EAGLEWOOD ENERGY

Eaglewood Energy Inc.
Management's discussion and analysis
For the three and nine months ended September 30, 2012 and 2011

CHIEF EXECUTIVE'S MESSAGE

The third quarter was relatively quiet from an operational perspective, but was very active from a regulatory and commercial perspective. With the Ubuntu discovery now large enough to be a stand-alone condensate project and a potential source of gas for the domestic power market, a lot of effort was spent this quarter progressing the monetization plans for PRL 28. We have lodged and gazetted a Pipeline and Facilities Application with the regulator and it is currently in the review process. The timelines for objections have all expired without objection and we are actively working with the regulator to move the applications ahead as quickly as possible. In connection with the applications, we have also announced a memorandum of understanding with Trafigura PTE LTD, the third largest oil and oil products trader in the world, to assist with the financing of the pipeline and facilities and be the off-taker for the condensate. Assuming the applications are granted, the condensate pipeline and facilities will be sized to handle all the condensate in the eastern part of PPL 259, including the volumes in PRL 21 and any other discoveries that may be made. This Pipeline and Facilities Application, combined with our high working interest and operatorship of PPL 259 and PRL 28, make Eaglewood's assets extremely strategic with respect to the on-going development of the condensate-rich northern Forelands gas fairway.

Also on the regulatory front, in the third quarter we received the instrument executed by the Minister for the PPL 258 license extension dated August 31, 2012. The license is extended for five more years, with minimal work commitments for the first two years, after which a "drill or drop" decision must be made.

The seismic program we completed in the second quarter over two large leads in the western part of PPL 259 was very encouraging and as a result we are conducting a follow-up program to try to convert the Malisa and Nama prospects into possible drilling locations with a view to building a location and drilling a well in the first half of 2013. It has taken some time to get agreement among our partners, but we will be kicking off that program in the fourth quarter. In addition, we hope to acquire data over the Ekelesia lead where we had cut lines and set charges in Q2 but were unable to obtain data due to rising river levels.

The Q2 seismic program also acquired data over Stanley West to provide more information to assist in the negotiation with the PRL 4 joint venture for a unitisation with the Stanley discovery on PRL 4. Stanley appears to be primarily contained in one of the PRL 4 blocks, but also spills over into one of our PPL 259 blocks. Having reviewed the seismic data and publicly available information, the Company released an estimate of the PPL 259 block prospective resources in Stanley West in a press release dated October 11, 2012. We, as the PPL 259 operator, have been pushing the PRL 4 joint venture to try to resolve the unitisation issue prior to a Petroleum Development License ("PDL") being granted for the Stanley field. In August, the PRL 4 joint venture submitted a PDL application for the field and the regulator has instructed the PPL 259 and PRL 4 joint ventures to conclude a unitization agreement before any PDL license will be granted. I am pleased to report that the unitization discussions are underway and we look forward to concluding the negotiation prior to year end.

We are pleased with our progress and the way things are developing in the forelands and the success of the recent wells and on-going activity around us, all of which have increased our strategic and resource value. We continue to work toward creating value and as always, we thank all our shareholders for their patience and support.

Brad Hurtubise
Chief Executive Officer

Management's discussion and analysis ("MD&A") of Eaglewood Energy Inc.'s (the "Company" or "Eaglewood") financial condition and results of operations should be read in conjunction with the consolidated financial statements for the three and nine months ended September 30, 2012 and 2011 and related notes therein prepared in accordance with International Financial Reporting Standards. The effective date of this MD&A is October 22, 2012.

Additional information relating to the Company is available on SEDAR at www.sedar.com and the Company's website at www.eaglewoodenergy.ca .

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking statements, pertaining to the following:

- capital expenditure programs;
- development of resources;
- treatment under governmental regulatory and taxation regimes;
- expectations regarding the Company's ability to raise capital;
- expenditures to be made by the Company to meet certain work commitments; and work plans to be conducted by the Company.

