

## **Terra Nova Energy Ltd.**

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

For the six months ended January 31, 2013

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The following information, prepared as of April 1, 2013, should be read in conjunction with the unaudited condensed interim consolidated financial statements of Terra Nova Energy Ltd. (the "Company" or "Terra Nova") for the six months ended January 31, 2013, together with the audited consolidated financial statements of the Company for the year ended July 31, 2012 and the accompanying Management's Discussion and Analysis (the "Annual MD&A") for that fiscal year. The referenced consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in Canadian dollars (\$) or Australian dollars (A\$) unless otherwise indicated.

### **Forward-looking statements**

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

This MD&A, and in particular, the "Outlook" section contains forward-looking statements. These forward-looking statements include without limitation: statements about the Company's exploration plans and outlook; interpretations and discussion of seismic, drilling and well testing results and financing obligations with regard to future exploration of the petroleum exploration licences or properties owned by, or, under option to the Company. As such, all forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors. Information concerning the interpretation of seismic, 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 April 1, 2013. 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**

Terra Nova Energy Ltd. (formerly "Terra Nova Minerals Inc") was incorporated under the British Columbia Business Corporations Act. 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 principal business is the acquisition and exploration of petroleum and natural gas properties. The Company's shares are listed on the TSX Venture Exchange (the "TSX-V") under the symbol "TGC" and the Frankfurt Stock

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Exchange under the symbol "GLTN". The Company's corporate head office is located at Suite 880, 580 Hornby Street, Vancouver, British Columbia, Canada.

### **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 September 18, 2012 the recording of the 127 km<sup>2</sup> Mulka 3D seismic survey on PEL 112 was completed.
3. 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 5 below). As of November 27, 2012, the Company had repaid the 3% demand promissory notes in full.
4. On October 31, November 6, November 26 and December 5, 2012, the Company completed non-brokered private placements of an aggregate of 6,450,000 units at a price of \$0.20 per unit for gross proceeds of \$1,290,000.
5. In accordance with the terms of the Farm-in Agreement, on October 31, 2012 the Company paid A\$4,500,000 into escrow to be applied against 100% of the dry-hole costs to drill up to 3-wells (the "Initial 3 - well Program Earn-in Obligation).
6. 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 second quarter of calendar 2013.
7. On November 16, 2012, the Company announced that it had extended the expiry date of 10,245,000 warrants from December 30, 2012 to June 30, 2013. All other terms of the warrants, including the exercise price of \$0.30, remained the same.
8. On December 17, 2012, the Company announced that Mr. James Hutton had been appointed as a director to replace Mr. Peter Miles who had resigned.
9. On January 17, 2013, the Company announced that Chief Executive Officer, Chairman and Director, Norman Mackenzie, had resigned. Henry Aldorf, a director of the Company, was appointed as Chairman and acting CEO and Nico Civelli, also a director of the Company, was appointed as Vice-President Finance.
10. On January 24, 2013, the Company announced that it had completed its interpretation of the Mulka 3D seismic survey. Accordingly, the Company earned a 20% undivided interest in PEL 112.

The Company identified four drillable exploration prospects on the Mulka Survey. These prospects are similar geologically to producing structures observed in the existing oil pools to the north, including the Butlers, Perlubie and Parsons fields. The Company is contemplating at least one exploratory well to be drilled to Warburton Basement on the 3D surveyed area, upon receiving requisite government approvals for its drilling program.

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11. On January 31, 2013, the Company announced that it had committed to drill 3 wells, with an option on 2 additional wells, with Hunt Energy and Mineral Pty Ltd. ("Hunt"), a drilling contractor based in Adelaide, South Australia. The contract took effect February 1, 2013 and the Company has deposited A\$200,000 with Hunt to initiate rig assembly. The Company is in the process of obtaining approval from DMITRE, the government body for Southern Australia.
12. On February 7, 2013 the Company announced the appointment of Robert McMorran, CA to the position of Chief Financial Officer to replace outgoing Chief Financial Officer Andrew Williams, CA.
13. On February 28, 2013, the Company announced that Michael Kamis had resigned as Chief Operating Officer.

### **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 rights on certain onshore Australian Petroleum Exploration Licenses ("PEL"), known as PEL's 112 and 444 (the "Farm-in Agreement").

