

**EAGLEWOOD ENERGY INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE MONTHS ENDED  
MARCH 31, 2010 AND 2009**

## EAGLEWOOD ENERGY INC.

### PRESIDENT'S MESSAGE

During the first quarter of 2010, Eaglewood successfully completed an equity financing raising \$23.6 million. This will be used to fund the current 2010 capital program which includes drilling the Korka prospect on PPL 260 and the Ubuntu prospect on PPL 259.

Much of the first quarter was devoted to the drilling program on the two licenses. Korka, which is Eaglewood's first exploration well, spud on April 18, 2010 and is expected to take 60 days to reach total depth of 3,000 metres. As of today's date, Korka is currently at approximately 2,100 metres. Preparations for drilling Ubuntu are progressing on schedule and a drilling rig, Oil Search Rig 103, has been contracted and mobilization has begun. Ubuntu is expected to spud in August this year.

On the farm-outs, discussions are continuing with multiple parties who have expressed interest in farming into PPL 259 and PPL 257.

On April 29, 2010, Eaglewood held its Annual General Meeting ("AGM") of Shareholders. At the AGM, Andrew Cochran was appointed to the Board of Directors, replacing Aage Thoen who resigned in March 2010. Mr. Cochran is the CEO of Dominion Petroleum, an oil and gas company focused in Africa.

I would like to thank the shareholders for their continued support. As I said in my message at year-end, 2010 is expected to be a milestone year for Eaglewood with the start of drilling operations. With Korka underway, it is exciting times for the Company.

Brad Hurtubise, President and CEO

## EAGLEWOOD ENERGY INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2010

*(Amounts expressed in Canadian Dollars unless otherwise indicated)*

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 months ended March 31, 2010 and 2009 and related notes therein prepared in accordance with Canadian generally accepted accounting principles. The effective date of this MD&A is May 10, 2010.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.eaglewoodenergy.ca](http://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.

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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, 2009, dated March 29, 2010 and filed on SEDAR on March 30, 2010.

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 above.

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.

### HIGHLIGHTS FOR THE QUARTER

- On March 24, 2010, the Company closed a special warrant private placement offering for net proceeds of \$22,443,750. The Company issued 13,500,000 special warrants at \$1.75 per special warrant.

### SUBSEQUENT EVENTS

- On April 12, 2010, the Company announced that it had filed its final short form prospectus and received the final prospectus receipt in connection with the qualification of common shares to be issued on the exercise or deemed exercise of the special warrants issued on March 24, 2010. The Company issued 13,500,000 common shares to the holders of the special warrants and the special warrants were cancelled.
- On April 18, 2010, the Company spud its first exploration well, Korka-1, which is located on PPL 260. The well is targeting the Toro and Giero sandstones. The planned total depth for the well is approximately 3,000 metres and drilling is expected to take approximately 60 days.

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- On April 29, 2010, the Company held its Annual General and Special Meeting of Shareholders.

### 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 four petroleum prospecting licenses located in Papua New Guinea (the "PNG Licenses") which were acquired in October 2007. 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.

The Company spud its first exploration well on PPL 260 in April 2010 and expects to spud its second exploration well on PPL 259 in the third quarter of 2010.

### 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***

Originally granted on June 30, 2005, PPL 259 has a six year term that expires June 29, 2011. It covers 1,377,000 gross acres, all onshore, in the foreland region of the Papuan Fold Belt of PNG. PPL 259 is an anticipated natural gas and natural gas liquids play for the Company. The Company has a 90 percent participating interest in PPL 259. A 10 percent participating interest was farmed-out to Mega Fortune International in 2009.

There was a commitment to drill one exploration well by June 29, 2009. On February 3, 2010, the Company applied for an extension to the drilling commitment to September 2010 which is subject to PNG government approval. On March 8, 2010, the Company received a letter from the PNG Department of Petroleum and Energy acknowledging receipt of the variation application and advising that the department was satisfied with the request and would present it for deliberation and approval at the next scheduled meeting. The Company intends to spud the first exploration well in PPL 259 in the third quarter of 2010 and estimates the gross cost of the exploration well will be approximately US \$22,000,000 (net cost to the Company approximately US \$19,800,000).

