

Terra Nova Energy Ltd.

Management's Discussion and Analysis (MD&A)
For the year ended July 31, 2013

The following information, prepared as of November 26, 2013, should be read in conjunction with the consolidated financial statements of Terra Nova Energy Ltd. (the Company or Terra Nova) for the year ended July 31, 2013. 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 November 26, 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, the Frankfurt Stock Exchange under the symbol GLTN and the OTCQX marketplace under the symbol NVMF. The Company's corporate head office is located at Suite 880, 580 Hornby Street, Vancouver, British Columbia, Canada.

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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.
2. On September 18, 2012 the recording of the 127 km² Mulka 3D seismic survey on PEL 112 was completed.
3. 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.
4. In accordance with the terms of the Farm-in Agreement (see Exploration and Evaluation Interests), 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").
5. 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.
6. On January 31, 2013, the Company announced that it had committed to drill 3 wells, with an option on additional wells, with Hunt Energy and Mineral Pty Ltd. (Hunt), a drilling contractor based in Adelaide, South Australia. Following the drilling of the first well in the program, the drilling contract was terminated on October 16, 2013.
7. On July 2, 2013, the Company announced that acquisition of seismic data on PEL 444's Wingman 3D Seismic Survey was completed. The Wingman 3D Seismic Survey included 80 km² of 3D seismic data in the southeast corner of PEL 444's lower panhandle.
8. On July 8, 2013, the Company announced it had closed a private placement financing of \$1,905,000 of convertible notes. The convertible notes bear interest a rate of 10%, payable annually, and are due on July 8, 2014. The convertible notes are convertible at the option of the holder into common shares at a conversion price of \$0.11 per share. The Company may elect to settle any accrued and unpaid interest through the issuance of such number of common shares determined by dividing the interest accrued by the closing price of the common shares on the TSXV on the last trading day preceding the interest payment date. Proceeds of the convertible notes were used to fund the Company's seismic program on PEL 444 as well as for general working capital and corporate purposes.
9. On August 7, 2013, the Company announced the results of the Wolfman #1 exploration well completed on PEL 112. No oil shows were observed while drilling in its primary and secondary oil objectives. The well encountered its primary objective, the Namur Sandstone, at approximately 1,197 metres (3,927 feet) on August 6, 2013, and drilled ahead to its secondary targets in the Birkhead formation and Hutton sandstones. Wolfman #1 reached a total depth of 1,703 metres (5,587 feet) on August 7, 2013. The well was plugged and abandoned. By completing Wolfman #1, the Company earned an additional 5.8333% on PEL 112, such that its total interest in PEL 112 is now 25.8333%.
10. On November 4, 2013, the Company announced that it completed the work requirements for the current term of PEL 112. The Company intends to renew the license for a further five year term. Under Australian law, at the end of each five year term, a portion of the area covered by a PEL (33% of the original license acreage) must be relinquished. As a result, the upcoming application (second renewal) will cover 50% of PEL 112's current license area. The renewed area will retain the areas of 2D and 3D seismic acquired in the license, and the existing leads and prospects.

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Management Changes

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.

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.

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.

On February 28, 2013, the Company announced that Michael Kamis had resigned as Chief Operating Officer.

On July 8, 2013, the Company announced that James Hutton had resigned from the Board of Directors.

On September 25, 2013, the Company announced that Mark Stevenson had resigned from the Board of Directors.

Going Concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for the next twelve months. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material. At July 31, 2013, the Company had not yet achieved profitable operations, had an accumulated deficit of \$24,659,311 since inception and expects to incur further losses in the development of its business. In addition, at July 31, 2013, the Company had insufficient funds to continue with its exploration program and insufficient funds to continue operations through the year ending July 31, 2014. As a result, these factors may cast significant doubt upon the Company's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Exploration and Evaluation Interests

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"), executed a Joint Operating 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.

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 Cooper-Eromanga Basin in the northeastern sector of the state of South Australia (the "Exploration and Evaluation Interests" or "E&E Interests")

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 towards the completion of a 3D seismic acquisition program for both 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

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shall be borne by Terra Nova as to 55% and by the farmors as to 45%. On May 29, 2013, pursuant to an amending agreement, A\$500,000 was advanced to the seismic trust account from the drilling trust account. In July 2013, the farmors contributed an additional A\$523,259 to cover part of costs in excess of A\$4,700,000. 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.