PEL's 112 and 444 comprise approximately 2,196 km<sup>2</sup> and 2,358 km<sup>2</sup> respectively. These properties are located on the Western flank of the Cooper-Eromanga 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 complete a 3D seismic survey over 127 km<sup>2</sup> located on PEL 112. On January 24, 2013, Company announced that it has processed and interpreted the PEL 112 seismic data and identified the most prospective drilling locations. The Company is now in the process of submitting application to the Australian government authorities for approval to drill the selected drilling locations. Tentatively, drilling is scheduled to commence in June 2013, subject to weather conditions and securing necessary regulatory approval.

### **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.

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.

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 October 31, 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, any one of which must be located

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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 Farmers 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 were 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 Farmers 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: PEL 112 – 542,643 gross undeveloped acres and PEL 114 – 582,674 gross undeveloped acres.

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Both Licenses are on trend with several discoveries made in the area. Various structural closures on PEL 112 and PEL 444 were initially identified using 2D seismic data acquired from South Australia government sources and from the Farmers.

In accordance with the Apex Report and utilizing data at the time of evaluation, 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 2D seismic work on both PEL 112 and PEL 444. In the course of planning this work, management determined that the recent discoveries in the area had effectively utilized 3D 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 3D seismic data. Accordingly, the Company together with its joint working-interest partners agreed that the planning and execution of a 3D 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 3D seismic survey on approximately 127 km<sup>2</sup> located on PEL 112 (the "3D PEL 112 Seismic Program") representing approximately 6% of the total acreage within the PEL. Following completion of the planning process, the Company secured the services of a seismic contractor who completed the recording on September 18, 2012. Subsequently, the Company processed and interpreted the data with the objective of identifying the most prospective drilling locations. 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.

Total cost to complete the 3D PEL 112 Seismic Program is expected to be in the order of A\$3,700,000 leaving a balance of approximately A\$1,000,000 that can be used to fund seismic work now under consideration for the proposed 80 km<sup>2</sup> 3D seismic program on PEL 444 ("PEL 444 3D Seismic Program"). Any seismic costs incurred on PEL 444 in excess of approximately A\$1,000,000 will be funded as to 55% by the Company and as to 45% by the joint working-interest partners. Accordingly, the Company will

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require additional funding in order to meet its portion of the cost of a PEL 444 Seismic Program that exceeds approximately A\$1,000,000.

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 3D Seismic Program in conjunction with its drilling options, the Company is working with its joint working-interest partners to develop its exploration strategy. Seismic field work on PEL 444 is currently expected to commence in May 2013.

Work Area Clearance ("WAC") on one or more PEL 112 access roads and drill site locations is scheduled to begin in mid-April 2013. WAC is the process by which anthropologists and representatives of Australia's Native Title Holders review proposed exploration sites to insure planned activities do not harm the cultural integrity of the land to be explored. The Company anticipates permitting, road construction and drill site preparation will begin immediately upon completion of WAC fieldwork and reporting.

In view of the current weak junior resource capital markets, the Company is examining alternatives for optimizing its exploration strategy with respect to the size of its PEL 444 seismic program as well as the number and location of wells drilled. With A\$4,500,000 available for dry hole costs, the Company will require additional financing in order to complete the initial three wells or the number of wells drilled will need to be reduced.

### QUARTERLY INFORMATION

The following is selected financial data from the Company's unaudited quarterly financial statements for the last eight quarters ending with the most recently completed quarter, being January 31, 2013.

	Three Months Ended (\$)			
	January 31, 2013	October 31, 2012	July 31, 2012	April 30, 2012
Total Revenues	-	-	-	-
Net Loss	(687,790)	(405,144)	(581,629)	(72,384)
Net Loss Per Share (basic and diluted) <sup>(1)</sup>	(0.01)	(0.01)	(0.02)	(0.01)
Exploration and evaluation interest expenditures	263,982	3,688,866	790,142	339,190
Working capital (deficiency)	5,388,525	5,424,818	8,807,515	(358,382)
Total Assets	11,371,379	11,108,288	10,291,225	730,363