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### ***PPL 260***

Originally granted on March 14, 2005, PPL 260 has a six year term that expires March 13, 2011. It covers 1,559,250 gross acres, all onshore, in the highland region of the Papuan Fold Belt of PNG. PPL 260 is an anticipated natural gas and natural gas liquids play for the Company. The Company has a 30 percent participating interest in PPL 260. In 2009, the Company farmed-out a 70 percent participating interest to Oil Search (PNG) Ltd. ("OSPNG"). OSPNG assumed operatorship in 2009.

There was a commitment to drill one exploration well by March 13, 2010 which was met as pre-drilling activities were underway by this date. The first exploration well, Korka-1, was spud on April 18, 2010 and it is estimated that the gross cost will be approximately US \$57,000,000 (net cost to the Company approximately US \$7,100,000).

### ***PPL 257***

Originally granted on October 20, 2004, PPL 257 has a six year term that expires October 19, 2010. PPL 257 currently covers 1,741,500 gross acres located in the Cape Vogel Basin of PNG. The prospective area is predominantly offshore but includes a significant onshore area that will be instrumental for conducting geological field work. PPL 257 is an anticipated natural gas play for the Company. The Company holds a 100 percent participating interest in PPL 257.

There was a commitment to drill one exploration well by October 20, 2009. On March 18, 2010, the Company submitted a request for a five year extension to the license which is subject to PNG government approval. In accordance with the terms of the license extension, the Company will relinquish 50 percent of the area for PPL 257 when the extension is approved by the PNG government. The area to be relinquished was determined by the Company after an extensive review of seismic and aero/gravity magnetic surveys done on the license. The Company estimates that the cost of drilling one exploration well is approximately US \$60,000,000.

### ***PPL 258***

Originally granted on October 20, 2004, PPL 258 has a six year term that expires October 19, 2010. PPL 258 currently covers 2,227,500 gross acres, all onshore, in the North New Guinea Basin of PNG. PPL 258 is an anticipated oil play for the Company. The Company holds a 100 percent participating interest in PPL 258.

There was a commitment to drill one exploration well by October 20, 2009. On March 18, 2010, the Company submitted a request for a five year extension for PPL 258 which is subject to PNG government approval. In accordance with the terms of the license extension, the Company will relinquish 50 percent of the area for PPL 258 when the extension is approved by the PNG government. The area to be relinquished was determined by the Company after an extensive review of seismic and aero/gravity magnetic surveys done on the license. The Company estimates that the cost of drilling one exploration well is approximately US \$30,000,000.

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

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Pursuant to the acquisition of the PNG Licenses, the Company granted the vendor the right to acquire a 10 percent interest in all, but not less than all, of the PNG Licenses, exercisable within 60 days from the date which the Company completes the drilling and testing of a third well on the PNG Licenses by paying to the Company 10 percent of all costs incurred in respect of the PNG Licenses up to that date and by agreeing to pay 10 percent of the ongoing costs with respect to the exploration and development of the PNG Licenses.

The Company has issued bank guarantees totaling approximately \$160,000 (100,000 Papua New Guinea dollars 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 in the PNG Licenses. In March 2010, the Company closed a private placement for net proceeds of approximately \$22.4 million, after sales commissions but before other issue costs. The Company anticipates that the commitments for PPL 259 and 260 will be met within the approved or, in the case of PPL 259, pending revised time periods. The Company is in active discussions with potential farm-out partners to meet the other PNG License commitments.

### 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)	Mar 31 2010	Dec 31 2009	Sep 30 2009	Jun 30 2009	Mar 31 2009	Dec 31 2008	Sep 30 2008	Jun 30 2008
Revenue	6	2	-	5	14	22	29	40
Loss before discontinued operations	1,276	1,311	818	716	701	652	923	736
Net loss	1,276	1,311	818	716	701	652	923	736
Loss per share before discontinued operations	0.02	0.03	0.01	0.01	0.01	0.01	0.02	0.01
Total loss per share	0.02	0.03	0.01	0.01	0.01	0.01	0.02	0.01
Total assets	52,021	30,488	32,178	31,753	32,416	33,030	33,406	34,345

- 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.
- The increase in cash for the quarter ended March 31, 2010 is the result of the Company's special warrant private placement offering on March 24, 2010. The Company received net proceeds of \$22,443,750.

