

**COBRA VENTURE CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE SIX MONTHS ENDED MAY 31, 2013**

## **DESCRIPTION OF BUSINESS**

The following management discussion and analysis of the financial results for the six month period ended May 31, 2013 ("MD&A"), as provided by the management of Cobra Venture Corp. (the "Company") should be read together with the audited annual financial statements and related notes attached thereto, which are prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"). All dollar amounts included therein and in the following MD&A are expressed in Canadian dollars except where noted. This Management Discussion and Analysis is dated July 30, 2013.

The Company is an emerging energy company focused on the acquisition, development and production of strategic petroleum and natural gas interests in Western Canada (see discussion below in "Results of Operations"). The recoverability of the amounts shown for petroleum and natural gas interests are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production. The Company trades on the TSX Venture Exchange under the symbol CBV.

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

## **PERFORMANCE SUMMARY**

The Company did not have any significant events or transactions that occurred during the six month period ended May 31, 2013.

The following is a summary of the significant events and transactions that occurred during the six month period ended May 31, 2012.

- Sold all of its remaining freehold petroleum and natural gas royalty interest in the Viewfield area and recorded a gain of \$5,167,368 after closing adjustment of \$46,362 in connection with the sale.
- Received and cancelled 1,767,000 common shares of the Company for a fair value of \$530,100 in connection with the sale of the Company's interests in the Viewfield area.
- Cancelled 70,000 common shares of the Company held in treasury for \$17,884.
- Paid \$375,000 pursuant to the Assignment Agreement of the Rocky View area.

## **RESULTS OF OPERATIONS FOR THE SIX MONTH PERIOD ENDED MAY 31, 2013**

Oil and gas revenue of continuing operations for the six month period ended May 31, 2013 was \$39,746 compared to \$127,049 in the comparative period ended May 31, 2012. The decrease is a result of decreased production revenues in Willesden Green and Davey Lake areas. Oil and gas revenue of discontinued operations for the six month period ended May 31, 2013 was \$Nil compared to \$90,335 in the comparative period ended May 31, 2012. The decrease is a result of the Company no longer owning royalty interests in the Viewfield and Pembina areas.

Direct costs of continuing operations for the six month period ended May 31, 2013 were \$27,978 compared to \$73,727 in the comparative period ended May 31, 2012. The decrease is primarily a result of decreased depletion costs and royalties. Direct costs of discontinued operations for the six month period ended May 31, 2013 were \$Nil compared to \$29 in the comparative period ended May 31, 2012. The decrease is a result of the Company no longer owning royalty interests in the Viewfield and Pembina areas.

Administrative expenses for the six month period ended May 31, 2013 were \$397,712 compared to \$454,129 in the comparative period ended May 31, 2012. The decrease is mainly a result of decreased professional fees as the Company incurred lower legal and accounting fees.

## **RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD ENDED MAY 31, 2013**

Oil and Gas revenue of continuing operations for the three month period ended May 31, 2013 was \$27,308 compared to \$61,711 in the comparative period ended May 31, 2012. The decrease is a result of decreased production revenues in Willesden Green and Davey Lake areas. Oil and Gas revenue of discontinued operations for the three month period ended May 31, 2013 and 2012 were both \$Nil as the Company no longer owning royalty interests in the Viewfield and Pembina areas.

Direct costs of production of continuing operations for the three month period ended May 31, 2013 were \$13,456 compared to \$39,937 in the comparative period ended May 31, 2012. The decrease is primarily a result of decreased depletion costs and royalties. Direct costs of production of discontinued operations for the three month period ended May 31, 2013 and 2012 were both \$Nil as the Company no longer owning royalty interests in the Viewfield and Pembina areas.

Administrative expenses for the three month period ended May 31, 2013 were \$193,794 compared to \$193,636 in the comparative period ended May 31, 2012.

## **PETROLEUM AND NATURAL GAS INTERESTS**

### **Property and Equipment**

#### ***Pembina Area, Alberta***

On November 14, 2005, the Company entered into a Participation Agreement with an operating industry partner to participate in the drilling of an initial three (3) exploration wells and earn a working interest in the Pembina area of Alberta. The Company had the right to earn a 27% net working interest by paying 45% of all costs associated with the drilling program to earn a 40% net working interest in the prospect area comprised of seven (7) sections or approximately 4,480 acres. Currently there are 4 sections of land under active mineral leases.