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	Three Months Ended (\$)			
	January 31, 2012	October 31, 2011	July 31, 2011	April 30, 2011
Total Revenues	-	-	-	-
Net Loss	(15,229)	(29,981)	(39,326)	(278,243)
Net Loss Per Share (basic and diluted) <sup>(1)</sup>	(0.00)	(0.00)	(0.00)	(0.04)
Exploration and evaluation interest expenditures	-	-	-	-
Working capital (deficiency)	361,061	376,290	406,271	417,733
Total Assets	430,384	473,041	484,192	499,422

<sup>(1)</sup> The basic and diluted loss per share calculations result in the same amount due to the anti-dilutive effect of outstanding stock options and warrants.

### RESULTS OF OPERATIONS

#### *Six months ended January 31, 2013*

The Company recorded a net loss of \$1,092,934 (\$0.02 per share) for the six months ended January 31, 2013 as compared to a net loss of \$45,210 (\$0.00 per share) for the six months ended January 31, 2012. The table below details certain non-cash or unusual transactions that for the purposes of this discussion have been adjusted out of the reported net loss to produce an adjusted net loss that forms a better basis for comparing the period-over-period operating results of the Company.

	Six months ended	
	2013	January 31, 2012
	\$	\$
Net loss for the period as reported	(1,092,934)	(45,210)
Warrant amendment expense	224,766	-
Share-based payments	111,546	-
Interest income	(79,268)	-
Adjusted net loss for the period <sup>(1)</sup>	(835,890)	(45,210)

<sup>(1)</sup> Adjusted net loss for the period is not a term recognized under IFRS. Non-IFRS measures do not have standardized meaning. Accordingly, non-IFRS measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Comments regarding certain of these items are as follows:

- Warrant amendment expense is based on the November 16, 2012 modification to 10,245,000 warrants. The expiry date of the warrants was extended from December 30, 2012 to June 30, 2013 and accordingly, the Company recorded warrant amended expense of \$224,766 using the Black-Scholes option pricing model.
- Share-based payments represents the vesting of stock options granted during the year ended July 31, 2012 (2,750,000 options) and 200,000 options granted during the six months ended January 31, 2013.
- Interest income is derived primarily from funds held in escrow.

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The comments below discuss results of operations excluding the items (primarily non-cash) discussed above:

The approximate \$791,000 increase in the adjusted net loss for the six months ended January 31, 2013 as compared to the six months ended January 31, 2012 is due primarily to an increase in activities. During the comparative period operating expenses mainly consisted of sustaining regulatory requirements. With the transition to oil and gas exploration that was initiated during the three months ended April 30, 2012, operating expenses increased significantly. Details of changes in certain expense items are as follows:

Audit and accounting fees of \$147,091 (2012 - \$15,905) include additional expenses incurred for the July 31, 2012 audit, one time tax structure advice and for general accounting services.

Legal fees of \$128,542 (2012 - \$3,630) are comprised of fees incurred related to the acquisition and documentation of the oil and gas properties as well as for general business matters. Other legal fees are included in share issuance costs.

Management fees of \$339,934 (2012 - \$nil) include fees paid to the former CEO, Norman Mackenzie, and the former COO, Michael Kamis. Both Mr. Mackenzie and Mr. Kamis resigned as at the date of the MD&A. Management fees include termination benefits paid to Mr. Mackenzie of \$100,000 cash and \$116,000 as the fair value of 400,000 shares.

Office and miscellaneous expenses of \$101,691 (2012 - \$21,228) includes expenses such as rent, office management, insurance, bank fees, interest, and office management.

Travel and related expenses of \$37,230 (2012 - \$nil) includes executive travel to and from Australia and other incidental travel.

### *Three months ended January 31, 2013*

The Company recorded a net loss of \$687,790 (\$0.01 per share) for the three months ended January 31, 2013 as compared to a net loss of \$15,229 (\$0.00 per share) for the three months ended January 31, 2012. The increase in the net loss occurred for the reasons discussed in the six-month period-over-period comparison above.