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### RESULTS OF OPERATIONS

The Company had a net loss of \$1,276,160 for the three months ended March 31, 2010 compared to a net loss of \$700,665 for the three months ended March 31, 2009.

Total expenses for the three months ended March 31, 2010 were \$1,281,864 compared to \$714,822 for the three months ended March 31, 2009.

The Company's most significant expenses, excluding the foreign exchange loss, were as follows:

Three months ended March 31		
	2010	2009
General and administrative	\$ 459,284	\$ 422,551
Public company	111,897	20,435
Stock-based compensation	246,531	173,349
Travel	59,504	52,542
Professional fees	31,952	20,899

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

Three months ended March 31		
	2010	2009
Salaries & wages	\$ 368,379	\$ 326,648
Office costs	59,889	60,500
Office rent	27,554	31,613
Other general and administrative	3,462	3,790
Total	\$ 459,284	\$ 422,551

The G&A expenses for the three months ended March 31, 2010 are approximately \$37,000 higher than the expenses for the three months ended March 31, 2009 mainly as a result of increased salaries and wages.

Public company expenses for the three months ended March 31, 2010 were approximately \$91,000 higher in comparison to the three months ended March 31, 2009. The majority of this increase was due to filing fees relating to the special warrant private placement offering and short form prospectus.

For the three month period ended March 31, 2010 compared to the prior year period, stock-based compensation increased approximately \$73,000, travel expenses increased approximately \$7,000 and professional fees increased approximately \$11,000.

### FINANCIAL CONDITION

At March 31, 2010, the Company had total assets of \$52,020,635 compared to \$30,488,516 at December 31, 2009. The increase in assets was mainly due to the net proceeds of \$22,443,750 from the special warrant private placement which closed on March 24, 2010.



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### LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2010, the Company had net working capital of \$33,520,435 compared to net working capital of \$13,593,265 at December 31, 2009. The increase in working capital is mainly due to the net proceeds received from the special warrant private placement offering which closed on March 24, 2010.

Funds used in operations were \$967,876 for the three months ended March 31, 2010 compared to \$634,425 for the three months ended March 31, 2009. The increase in funds used in operations for the three months ended March 31, 2010 is mainly a result of the larger operating loss.

Funds used in investing activities for the three months ended March 31, 2010 were \$1,451,665 compared to \$154,352 for the three months ended March 31, 2009. During the three months ended March 31, 2010, the Company incurred capital expenditures of \$1,597,875 as per the table below.

PPL 260 – Korca-1 exploration well	\$ 797,510
PPL 259 – FEED study	469,557
PPL 259 – Ubuntu-1 long lead items	172,189
PPL 259 - seismic interpretation	51,518
Overhead	67,033
Other	40,068
Total capital expenditures for the three months ended March 31, 2010	\$ 1,597,875

Funds from financing activities for the three months ended March 31, 2010 were \$22,674,729 compared to \$nil for the three months ended March 31, 2009. The increase is mainly due to the net proceeds of \$22,443,750 received from the special warrant private placement offering.

Contributed surplus at March 31, 2010 increased \$111,614 over December 31, 2009. The increase is due to the stock-based compensation expense of \$246,531 for the three months ended March 31, 2010 offset by transfers of \$134,917 to share capital upon exercise of stock options.

The Company does not currently generate sufficient cash flow from its operating activities to fund its activities and has relied upon fees from farm-outs and the issuance of common shares 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 within the next twelve months to meet its exploration commitments and working capital requirements. In March 2010, the Company closed a private placement for net proceeds of approximately \$22.4 million, after sales commissions but before other issue costs. Management believes there is the opportunity for the Company to enter into farm-out or joint venture arrangements and/or raise further equity in 2010 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

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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.

### 2010 WORK PROGRAM AND OUTLOOK

The Company's 2010 work program is based on meeting its PNG License commitments. However, as the Company does not currently have sufficient working capital available to meet its entire 2010 PNG License commitments, the Company is in discussions with industry partners to enter into further joint venture or farm-out arrangements in the PNG Licenses and has applied to the PNG Government for a deferral of certain of the work commitments or extensions to the PNG Licenses.

For PPL 260, OSPNG and the Company have selected a location, Korka-1, for the first exploration well which commenced drilling on April 18, 2010. OSPNG will pay 90 percent of the cost of drilling Korka-1 up to a maximum gross cost of US \$50,000,000. The Company estimates the gross cost of drilling Korka-1 will be approximately US \$57,000,000 (net cost to the Company approximately US \$7,100,000).