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 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 connect a given well into a hydrocarbon gathering system. Upon drilling and abandonment or completion of at least one well drilled in each of PEL 112 and PEL 444 pursuant to the Initial Well Program, the Company shall have earned an additional 5.8333% per well 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. In accordance with 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.

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Exploration Activities

Seismic Surveys

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.

In the period since May 11, 2012 the Company initiated, planned and completed a 3D seismic survey, including interpretation, on approximately 127 km² located on PEL 112 (the "Mulka 3D PEL 112 Seismic Program") representing approximately 6% of the total acreage within the PEL. On January 24, 2013, Company announced that it had processed and interpreted the PEL 112 seismic data. The Company identified four drillable exploration prospects from the survey. These prospects bear technical similarity to producing structures observed in the existing oil pools to the north, including the Butlers, Perlubie and Parsons fields.

Total cost to complete the Mulka 3D PEL 112 Seismic Program was expected to be approximately A\$3,740,000 leaving a balance of approximately A\$960,000 to be used towards funding an 80 km² 3D seismic program on PEL 444 (the "PEL 444 3D Seismic Program"). Any seismic costs incurred in excess of A\$4,700,000 will be funded as to 55% by the Company and as to 45% by the joint working-interest partners. At July 31, 2013, the Company had incurred A\$6,960,238 of the Seismic Earn-in Obligation. In July 2013, the Company received contributions of A\$523,259 from one of the farmors. At July 31, 2013, the Company has recorded a receivable of A\$493,848 from the farmors.

On June 10, 2013, the Company announced that seismic crews set camp and began line preparation of PEL 444 on May 29, 2013. The "Wingman" 3D seismic survey was designed to enable acquisition of 80 km² of 3D seismic data in the southeast corner of PEL 444's lower panhandle. Acquisition of seismic data on PEL 444's Wingman 3D Seismic Survey was completed on July 1, 2013. A final processed volume is expected to be received in early December 2013 with interpretation completed in December 2013 or January 2014.

Drilling

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. On May 29, 2013, pursuant to an amending agreement, A\$500,000 was advanced to the seismic trust account from the drilling trust account. The remaining A\$4,000,000 will be applied against 100% of the dry-hole costs of the first wells drilled under the Initial 3-Well Program Earn-In.

With the completion of the PEL 112 Mulka 3D seismic survey, the Company was in the position to drill the first exploration well on PEL 112, Wolfman #1. On May 20, 2013, the Company began construction of access roads and drill site preparation on PEL 112. By mid-June 2013, approximately 18 km of access road were constructed to connect the current road network to PEL 112's Wolfman #1 drilling site. On August 7, 2013, the Company announced the results of the Wolfman #1 exploration well completed on PEL 112. No oil shows were observed while drilling in its primary and secondary oil objectives. The well encountered its primary objective, the Namur Sandstone, at approximately 1,197 metres (3,927 feet) on August 6, 2013, and drilled ahead to its secondary targets in the Birkhead formation and Hutton sandstones. Wolfman #1 reached a total depth of 1,703 metres (5,587 feet) on August 7, 2013. The well was plugged and abandoned. By drilling Wolfman #1, the Company earned an additional 5.8333% on PEL 112.

Notwithstanding the lack of success on the Wolfman #1 exploration well, management remains confident in the potential of PEL's 112 and 444. However, further study is required with respect to PEL 112 before the Company begins another exploration campaign on the license. In that only 6 percent of PEL 112 acreage was covered with the 3D program, within which locations were identified, much opportunity remains across 94% of the holding.

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As at July 31, 2013, the balance of drilling funds in the trust account amounted to A\$1,747,658. The Company will require additional financing in order to complete the remaining two wells of the initial three well program or the number of wells drilled will need to be reduced.

Terra Nova currently has earned a 25.8333% working interest in PEL 112 and upon delivering the completed 3D seismic report on PEL 444, anticipated in December 2013, it will have earned a 20% interest in that license as well. Upon completing the first test well on PEL 444, the Company will earn an additional 11.6667% in PEL 444 and 5.8333% in PEL 112, such that working interest in both licenses will be 31.6667%.