The Company has earned a 27% net working interest in one natural gas well and a 6.67% working interest in another and is receiving production revenue from both wells. The Company also has a 40% net working interest in additional areas within the Pembina property where an additional 10-12 drill targets have been identified and are being evaluated for future development mostly dependent upon the economics dictated by the current price of natural gas.

On July 26, 2010, the Company amended the participation agreement dated February 21, 2006 for a reduction of the original 3% Gross Overriding Royalty ("GOR") to 2.5%

During the year ended November 30, 2012 the Company entered into a Quitclaim, Surrender and Assignment of Interest Agreement with West Isle Energy Inc. according to which the Company agreed to dispose of all of its rights, interests and obligations in the Pembina area and make a one-time payment of \$7,955 (paid), and consequently, recorded a write-down of petroleum and natural gas interests.

During the period ended May 31, 2013, the Company received \$986 (May 31, 2012 - \$1,855) in production revenue.

#### ***Willesden Green Area, Alberta***

In the fall of 2007, the Company obtained a 40% net working interest in 160 acres of land in Central Alberta for \$18,570.

The Company acquired an 80% working interest in an oil well located in the Willesden Green area which is subject to applicable royalties. The Company has entered into an arrangement with a private oil and gas operator in the area and the operator has agreed to perform some remedial work in the well and equip and tie-in the well to earn 50% of the Company's interest being a 40% working interest.

During the year ended November 30, 2010, the operator completed its obligations, paid the Company \$460,000 based on a BOE/day calculation and earned its 40% working interest.

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During the period ended May 31, 2013, the Company received \$9,864 (May 31, 2012 - \$56,079) in production revenue.

***Davey Lake area, Alberta***

During the year ended November 30, 2010, the Company entered into an agreement with RNM Services Ltd. ("RNM") to earn a 13.5% working interest in a well located in the Davey Lake area by incurring all RNM costs to drill, case, complete and equip and tie-in (or abandon) the well. The Company paid RNM a one-time fee of \$26,250 to enter into this agreement.

During the period ended May 31, 2013, the Company received \$28,896 (May 31, 2012 - \$69,115) in production revenue.

***Land***

During the year ended November 30, 2012, the Company acquired a 100% interest in certain lands and premises located in the Municipal District of Rocky View No. 44, in the Province of Alberta, consisting of approximately 15.78 acres, excepting thereout all mines and minerals, for \$3,975,000, and closing costs of \$46,876, for a total of \$4,021,876.

**SUBSEQUENT EVENT**

Subsequent to the period ended May 31, 2013, the Company entered into a Participation Agreement in which Taku Gas Limited granted the Company (and two other arm's length companies) the right to equally participate to drill and complete up to 4 initial test wells (each "Test Well"). Under the agreement, the Company will pay 29.33% of the drilling costs of each Test Well to earn a net working interest of 14.665% in each well. Based on all 4 Test Wells being drilled, the Company's net earned position will be equal to 14.665% of 1640 acres.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's petroleum and natural gas exploration activities have been funded to date primarily through revenue and the issuance of common shares.

As at May 31, 2013, the Company had working capital of \$1,318,307 compared to working capital of \$1,579,996 as at November 30, 2012. As at May 31, 2013, the Company had cash and cash equivalents of \$1,188,301 compared to \$2,681,566 as at November 30, 2012.

Net cash used in operating activities of continuing operations for the period ended May 31, 2013 was \$1,512,101 (2012 - \$205,295) consisting primarily of the operating loss adjusted by the changes in non-cash items. Net cash provided by operating activities of discontinued operation for the period ended May 31, 2013 was \$Nil (2012 - \$90,306) consisting primarily of the operating income adjusted by the changes in income tax payable.

Net cash provided by investing activities of continuing operations for the period ended May 31, 2013 was \$18,836 (2012 - net cash used in investing activities of \$384,975). Net cash provided by investing activities of discontinued operation for the period ended May 31, 2013 was \$Nil (2012 - \$4,637,267) consisting of proceeds from the sale of royalty interests in the Viewfield area.