For PPL 259, the Company plans to drill the first exploration well in 2010 and has applied to the PNG government for an extension to the drilling work commitment to September 2010. The Company is currently seeking additional farm-out or joint venture partners to help fund the cost of drilling the first exploration well, Ubuntu-1, which is estimated at approximately US \$22,000,000 (net cost to the Company approximately US \$19,800,000).

For PPL 257 and 258, the Company has applied to the PNG government for a five-year extension to the licenses and the drilling commitments. The Company also continues to discuss farm-out/joint venture arrangements with financially strong partners for these licenses.

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 time of completions. Additional risk factors are disclosed in the Company's Annual Information Form dated March 29, 2010 which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### OUTSTANDING SHARE DATA

As at May 10, 2010, the Company had 72,638,942 common shares outstanding and 5,406,000 stock options outstanding under its stock option plan. The Company also had 8,000,000 performance warrants outstanding.

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### RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2010, the Company paid \$78,409 for legal services to a firm of which an officer of the Company is a partner.

For the three months ended March 31, 2010, the Company paid \$3,000 in management fees to a company controlled by a director. These fees were paid for administrative services which were provided by the director.

### 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.

### INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. Eaglewood will transition to IFRS effective January 1, 2011 and intends to issue its first interim financial statements for the period ending March 31, 2011. The Company has developed a project plan for the transition to IFRS which includes the following three phases:

- *Diagnostic phase* which includes the identification of significant differences between IFRS and Canadian GAAP at a high level as relevant to the Company;
- *Detailed assessment and design phase* which includes:
  - the identification, evaluation and selection of accounting policies necessary for the Company to transition to IFRS;
  - the assessment of IFRS 1, *First-Time Adoption of IFRS*, elections;
  - the identification of any business impacts resulting from the identified accounting differences; and
  - training analysis and information systems analysis.
- *Implementation phase* which includes implementing all of the required changes necessary for IFRS compliance.

#### *Diagnostic Phase*

During the fourth quarter of 2009, the Company completed its initial diagnostic phase to identify differences between IFRS and Canadian GAAP. This diagnostic indicated that the areas of accounting difference of the highest potential impact to the Company include property, plant and equipment, impairment of assets, the requirements of IFRS 1 dealing with first time adoption choices and presentations and disclosures. There are other areas of IFRS that will impact the Company but to a lesser extent.

Under IFRS 1, the Company will have the option to value the property, plant and equipment assets at their deemed cost, that being the Canadian GAAP net book value assigned to these

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assets at the date of transition, providing that all assets are tested for impairment on adoption. Eaglewood expects that it will use this option.

Upon transition to IFRS, the Company will be required to re-classify its exploration and evaluation (“E&E”) expenditures that are currently included in property, plant and equipment on the consolidated balance sheet. This will include the book value for the PNG Licenses that relate to exploration. E&E assets may not be depleted and must be assessed for impairment when indicators suggest the possibility of impairment.

### *Detailed Assessment and Design Phase*

The Company has begun the second phase which is expected to be completed by the end of the second quarter of 2010. The Company is currently analyzing accounting policy alternatives for the areas of greatest potential impact to the Company’s consolidated financial statements. At this time the Company does not anticipate that the transition to IFRS will have a significant impact on its information systems or internal controls. The process of training key accounting personnel will continue throughout 2010. IFRS training has included external workshops and seminars specific to the oil and gas industry.

### *Implementation Phase*

The Company anticipates the implementation phase will be conducted during the fourth quarter of 2010.

The Company is monitoring the IASB’s active projects and any changes to IFRS prior to January 1, 2011 will be addressed as required. At this time, the impact of the transition to IFRS on the Company’s consolidated financial statements cannot be reasonably determined.

### **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.

	Three months ended March 31	
	2010	2009
General and administrative:		
Salaries & wages	\$ 368,379	\$ 326,648
Office costs	59,889	60,500
Office rent	27,554	31,613
Other general and administrative	3,462	3,790
Total general and administrative	\$ 459,284	\$ 422,551
Capitalized exploration and development costs	\$ 1,596,063	\$ 200,157