Selected Annual Information

The following is a summary of certain selected audited consolidated financial information of the Company for the years ended July 31, 2013, 2012 and 2011:

	2013 \$	2012 \$	2011 \$
Total Revenues	-	-	-
Net Loss	(5,511,925)	(699,223)	(424,554)
Net Loss Per Share (basic and diluted) ⁽¹⁾	(0.09)	(0.03)	(0.05)
Total Assets	8,254,667	10,291,225	484,191
Convertible loan . debt component	1,689,012	-	-
Dividends declared	-	-	-

⁽¹⁾ 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.

The increase in total assets during the year ended July 31, 2012 and the increase in net loss during the year ended July 31, 2013 as compared to the year ended July 31, 2012 was due to entering into the oil and gas exploration business.

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 July 31, 2013.

	Three Months Ended (\$)			
	July 31 2013	April 30, 2013	January 31, 2013	October 31, 2012
Total Revenues	-	-	-	-
Net Loss	(4,267,402)	(151,589)	(687,790)	(405,144)
Net Loss Per Share (basic and diluted) ⁽¹⁾	(0.07)	(0.00)	(0.01)	(0.01)
Exploration and evaluation interest expenditures	5,443,155	174,361	263,982	3,688,866
Working capital	458,494	4,951,478	5,388,525	5,424,818
Total Assets	8,254,667	10,941,146	11,371,379	11,108,288

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	Three Months Ended (\$)			
	July 31, 2012	April 30, 2012	January 31, 2012	October 31, 2011
Total Revenues	-	-	-	-
Net Loss	(581,629)	(72,384)	(15,229)	(29,981)
Net Loss Per Share (basic and diluted) ⁽¹⁾	(0.02)	(0.01)	(0.00)	(0.00)
Exploration and evaluation interest expenditures	735,406	339,190	-	-
Working capital (deficiency)	8,807,515	(358,382)	361,061	376,290
Total Assets	10,291,225	730,363	430,384	473,041

⁽¹⁾ 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.

The increase in net loss recorded during the three months ended July 31, 2013 was due to writing-off the costs of drilling Wolfman #1, the first well drilled at PEL 112 and writing-off a portion of the seismic expenditures on PEL 112.

Results of Operations

Year ended July 31, 2013

The Company recorded a net loss of \$5,511,925 (\$0.09 per share) for the year ended July 31, 2013 as compared to a net loss of \$699,223 (\$0.03 per share) for the year ended July 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 year-over-year operating results of the Company.

	Year Ended July 31,	
	2013	2012
	\$	\$
Net loss for the year as reported	(5,511,925)	(699,223)
Share-based payments	328,338	265,918
Interest income	(147,356)	(29,183)
Write-off of exploration and evaluation interests	4,176,277	-
Write-off of mineral property interest	-	66,270
Adjusted net loss for the year ⁽¹⁾	(1,154,666)	(396,218)

⁽¹⁾ Adjusted net loss for the year 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:

- Share-based payments represents the vesting of stock options granted during the year ended July 31, 2012 (2,750,000 options) and 1,600,000 options granted during the year ended July 31, 2013.
- Interest income is derived primarily from funds held in escrow.
- Write-off of exploration and evaluation interests was due to writing-off the costs of drilling Wolfman #1, the first well drilled at PEL 112 and writing-off a portion of the seismic expenditures on PEL 112.
- Write-off of mineral property interest was due to writing-off the El Capitan Property.

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

The approximate \$758,000 increase in the adjusted net loss for the year ended July 31, 2013 as compared to the year ended July 31, 2012 is due primarily to an increase in activities. 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 \$248,319 (2012 - \$72,269) include: additional expenses incurred for the July 31, 2012 audit; a provision for the 2013 audit; a one-time fee for tax structure advice; and fees for general accounting services.