## **FINANCING ACTIVITIES AND CAPITAL EXPENDITURES**

During the six months ended January 31, 2013, the Company completed the following financings:

- i) On October 31, 2012, the Company completed the first tranche of a non-brokered private placement of 3,500,000 units at a price of \$0.20 per unit for gross proceeds of \$700,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder thereof the right to purchase one additional common share at a price of \$0.30 per share up to October 31, 2014. The Company allocated \$186,298 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes option pricing model was as follows: share price of \$0.18; exercise price of \$0.30; expected volatility of 100%; expected life of 2 years; a risk-free interest rate of 1.5%; and an expected dividend rate of nil.
- ii) On November 6, 2012, the Company completed the second tranche of a non-brokered private placement of 1,000,000 units at a price of \$0.20 per unit for gross proceeds of \$200,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder thereof the right to purchase one additional common share at a price of \$0.30 per share up to November 6, 2014.

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- iii) On November 26, 2012, the Company completed the third tranche of a non-brokered private placement of 1,550,000 units at a price of \$0.20 per unit for gross proceeds of \$310,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder thereof the right to purchase one additional common share at a price of \$0.30 per share up to November 26, 2014.
- iv) On December 5, 2012, the Company completed the fourth tranche of a non-brokered private placement of 400,000 units at a price of \$0.20 per unit for gross proceeds of \$80,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder thereof the right to purchase one additional common share at a price of \$0.30 per share up to December 5, 2014.

In connection with the October 31, November 6, November 26 and December 5, 2012 private placements, the Company paid cash commissions of \$64,500 and incurred \$39,960 in legal and filing fees. In addition, the Company issued an aggregate of 322,500 finder's warrants entitling the holder thereof the right to purchase a common share at a price of \$0.30 per share up to December 5, 2014.

During the six months ended January 31, 2013, the Company received \$300,000 of unsecured 3% demand promissory notes from two Company directors. 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.

The capital expenditures of the Company during the six months ended January 31, 2013 amounted to approximately \$3,445,000 of which \$44,000 was spent on equipment and the remainder was spent on 3D seismic surveying and other oil and gas activities.

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company's operations consumed approximately \$634,000 of cash (before working capital items) for the six months ended January 31, 2013. An additional approximate \$3,400,000 of cash was spent on the oil and gas properties. The cash requirement was fulfilled from cash and cash held-in-trust on hand at the beginning of the period plus proceeds from the private placement financings discussed above.

The Company's aggregate operating, investing and financing activities during the six months ended January 31, 2013 resulted in a net decrease of \$2,838,625 in its cash and cash held-in-trust balance of \$8,810,344 at July 31, 2012 to \$5,971,719 at January 31, 2013.

The Company currently has earned a 20% working interest in PEL 112 in connection with completing the respective seismic program. Upon completion of the PEL 444 seismic program, the Company will earn a 20% working interest in that PEL. As described in the section titled "Exploration and evaluation interests: on page 4 of this MD&A, the Company may require additional funding in order to meet its objectives of increasing its working interest in each of the PEL's.

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### TRANSACTIONS WITH RELATED PARTIES

During the three and six months ended January 31, 2013 and 2012, the Company incurred the following expenditures charged by directors and officers of the Company and/or companies they owned or were significant shareholders of:

	Three months ended		Six months ended	
	January 31,		January 31,	
	2013	2012	2013	2012
	\$	\$	\$	\$
Non-audit accounting fees	32,000	6,374	32,000	13,425
Management fees	248,500	-	333,500	-
Office and miscellaneous fees	20,300	-	39,800	-
Exploration and evaluation interests	151,787	-	319,839	-
	452,587	6,374	725,139	13,425

At January 31, 2013, accounts payable and accrued liabilities included \$201,616 (July 31, 2012 - \$92,548) of amounts owing to directors and officers of the Company and/or companies they control or of which they were significant shareholders. The amounts owing include amounts related to expenditures charged to the Company and for reimbursements of expenditures paid for on behalf of the Company. The amounts owing are unsecured, non-interest bearing and due on demand.

In addition to the related parties disclosed above, the promissory notes are related party transactions.

Key management includes the Chief Executive Officer and the directors of the Company. The compensation paid or payable to key management for services during the three and six months ended January 31, 2013 and 2012 is identical to the table above other than share-based payments expense. During the six months ended January 31, 2013, key management received share-based payments of \$95,415 (2012 - \$nil).