**INVESTMENT**

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	May 31, 2013	November 30, 2012
Shares in Zodiac Exploration Corp.	\$ 163,125	\$ 308,125

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As of May 31, 2013, the Company has 3,625,000 (November 30, 2012 – 3,625,000) shares of Zodiac Exploration Corp., classified as an available-for-sale investment.

During the period ended May 31, 2013, the Company recorded an unrealized loss of \$126,150 (2012 – \$570,938) to adjust the shares to market value, net of tax recovery \$18,850 (2012 – \$81,562) as other comprehensive loss.

**SUMMARY OF QUARTERLY RESULTS**

	May 31, 2013	February 28, 2013	November 30, 2012	August 31, 2012
Total assets	\$ 5,772,626	\$ 6,088,455	\$ 7,283,226	\$ 7,574,323
Exploration and evaluation assets	-	-	-	-
Property and equipment	4,201,638	4,203,197	4,204,457	4,414,869
Working capital	1,318,307	1,441,548	1,579,996	1,783,308
Equity	5,627,436	5,879,597	6,019,178	6,268,580
Total revenues – continuing operations	27,308	12,438	34,275	47,651
Total other items – continuing operations	2,347	6,655	(43,376)	21,265
Operating expenses – continuing operations	193,794	203,918	230,357	210,262
Loss before income taxes – continuing operations	(177,595)	(199,347)	(316,299)	(126,355)
Basic and diluted loss per share	(0.01)	(0.01)	(0.00)	(0.01)

	May 31, 2012	February 29, 2012	November 30, 2011	August 31, 2011
Total assets	\$ 7,794,797	\$ 7,996,898	\$ 4,265,008	\$ 5,597,801
Exploration and evaluation assets	394,019	-	-	809,637
Property and equipment	378,649	387,068	278,337	257,278
Working capital	5,641,967	6,007,629	2,769,593	2,809,459
Equity	6,449,506	6,686,715	3,778,603	5,105,787
Total revenues – continuing operations	61,711	65,337	123,727	54,336
Total other items – continuing operations	45,234	15,349	(485,264)	203,449
Operating expenses – continuing operations	193,636	260,493	468,463	152,138
Loss before income taxes – continuing operations	(89,204)	(213,596)	(801,423)	(54,744)
Basic and diluted income (loss) per share	(0.00)	0.22	(0.04)	0.01

**DISCONTINUED OPERATION**

*Viewfield Area, Saskatchewan*

On October 10, 2002, the Company purchased petroleum and natural gas assets consisting of 90% net working interests in 2,880 freehold acres in the Viewfield region of southeast Saskatchewan (“Assets”) from Charter Oil Corporation. The Company paid cash of \$150,000, issued 400,000 common shares valued at \$240,000 and issued 830,000 Participating Redeemable Series “A” Preferred Shares at an agreed value of \$830,000, for total consideration of \$1,220,000.

As at November 30, 2011, the Company entered into a lease agreement with an independent large oil production company, on 160 acres of the Company’s lands in the Viewfield area. The lease had a term of two years with a net gross overriding production royalty of 20% to the Company. The Company received a bonus sum of \$200,000 in connection with the agreement.

During the year ended November 30, 2012, the Company sold all of its remaining freehold petroleum and natural gas royalty interests in the Viewfield area for an aggregate sale price of \$5,250,000.

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Proceeds consisted of:

- i) \$4,719,900 in cash; and
- ii) 1,767,000 common shares of the Company with a fair price of \$0.30 for a total value of \$530,100 returned to treasury and cancelled.

The Company recorded a gain of \$5,148,348 after closing adjustments of \$46,362 in connection with the sale.

The Company has accounted for the financial results associated with the Viewfield area as discontinued operation in the financial statements and has reclassified the related accounts for the comparative period. Income and cash flows for the operation are reported separately in the financial statements in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations*. There were no assets and liabilities for the discontinued operation as at the reporting date.