With respect to forward-looking statements listed above and contained in this MD&A, the Company has made assumptions regarding, among other things:

- the Papua New Guinea legislative and regulatory environment;
- the impact of increasing competition;
- unpredictable changes to the market prices for oil and natural gas;
- that costs related to development of the oil and gas properties in Papua New Guinea will remain consistent with historical experiences;
- anticipated results of exploration activities;
- availability of additional financing and farm-in or joint venture partners; and
- the Company's ability to obtain additional financing in a timely manner and on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- volatility in the market prices for oil and natural gas;
- uncertainties associated with estimating resources;
- geological, technical, drilling and processing problems;
- liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations;
- fluctuations in currency and interest rates;
- incorrect assessments of the value of acquisitions;
- unanticipated results of exploration activities;
- competition for, among other things, capital, acquisitions of reserves, equipment, undeveloped lands and skilled personnel;
- lack of availability of additional financing and farm-in or joint venture partners;
- unpredictable weather conditions; and
- other factors referred to under "Risk Factors" in the Company's annual information form for the year ended December 31, 2011, dated April 19, 2012 and filed on SEDAR on April 19, 2012.

Undue reliance should not be placed on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

COMPANY OVERVIEW

Eaglewood is an international junior oil and gas company which trades on the TSX Venture Exchange (trading symbol "EWD"). The Company's primary activity is exploration and development of its petroleum prospecting and retention licenses located in Papua New Guinea (the "PNG Licenses") which were acquired in October 2007 and December 2011. The Company has no oil and gas properties other than the PNG Licenses. Currently there is no production or reserves associated with the PNG Licenses, however, the Company has made a discovery of a gas condensate field on the PRL 28 license for which resource estimates have been disclosed.

EVENTS IN Q3:2012

(a) In August 2012 the Company was granted a five year extension to the PPL 258 license.

(b) In August 2012, the Company announced that the second of two farmout arrangements on PPL 259 for 25% participating interest failed to complete. Eaglewood will continue to hold a 65% participating interest in this license.

(c) In August 2012, the Company completed the sale of its final 10% participating interest in PPL 260 for US $3.5 million.

SUBSEQUENT EVENTS

(a) In October 2012, the Company announced that it has signed a memorandum of understanding ("MOU") with Trafigura PTE LTD. Under the terms of the MOU the two companies will work together with a view to jointly finance, construct and operate a condensate processing facility and pipeline in the Western Province of Papua New Guinea (PNG). The processing facility will be located adjacent to the Ubuntu gas condensate discovery in Eaglewood operated PRL 28 and the pipeline will deliver condensate to Drimdenasuk on the Fly River where it will be exported by river tanker.

(b) In October 2012, the Company announced an estimation of resources on the portion of the Stanley Hydrocarbon Pool that encroaches into Eaglewood's Petroleum Prospecting License 259. The bulk of the Stanley field is located within Petroleum Retention License 4.

DESCRIPTION OF PNG LICENSES AND COMMITMENTS

Each of the PNG Licenses gives the Company the right to explore for oil and natural gas on specified blocks in PNG. If exploration is successful, the Company can apply to the PNG government for either a retention license or a development license. A retention license is generally applied for if natural gas reserves have been identified but additional time is required to either prepare a development plan or, if the amount of natural gas reserves is not of a sufficient commercial quantity, to explore for further natural gas reserves. A development license is generally applied for if oil and/or natural gas reserves have been discovered and production is commercially viable. The PNG government has historically granted retention or development licenses however there is a risk that a retention or development license may not be granted to the Company when, or on the terms, applied for.

PPL 259

In September 2011, a five-year extension to PPL 259 was granted. Within the first two years from the date of extension of this license, the Company must, at a cost of not less than US$26,000,000 acquire 100km of 2D seismic, drill one exploration well, and conduct geological and geophysical studies. Prior to the beginning of the third year of the extension, the Company must submit and have approved by the Minister, the work program for the remaining three years of the extension which must include drilling an appraisal well or another exploration well. Eaglewood has a 65% participating interest in this license (see EVENTS IN Q3:2012).

PRL 28

In December 2011, a Petroleum Retention License (PRL) was granted for the Ubuntu gas condensate discovery on PPL 259. The license was granted for five years and during this period, the Company must undertake marketing studies with analysis of future hydrocarbon commercialization scenarios for the Ubuntu gas and gas condensate resource; undertake technical studies to (i) re-map and assess the reserves of the Ubuntu feature, focusing on an integration of the Ubuntu seismic; (ii) determine the potential for an integrated development with other nearby fields; (iii) deliver gas and/or condensate to local markets; (iv) identify landowners and required social mapping; and (v) address other commercialization opportunities for gas/condensate. The cost of the above work is to be not less than US$350,000. Contingent on the conclusions reached on the above items and if the market warrants, the Company must then undertake engineering studies aimed at appraisal and development of gas and/or condensate delivery; perform a conventional or extended well test on Ubuntu-1; consider drilling an appraisal or development well; and undertake commercial negotiation of gas and/or condensate contracts. Eaglewood has a 40% participating interest in this license.