On January 8, 2013, the Company entered into a Mutual Release and Settlement Agreement with the former Chief Executive Officer (the "Severance Agreement"). In accordance with the Severance Agreement, the Company paid \$100,000 and issued 400,000 common shares at the fair value of \$116,000. In addition, 600,000 stock options entitling the holder thereof the right to purchase one common share at a price of \$0.30 per share up to May 16, 2022 were amended such that the options vested immediately and the expiry date was changed to May 16, 2015.

### FINANCIAL INSTRUMENTS

#### Classification of Financial Instruments

The Company's financial instruments consist of cash, cash held-in-trust, accounts payable and accrued liabilities and promissory notes. The Company designated its cash and cash held-in-trust as loans and receivables, which are measured at amortized cost. The accounts payable and accrued liabilities and promissory notes are classified as other financial liabilities, which are measured at amortized cost.

Discussions of risks associated with financial assets and liabilities are detailed below:

#### Foreign Exchange 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. A portion of the Company's financial assets and liabilities are denominated in Australian dollars. The Company monitors this exposure, but has no hedge positions.

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	<b>January 31, 2013 A\$</b>
Cash	173,980
Cash held-in-trust	5,371,818
Accounts payable and accrued liabilities	<u>(338,402)</u>
<b>Net exposure to Australian dollars</b>	<b><u>5,207,396</u></b>

At January 31, 2013, a 1% change in the value to the Australian dollar as compared to the Canadian dollar would result in a change in net loss and equity attributable to shareholders of approximately A\$52,000.

### **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. Credit risk arises from cash held with banks and financial institutions. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash is primarily held with HSBC. None of the financial assets of the Company are either past due or impaired.

### **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 is earning interest, the Company has no financial instruments that could otherwise be exposed to interest rate risk.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company manages liquidity risk by maintaining sufficient cash to enable settlement of transactions on the due date. Management monitors the Company's contractual obligations and other expenses to ensure adequate liquidity is maintained.

### **OUTSTANDING SHARE DATA**

a) Authorized Capital:

Unlimited common shares, without par value

b) Issued and outstanding:

64,557,197 common shares as at April 1, 2013

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c) Outstanding options and warrants as at April 1, 2013:

<b>Security</b>	<b>Number</b>	<b>Exercise Price (\$)</b>	<b>Expiry date</b>
Stock Options	200,000	0.30	June 10, 2014
Stock Options	600,000	0.30	May 16, 2015
Stock Options	2,150,000	0.30	May 16, 2022
Warrants	10,245,000	0.30	June 30, 2013
Warrants	42,608,300	0.30	May 11, 2014
Warrants	3,408,664	0.25	May 11, 2014
Warrants	3,500,000	0.30	October 31, 2014
Warrants	1,000,000	0.30	November 6, 2014
Warrants	1,550,000	0.30	November 26, 2014
Warrants	722,500	0.30	December 5, 2014

### 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 consolidated condensed interim financial statements for the six months ended January 31, 2013 and this accompanying MD&A (together, the "Interim Filings").

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 Interim Filings on SEDAR at [www.sedar.com](http://www.sedar.com).

### 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.

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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.

### **Outlook**

The Company has secured the rights to explore more than 4500 km<sup>2</sup> of PEL 112 and PEL 444 located on the Western Flank of the Cooper-Eromanga Basin in South Australia. These properties are situated adjacent to leases with recent oil discoveries, the prospects of which were largely matured using 3D seismic. Terra Nova's acreage is on trend, suggesting there is considerable potential for further discoveries.

Since undertaking the Farm-in Agreement obligations, the Company has completed a 3D seismic survey on a portion of PEL 112 and is finalizing the plans for a 3D seismic survey program on PEL 444. The Company is considering the exploration strategy for PEL 112.

The Board of Directors has deferred the appointment of a Chief Executive Officer pending the outcome of the exploration activities on PEL 112 and PEL 444. The Chairman of the Board of Directors will be the interim acting Chief Executive Officer.

As discussed elsewhere in this MD&A, the Company will require additional funding in order to meet all of its exploration objectives and general working capital requirements over the coming months. The Board of Directors is currently evaluating alternative funding strategies.

### **Other Information**

Additional information related to the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).