Results of discontinued operations comprise the following:

	Six Months Ended	
	May 31, 2013	May 31, 2012
Revenues	\$ -	\$ 90,335
Direct costs	-	(29)
Income before other item	-	90,306
Gain on sale of property and equipment	-	5,167,368
Income before income taxes	-	5,257,674
Income tax expense	-	(1,367,603)
Income after taxes from discontinued operations	\$ -	\$ 3,890,071

**RELATED PARTY TRANSACTIONS**

Amounts paid or accrued to related parties are as follows:

Paid to:	Nature of transactions	Six Month	
		Period Ended May 31, 2013	Period Ended May 31, 2012
a limited partnership of which a Director is a partner	Rent	\$ 19,048	\$ 28,086
a firm of which a Director is a partner	Accounting	60,850	75,920
a firm of which the Corporate Secretary is a partner	Legal	3,194	68,995
		\$ 83,092	\$ 173,001

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Key management compensations are as follows:

Paid to:	Nature of transactions	Six Month Period Ended May 31, 2013	Six Month Period Ended May 31, 2012
Salaries and benefits <sup>(i)</sup>	Management	\$ 30,000	\$ 24,000
A company owned by a Director and Officer	Management	110,000	110,000
Share-based payments <sup>(ii)</sup>		<u>7,657</u>	<u>10,589</u>
		<u>\$ 147,657</u>	<u>\$ 144,589</u>

(i) There were no post-employment benefits, termination benefits, or other long-term employment benefits paid to key management in either period.

(ii) Share-based payments are the fair value of options granted and vested.

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly including any director (whether executive or otherwise) of the Company. The Company's key management personnel include the Chief Executive Officer and Directors.

The amounts due to related parties included in accounts payable and accrued liabilities are as follows:

	May 31, 2013	November 30, 2012
A firm of which a Director is a partner	\$ 20,000	\$ 49,560
A firm of which the Corporate Secretary is a partner	-	244
Management and Directors	<u>-</u>	<u>10,631</u>
	<u>\$ 20,000</u>	<u>\$ 60,435</u>

**NEW ACCOUNTING PRONOUNCEMENTS**

The Company has not yet applied the following new or revised standards that have been issued but are not yet effective at May 31, 2013.

- i) Effective for annual periods beginning on or after January 1, 2013
  - New standard IFRS 10, *Consolidated Financial Statements*
  - New standard IFRS 11, *Joint Arrangements*
  - New standard IFRS 12, *Disclosure of Interests in Other Entities*
  - New standard IFRS 13, *Fair Value Measurement*
  - Reissued IAS 27, *Separate Financial Statements*
  - Reissued IAS 28, *Investments in Associates and Joint Ventures*
- ii) Effective for annual periods beginning on or after January 1, 2014
  - Amended IAS 32, *Financial Instruments: Presentation*
- iii) Effective for annual periods beginning on or after January 1, 2015
  - New standard IFRS 9, *Financial Instruments, Classification and Measurement*

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The Company is currently assessing the impact that these standards will have on the Company's condensed interim financial statements.

## **FINANCIAL INSTRUMENTS AND RISK**

### **Fair value**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;  
and

Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate their carrying values. The Company's investments are measured at fair value using Level 1 inputs.

### **Financial risk factors**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

#### *Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to trade receivable and cash and cash equivalents. Management believes that the credit risk concentration with respect to trade receivable is not significant and cash and cash equivalents is remote as it maintains accounts with highly-rated financial institutions.

#### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at May 31, 2013, the Company had a cash and cash equivalents balance of \$1,188,301 (November 30, 2012 - \$2,681,566) to settle current liabilities of \$89,556 (November 30, 2011 - \$1,190,648). All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

#### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

##### a) *Interest rate risk*

The Company has cash balances and cashable GIC's of \$300,000 (November 30, 2012 - \$1,750,000) at interest rates of prime less 1.75% (November 30, 2012 - at an interest rate of prime less 1.80% and prime less 2.05%). Since the GIC's are cashable anytime, the Company believes it is not exposed to significant interest rate risk.

##### b) *Foreign currency risk*

The Company conducts its activities in Canada with Canadian dollars. Therefore, the Company believes it is not exposed to foreign currency risk.



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c) *Price risk*

The Company has limited exposure to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities.