PPL 257

On December 6, 2011, a five year extension to PPL 257 was granted. During the first two years of the extension, the Company must, at a cost of not less than US$500,000 integrate recently completed studies; conduct further field studies as deemed necessary; integrate seismic interpretation and structural studies; and continue farm-out talks. Prior to the beginning of the third year of the extension, the Company must submit and have approved by the Minister, the work program for the remaining three years of the license which must include drilling one exploration well at a cost of not less than $US40,000,000, conduct post well studies and a comprehensive license review at a cost of not less than $US500,000; and provide particulars of the financial resources available to the Company to carry out the foregoing work program. Eaglewood has a 100% participating interest in this license.

PPL 258

In August 2012, the Company was granted a five year extension to this license. The work commitments will be: during the first two years, the Company must carry out and integrate a number of studies at a cost of not less than US$500,000; in the third and fourth year, the Company must drill one exploration well with a second well required in year five at a cost of not less than US$15,000,000 per well. Eaglewood has a 100% participating interest in this license.

The PNG government retains the right to back-in for up to a 22.5 % interest at cost which can be exercised at the time a development license is granted. The PNG government also has a 2% royalty over any oil or natural gas production that may occur with respect to the PNG Licenses.

The Company has issued bank guarantees totaling approximately $225,000 (100,000 Papua New Guinea Kina for each license) as security against the capital requirements associated with the PNG Licenses. If the Company does not fulfill its commitments under a PNG License and has not applied for and been granted an extension, it could potentially lose its guarantee and the applicable PNG License could be revoked by the PNG government.

As the Company does not currently generate sufficient cash flow from operating activities to fund its activities, it will need to raise equity financing and/or enter into joint venture or farm-out arrangements to finance its exploration commitments for the PNG Licenses.

SELECTED QUARTERLY INFORMATION

The following is a summary of selected financial information for the Company for the periods indicated:

($000's except per share data)	Sep 30 2012	Jun 30 2012	Mar 31 2012	Dec 31 2011	Sep 30 2011	Jun 30 2011	Mar 31 2011	Dec 31 2010
Revenue	-	-	-	-	-	-	-	-
Income (loss) before discontinued operations	3,987	(673)	(616)	(745)	(983)	(2,577)	(632)	(347)
Net income (loss)	3,987	(673)	(616)	(745)	(983)	(2,577)	(632)	(347)
Income (loss) per share before discontinued operations	0.05	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)	(0.01)	(0.01)
Total income (loss) per share	0.05	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)	(0.01)	(0.01)
Total assets	62,008	61,594	58,848	64,305	62,828	62,202	66,585	72,202

- The Company currently has no oil or gas production to offset its expenses. The Company's expenses are described more fully in RESULTS OF OPERATIONS.
- The Company's main assets are petroleum and natural gas properties and cash.

RESULTS OF OPERATIONS

The Company had a net income of $3,986,511 and $2,697,180 respectively for the three and nine months ended September 30, 2012 compared to a net loss of $983,429 and $4,191,736 for the three and nine months ended September 30, 2011. The net income for the three and nine months ended September 30, 2012 is a result of a gain on the sale of exploration and evaluation assets and the reversal of an impairment, described in more detail below.

Total net expenses from operating activities for the three and nine months ended September 30, 2012 were $(3,966,669) and $(2,660,750) respectively compared to $852,233 and $3,962,065 for the same period in 2011.

For the three and nine months ended September 30, 2012 the Company recorded a gain on sale of exploration and evaluation assets of $3,509,906 and $3,718,364 respectively (September 30, 2011 – nil), related to the sale of the Company's 30% participating interest in PPL 260.

For the three and nine months ended September 30, 2012 the Company reversed the impairment of $1,402,317 on exploration and evaluation assets taken in Q2:2011. The reversal of the impairment is a result of receiving a five year extension on PPL 258.