Legal fees of \$165,973 (2012 - \$82,793) 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 \$506,988 (2012 - \$108,534) include fees paid to the CEO, Henry Aldorf, the former CEO, Norman Mackenzie, the former COO, Michael Kamis and other consultants. Both Mr. Mackenzie and Mr. Kamis resigned during the year ended July 31, 2013. 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 \$158,429 (2012 - \$73,413) includes expenses such as rent, office management, insurance, bank fees, interest, and office management.

Overhead charged to exploration of \$128,237 (2012 - \$nil) is the recovery of management overhead as stipulated in the Joint Operating Agreement.

Travel and related expenses of \$44,497 (2012 - \$4,477) includes executive travel to and from Australia and other incidental travel.

Three months ended July 31, 2013

The Company recorded a net loss of \$4,267,402 (\$0.07 per share) for the three months ended July 31, 2013 as compared to a net loss of \$581,629 (\$0.02 per share) for the three months ended July 31, 2012. The increase in the net loss occurred due to the write-down of exploration and evaluation interests (\$4,176,277) and for the reasons discussed in the year-over-year comparison above.

Financing Activities and Capital Expenditures

During the year ended July 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.
- 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.
- 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.

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- 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.

On July 8, 2013, the Company issued convertible notes for the principal sum of \$1,905,000. The convertible notes bear interest at 10% and are repayable on July 8, 2014. The convertible notes are convertible at the option of the holder into common shares of the Company at a conversion price of \$0.11 per share. In connection with the convertible notes, the Company incurred \$12,922 in legal and filing fees. In addition, the Company issued an aggregate of 818,181 finder's warrants entitling the holder thereof the right to purchase a common share at a price of \$0.11 per share up to July 8, 2014.

On October 31, 2012, 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.

During the year ended July 31, 2012, the Company completed the following financings:

- i) On May 11, 2012, the Company completed a brokered private placement of 42,608,300 units at a price of \$0.25 per unit for gross proceeds of \$10,652,075. 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 May 11, 2014.

In connection with the May 11, 2012 private placement, the Company paid cash commissions of \$852,166 and incurred \$415,229 in legal, printing, filing, audit and agent expenses. In addition, the Company issued an aggregate of 3,408,664 finder's warrants entitling the holder thereof the right to purchase a common share at a price of \$0.25 per share up to May 11, 2014.

The capital expenditures of the Company during the year ended July 31, 2013 amounted to approximately \$8,365,000 of which \$44,000 was spent on equipment and the remainder was spent on 3D seismic surveying, drilling and other oil and gas activities. The capital expenditures of the Company during the year ended July 31, 2012 amounted to approximately \$976,000 primarily all of which was spent on oil and gas activities.

Liquidity and Capital Resources

The Company's operations consumed approximately \$868,000 of cash (before working capital items) for the year ended July 31, 2013. An additional approximate \$8,320,000 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 year plus proceeds from the private placement financings and convertible notes discussed above.

The Company's aggregate operating, investing and financing activities during the year ended July 31, 2013 resulted in a net decrease of \$6,543,113 in its cash and cash held-in-trust balance of \$8,810,344 at July 31, 2012 to \$2,267,231 at July 31, 2013.

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The Company currently has earned a 25.8333% working interest in PEL 112 in connection with completing the respective seismic program and drilling one exploration well. Upon completion of the PEL 444 seismic program, the Company will earn a 20% working interest in that PEL. The Company will require additional funding in order to meet its objectives of increasing its working interest in each of the PELs.

Transactions with Related Parties

During the years ended July 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:

	2013	2012
	\$	\$
Non-audit accounting fees ⁽¹⁾	79,030	28,621
Legal fees ⁽²⁾	3,575	-
Management fees ⁽³⁾	498,464	100,000
Office and miscellaneous fees ⁽⁴⁾	65,568	-
Share issuance costs	-	53,780
Exploration and evaluation interests - management and consulting fees ⁽⁵⁾	468,311	148,042
	<u>1,114,948</u>	<u>330,443</u>

(1) Includes fees billed by a company owned by a director, Rob McMorran, and consulting fees billed by the former CFO, Andrew Williams.

(2) Includes corporate secretary fees billed by a company owned by a director, Rob McMorran.