**CAPITAL MANAGEMENT**

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern.

In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (ie. capital stock, treasury stock, reserves, accumulated other comprehensive income or loss and retained earnings or deficit).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue common shares through private placements. The Company is not exposed to any externally imposed capital requirements.

There were no changes in the Company's approach to capital management during the period ended May 31, 2013.

**OUTSTANDING SHARE DATA**

**As at July 30, 2013:**

- a) Authorized: unlimited common shares without par value  
unlimited preferred shares
- b) Issued and outstanding: 15,903,748 common shares.
- c) Outstanding incentive stock options:

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	Number of Options	Exercise Price	Expiry Date
<b>Stock Options</b>	1,050,000	0.16	April 3, 2014
	600,000	0.17	May 27, 2015
	<u>225,000</u>	0.24	May 25, 2017
	<u>1,875,000</u>		

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- d) Outstanding warrants: Nil.
- e) Shares in escrow or pooling agreements: Nil.

**Shareholder Rights Plan**

At the annual and special meeting of the shareholders of the Corporation held on July 15, 2010, the shareholders of the Company have ratified the Company's Share Holder Rights Plan dated effective June 17, 2010 (the "Plan").

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The Plan is designed to ensure the fair treatment of shareholders in connection with any take-over bid for outstanding common shares of the Company. The Plan seeks to provide shareholders with adequate time to properly assess a take-over bid without undue pressure. It also provides the Board of Directors with adequate time to fully assess an unsolicited take-over bid, to allow competing bids to emerge, and, if applicable, to explore other alternatives to the take-over bid to maximize shareholder value.

The Plan is not intended to prevent or deter take-over bids that treat shareholders fairly. Under the Plan, those bids that meet certain requirements intended to protect the interests of all shareholders are deemed to be "Permitted Bids". Permitted Bids must be made by way of a take-over bid circular prepared in compliance with applicable securities laws and, among other conditions, must remain open for 60 days.

Under the terms of the Plan, one right will be issued by the Company for each outstanding common share at the close of business on June 17, 2010, and for each of the Company's common share issued in future (subject to the terms of the Plan). In the event a take-over bid does not meet the Permitted Bid Requirements of the Plan, the rights will entitle shareholders, other than any shareholder or shareholders making the take-over bid, to purchase additional common shares of the Corporation at a substantial discount to the market price of the common share at that time. The Plan has an initial term of three years.

The Company is not adopting a Plan in response to any proposal to acquire control of the Corporation. The Plan is similar to plans adopted by other Canadian companies and ratified by their shareholders. The plan was approved by the TSX Venture Exchange, effective June 17, 2010.

## **ABBREVIATIONS**

### *Oil and Natural Gas Liquids*

bbls	Barrels
mbbls	thousand barrels
bbls/d	barrels of oil per day
BOE/d	barrels of oil equivalent per day
NGLs	natural gas liquids (consisting of any one or more of propane, butane and condensate thousand stock tank barrels of oil
bpd	barrels of production per day

### *Natural Gas*

mcf	thousand cubic feet
mmcf	million cubic feet
mcf/d	thousand cubic feet per day
m <sup>3</sup>	cubic meters

## **OTHER**

**BOE Presentation – For the purposes of calculating unit costs, natural gas is converted to a barrel of oil equivalent (BOE) using six thousand cubic feet equal to one BOE unless otherwise stated. A BOE is a very approximate comparative measure that, in some cases, could be misleading, particularly if used in isolation.**

**BOE** means barrels of oil equivalent. A barrel of oil equivalent is determined by converting a volume of natural gas to barrels using the ration of six (6) mcf to one (1) barrel. BOEs may be misleading, particularly if used in isolation. The BOE conversion ration of six (6) mcf: one (1) bbl is based on an energy equivalency methods primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

**GORR** means gross overriding royalty

**ARTC** Alberta Royalty Tax Credit

## **CONVERSION**

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units).

<b><u>To Convert From</u></b>	<b><u>To</u></b>	<b><u>Multiply By</u></b>
mcf	Cubic meters	28.174
cubic meters	Cubic feet	35.494
bbls	Cubic meters	0.159
feet	meters	0.305
acres	hectares	0.405