The following table provides a breakdown of the Company's general and administrative ("G&A") expenses by material component:

	For the three months ended,		For the nine months ended,	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Salaries & wages	**$ 277,085**	$ 388,535	**$ 889,808**	$ 1,081,673
Stock based compensation	**154,768**	180,057	**352,387**	709,915
Office costs	**60,930**	58,815	**222,345**	206,085
Consulting	**79,040**	21,472	**217,359**	37,970
Travel & accommodation	**63,864**	73,108	**217,269**	245,145
Professional fees	**106,612**	33,237	**166,251**	197,754
Other general and administrative	**56,252**	7,109	**150,653**	70,185
Public company	**23,641**	18,867	**86,282**	111,182
Office rent	**25,760**	30,671	**74,805**	76,666
Overhead recoveries	**(25,058)**	(543)	**(168,754)**	(299,619)
	$ 822,894	$ 811,328	**$ 2,208,405**	$ 2,439,956

The G&A expenses for the three months ended September 30, 2012 are approximately $12,000 higher than the expenses for the three months ended September 30, 2011. The G&A expenses for the nine months ended September 30, 2012 are approximately $232,000 lower than for the expenses for the nine months ended September 30,2012.

For the three and nine months ended September 30, 2012, salaries and wages were $111,000 and $192,000 lower than for the comparative periods in 2011. In April 2012, the Company completed a 25% farm-out of PPL 259. The farmee must pay its proportionate share of all costs incurred during 2012, including the salaries and wages incurred in Australia and PNG. This resulted in a decrease in costs to Eaglewood of approximately $88,000 and $144,000 for the three and nine months ended September 30, 2012. In addition, the staff complement was decreased by two administrative staff members in early 2012, resulting in additional savings over the previous year.

For the three and nine months ended September 30, 2012, stock based compensation was $25,000 and $357,000 lower than for the same period in 2011. In 2010, 1,665,000 options were issued at prices between $0.80 and $1.64 for which the vesting expense was primarily recorded in 2011. In 2011, 950,000 options were issued at prices between $0.23 and $0.50, for which the vesting expense is primarily being recorded in 2012. The cost of stock based compensation in 2012 is substantially lower due to the lower volume of options granted in 2011 and the lower exercise price at which the options were granted.

Consulting fees were $58,000 and $179,000 higher in the three and nine months ended September 30, 2012 than for the comparative periods in September 30, 2011. For the three and nine months ended September 30, 2012 the Company spent $45,000 and $92,000 on consulting fees related to preparing further engineering work on PPL 259 area development options, compared to nil for the previous year. For the nine months ended September 30, 2012, the Company incurred $50,000 in financial advisory service fees; and $43,000 in geological consulting fees, which were not incurred in 2011.

Professional fees for the three months ended September 30, 2012 were $73,000 higher than for the same period in 2011. This increase is related to legal fees incurred primarily in conjunction with the failure to complete the additional PPL 259 farm-in; various joint venture issues and in the collection of funds owed to the Company. Professional fees for the nine months ended September 30, 2012 were $31,000 lower than for the same period in 2011. While legal fees are higher in 2012, this is offset by decreased costs related to accounting/auditing incurred in 2011 related to the conversion to IFRS.

Other general and administrative costs increased by $80,000 in the nine months ended September 30, 2012 compared to the comparative period in September 30, 2011. This increase is primarily related to operating insurance as a result of a general tightening of market conditions plus additional suspended well insurance for Ubuntu-1.

For the three and nine months ended September 30, 2012, overhead recoveries were approximately $25,0000 and $169,000 compared to $1,000 and $299,000 for the same period in 2011. Overhead recoveries are a function of joint operations and capital expenditures. Pursuant to the Joint Operating Agreement for PPL 259 and PRL 28, the Company recovers a percentage of the capital expenditures as compensation for the indirect services provided to the Joint Venture. In the first three quarters of 2011 the capital expenditures were $10.0M. Most of these expenditures were in PRL 28, in which the joint venture partners hold a 60% participating interest. In the first three quarters of 2012 the capital expenditures were $2.2M, of which US$800,000 was related to the purchase of the Transeuro back-in right, which was a 100% Company cost.