(3) Includes fees billed by a company owned by the former COO, Michael Kamis, fees billed by the former CEO, Norman Mackenzie, fees billed by the CEO, Henry Aldorf, and fees billed by a company controlled by a director, Nico Civelli.

(4) Includes fees billed by a company owned by the former COO of the Company, Michael Kamis.

(5) Includes fees billed by a company owned by the former COO of the Company, Michael Kamis and fees billed by a company owned by the VP of Exploration, Chas Lane.

At July 31, 2013, accounts payable and accrued liabilities included \$112,791 (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 and \$33,000 of the convertible notes are related party transactions as they were transactions entered into with directors of the Company.

Key management includes the current and former Chief Executive Officer, the current and former Chief Financial Officer, the former Chief Operating Officer and the current and former directors of the Company. The compensation paid or payable to key management for services during the years ended July 31, 2013 and 2012 is identical to the table above other than share-based payments expense. During the year ended July 31, 2013, key management received share-based payments of \$289,432 (2012 - \$222,404).

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.

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On May 3, 2013, the Company entered into a Debt Settlement Agreement with Apex Energy Consultants Inc., a company controlled by the former Chief Operating Officer, to settle accounts payable and accrued liabilities of \$193,097 by making cash payments totalling \$98,083 and issuing 875,000 common shares of the Company at the fair value of \$87,500. In addition, 500,000 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 November 30, 2014.

Financial Instruments

Classification of Financial Instruments

The Company's financial instruments consist of cash, cash held-in-trust, receivable from farmers, accounts payable and accrued liabilities and convertible notes. The Company designated its cash, cash held-in-trust and receivable from farmers as loans and receivables, which are measured at amortized cost. The accounts payable and accrued liabilities and the liability component of the convertible 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. As at July 31, 2013 and 2012, the Company had exposure to Australian dollars as follows:

	2013 A\$	2012 A\$
Cash	286,502	-
Cash held-in-trust	1,747,658	4,393,543
Receivable from farmers	561,140	-
Accounts payable and accrued liabilities	(982,578)	(125,580)
Net exposure to Australian dollars	1,612,722	4,267,963

At July 31, 2013, a 1% change in the value to the Australian dollar as compared to the Canadian dollar would result in a change in other comprehensive loss and equity attributable to shareholders of approximately A\$16,000.

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 as well as receivables from farmers. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash is primarily held with a financial institution. The receivables from farmers is due from various third parties and the amount has not yet been received.

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.

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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:

66,322,197 common shares as at November 26, 2013

c) Outstanding options, warrants and conversion feature of convertible notes as at November 26, 2013:

Security	Number	Exercise Price (\$)	Expiry date
Stock Options	400,000	0.30	June 10, 2014
Stock Options	500,000	0.30	November 30, 2014
Stock Options	600,000	0.30	May 16, 2015
Stock Options	1,400,000	0.18	July 18, 2018
Stock Options	900,000	0.30	May 16, 2022
Warrants	42,608,300	0.30	May 11, 2014
Warrants	3,408,664	0.25	May 11, 2014
Warrants	818,181	0.11	July 8, 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
Conversion Feature of Convertible Notes	17,318,181	0.11	July 8, 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 financial statements for the year ended July 31, 2013 and this accompanying MD&A (together, the Annual 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 Annual Filings on SEDAR at www.sedar.com.

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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.

Outlook

The Company has secured the rights to explore more than 4500 km² 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, and there is considerable potential for further discoveries.

Since undertaking the Farm-in Agreement obligations, the Company has completed 3D seismic surveys on a portion of PEL 112 and PEL 444. The Company has completed one exploration well on PEL 112, Wolfman #1, which resulted in a dry hole. Subject to the availability of financing, it is the Company's intention to further the exploration program on both PEL 112 and PEL 444. The Company currently is focused on interpretation of the 3D seismic survey on PEL 444 in order to identify prospects for drilling. PEL 444's current license term expires on July 10, 2015 and has a one-well drilling commitment remaining.

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 continue to serve as the interim 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.

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Accounting Standards Issued But Not Yet Effective

Unless otherwise noted, the following revised standards and amendments are effective for the Company beginning August 1, 2013.

- (i) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation - Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.
- (ii) IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.
- (iii) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.
- (iv) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.