6, 2014 Unit Warrants	November 6, 2014	0.30	1,000,000
November 26, 2014 unit Warrants	November 26, 2014	0.30	1,550,000
December 2014 Unit Warrants	December 5, 2014	0.30	400,000
May 2022 Incentive Options	May 16, 2022	0.30	2,750,000
June 2014 Incentive Options	June 30, 2014	0.30	200,000
			131,129,661

***Note:** On November 23, 2012 the TSX V approved the Company's application to extend the expiry date on 10,245,000 unit warrants exercisable at a price of $0.30 each from December 30, 2012 to June 30, 2013 (the "June 2013 Warrants" as referenced above). All other terms of the warrants, including the exercise price remain the same.

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 of its transition to the petroleum and natural gas exploration sector, regardless of the exploration strategy it assumes, the Company now has an immediate need for significant amounts of financing especially, 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.

Since undertaking the Farm-in Agreement obligations, the Company has substantially completed a 3-D seismic survey PEL 112 and is currently working to develop an optimal exploration strategy that can be accommodated within its financial constraints and minimizes risk. Having secured the rights to explore more than 4500 km^2 underlying PEL112 and PEL 444 located on the Western Flank of the Cooper-Eromanga Basin in South Australia, these properties are in an area in which recent oil discoveries, based largely on 3-D seismic, suggest there is considerable potential for further discoveries.

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 additional financing that will be required to complete a 3-D seismic survey on PEL 444, initiate a drilling program on an economically viable basis and meet operating requirements over the next 12 months.

Other Information

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