In addition to G&A expenses, for the three and nine months ended September 30, 2012, the Company incurred $76,355 and $113,476 in operating costs compared to nil for the same periods in 2011. This relates to the purchase and operation of the Camp at Drimdenasuk which will be used as a base to manage inventory remaining from the Ubuntu project and potentially other work nearby such as road work. The Camp is not expected to have a life of more than 12 months, but during its life will be charged out to projects that make use of it.

FINANCIAL CONDITION

At September 30, 2012, the Company had total assets of $62.0 million compared to $64.3 million at December 31, 2011. The decrease in assets was mainly due to the sale of the Company's 30% interest in PPL 260 and the farmout of 25% in PPL 259 which reduced exploration assets by $9.1 million. Further net investment in exploration assets of $2.5 million, $1.4 million reversal of exploration asset impairment and an increase in cash of $5.1 million resulting from the asset disposals partially offset the disposal of exploration assets.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2012, the Company had net working capital of $11.2 million compared to net working capital of $2.7 million at December 31, 2011. The increase in working capital is mainly due to the proceeds of the farm-out agreements on PPL 260 and PPL 259, and a lower accounts payable balance.

Funds used in operations for the nine months ended September 30, 2012 were $1,945,849, in addition to a decrease in working capital of $3,379,123. The change in working capital is related to an increase in accounts receivable of $0.1 million and a decrease in accounts payable of $3.3 million.

Funds provided by investing activities for the nine months ended September 30, 2012 were $10,674,218. Funds used for the addition of exploration and evaluation assets totaled $2.2 million, which were offset by the proceeds of the PPL 260 disposition and PPL 259 farm-out of $12.8 million.

A summary of capital expenditures for the first nine months of 2012 is provided below.

PPL 259 – Seismic programme and technical studies	$ 1,184,097
Purchase of Transeuro back-in right	798,403
Overhead	160,847
Other	31,605
Total exploration and evaluation assets	2,174,952
Office equipment, furniture, computer equipment	2,945
Total capital expenditures	$ 2,177,897

For the nine months ended September 30, 2012, the Company received $12,000 for the issuance of shares from the exercise of options.

The effect of exchange rates decreased cash and cash equivalents by $258,435.

The Company does not currently generate sufficient cash flow from its operating activities to fund its activities and has relied upon contributions from farm-outs and the issuance of equity to provide additional funding. The Company's financial statements are presented on a going-concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company's ability to continue as a going concern is dependent upon its ability to raise equity financing and/or enter into joint venture or farm-out arrangements in the PNG Licenses to meet its exploration commitments and working capital requirements. Management believes there is the opportunity for the Company to enter into further farm-out or joint venture arrangements and/or raise further equity and therefore continue as a going concern. However, there are no assurances that the Company will be successful in achieving these objectives. If the Company is unable to raise equity financing and/or secure farm-out or joint venture partners, the Company may be unable to continue as a going concern. The Company's financial statements do not reflect the adjustments to the carrying values of assets and liabilities, including any impairment in its petroleum and natural gas properties, and the reported expenses and balance sheet classifications that would be necessary if the Company is unable to continue as a going concern, and such adjustments could be material.

2012 WORK PROGRAM AND OUTLOOK

2012 Work Program
The Company's 2012 work program is primarily based on meeting its PNG License commitments. This work program will be funded from current cash balances and the proceeds of the farm-out agreements announced in Q4:2011 and Q1:2012.

PPL 259
In the first half of 2012, the focus of the work program on PPL 259 was seismic data acquisition, and included: reprocessing of the existing vintage seismic data, a 18km seismic program focussed on the part of the license that contains the portion of the Stanley petroleum pool at Toro Reservoir level which extends beyond PRL 4 and into PPL 259; and 40km of further seismic to assist in locating the Company's next drilling location. The start of the Phase 1 seismic program was announced on April 2, 2012 and the interpretation was completed in July 2012. The results from this program were extremely encouraging and so, in the fourth quarter of 2012, the work program will include: 48km of prospect development seismic. Eaglewood's share of this second phase of seismic is estimated to be approximately US $3.5 million. Finally, dependent on the results of the unitization process of the Stanley Field, the Company may have to pay its share of the sunk costs of the pool, as well as development costs. Eaglewood's share of these costs is not known at this time.

PRL 28
The 2012 work program for PRL 28 will include: half of the technical studies and half of the commercial studies required in the first two years of the license term. In addition, the Company will continue to maintain and secure the inventory remaining from the Ubuntu-1 well. Eaglewood's share of these costs are expected to be approximately US $127,200. The Company undertook further technical and commercial studies in the first half of 2012, including: geochemical analysis of the Ubuntu-1 well, mapping studies which integrated Ubuntu-1 well data with Ubuntu infill seismic acquired in December 2011, and Ubuntu Field Development screening studies.

PPL 257
The 2012 work program for PRL 257 will include: half of the field studies and half of the study integration work required in the first two years of the license term, at a cost expected to be approximately US $250,000.

PPL 258
On August 31, 2012, the Company was formally granted a five year extension to the PPL 258 license. The work commitments for the first two years of the license are minimal. A work program for 2012 and 2013 is currently being developed.

As a result of the nature of the petroleum and natural gas exploration, development and exploitation industry, budgets are regularly reviewed with respect to both the success of expenditures and other opportunities that become available. Accordingly, while it is currently intended by management of the Company that the general expenditures set out in the work program above will be made by the Company, actual expenditures may in fact differ from these plans, amounts and allocations.

Additionally, completion of activities are subject to potential barriers such as, but not limited to, lack of capital, lack of available equipment and poor weather which may impact the timing and duration of operations. Additional risk factors are disclosed in the Company's Annual Information Form dated April 19, 2012 which is available on SEDAR at www.sedar.com.

OUTSTANDING SHARE DATA

As at October 22, 2012, the Company had 87,368,942 common shares outstanding and 8,526,000 stock options outstanding under its stock option plan. The Company also had 6,200,000 performance warrants outstanding.

RELATED PARTY TRANSACTIONS

For the three and nine months ended September 30, 2012, the Company paid $33,708 and $74,063 respectively for legal services to a firm of which a professional corporation controlled by an officer of the Company is a partner.

For the three and nine months ended September 30, 2012, the Company paid $3,000 and $9,000 respectively in fees to a company controlled by a director. These fees were paid for administrative services which were provided by the director.

Key management personnel compensation

In addition to their salaries, the Company also provides non-cash benefits to executive officers. The executive officers include the Chief Executive Officer, the Chief Operating Officer and the Interim Chief Financial Officer. Executive officers also participate in the Company's stock option program. Key management personnel compensation for the three and nine months ended September 30, is comprised as follows:

	For the three months ended,		**For the nine months ended,**	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Salaries and wages	**$ 201,905**	$ 200,406	**$ 579,488**	$ 731,868
Directors fees	**16,250**	16,250	**48,750**	60,615
Short-term employee benefits	**1,935**	1,881	**12,679**	13,847
Share-based payments	**142,098**	140,135	**304,067**	464,268
	$ 362,188	$ 358,672	**$ 944,984**	$ 1,270,598

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

NEW AND AMENDED ACCOUNTING STANDARDS

The Company continues to assess the impact of adopting the pronouncements from the IASB as described in the MD&A for the year ended December 31, 2011.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The Company is a venture issuer that has not had significant revenue from operations in either of its last two financial years. In accordance with National Instrument 51-102, additional disclosure on material costs is presented below.

	For the three months ended,		**For the nine months ended,**	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Salaries & wages	**$ 277,085**	$ 388,535	**$ 889,808**	$ 1,081,673
Stock based compensation	**154,768**	180,057	**352,387**	709,915
Office costs	**60,930**	58,815	**222,345**	206,085
Consulting	**79,040**	21,472	**217,359**	37,970
Travel & accommodation	**63,864**	73,108	**217,269**	245,145
Professional fees	**106,612**	33,237	**166,251**	197,754
Other general and administrative	**56,252**	7,109	**150,653**	70,185
Public company	**23,641**	18,867	**86,282**	111,182
Office rent	**25,760**	30,671	**74,805**	76,666
Overhead recoveries	**(25,058)**	(543)	**(168,754)**	(299,619)
	$ 822,894	$ 811,328	**$ 2,208,405**	$ 2,439,956
Capitalized exploration and evaluation costs	**$ 148,474**	$602,463	**$ 2,514,308**	$ 10,274,079