

**COBRA VENTURE CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**SIX MONTHS ENDED MAY 31, 2011**

## **DESCRIPTION OF BUSINESS AND OVERVIEW OF OPERATIONS AND FINANCIAL CONDITION**

The following discussion and analysis, prepared as of July 22, 2011 should be read together with the unaudited financial statements for the six month period ended May 31, 2011 and the audited annual financial statements for the year ended November 30, 2010 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

Cobra Venture Corporation (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 dependant 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).

**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.**

## **FORWARD LOOKING STATEMENTS**

The information herein contains forward-looking statements and assumptions. 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", "potential", "targeting", "intend", "could", "might", "should", "believe" and other similar expressions. Such statements and assumptions also include those relating to guidance, results of operations and financial condition, capital spending, financing sources, commodity prices, costs of production and the magnitude of oil and gas reserves. By their nature, forward-looking statements are subject to numerous known and unknown risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, actual results may differ materially from those predicted. The Company is exposed to numerous operational, technical, financial and regulatory risks and uncertainties, many of which are beyond its control and may significantly affect anticipated future results.

Operations may be unsuccessful or delayed as a result of competition for services, supplies and equipment, mechanical and technical difficulties, ability to attract and retain workers on a cost-effective basis, commodity and marketing risk and seasonality. The Company is subject to significant drilling risks and uncertainties including the ability to find oil and natural gas reserves on an economic basis and the potential for technical problems that could lead to well blowouts and environmental damage. The Company is also exposed to risks relating to the inability to obtain timely regulatory approvals, surface access, access to third party gathering and processing facilities, transportation and other third party related operational risks. Furthermore, there are numerous uncertainties in estimating the Company's reserve base due to the complexities in estimated future production, costs and timing of expenses and future capital. The financial risks the Company is exposed to include, but are not limited to, access to debt or equity markets and fluctuations in commodity prices and interest rates. The Company is subject to regulatory legislation; compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties or production restrictions.

Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

## **NON-GAAP MEASURES**

The Company also uses "operating netbacks" as a key performance indicator of field results by commodity. Operating netbacks do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures by other companies. Operating netbacks are determined by deducting royalties, operating, processing and transportation expenses from petroleum and natural gas sales.

Funds flow from operations and operating netbacks are not intended to represent operating profits, nor should they be viewed as an alternative to cash flow provided by operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP.

## **PERFORMANCE SUMMARY**

The following is a summary of the significant events and transactions that occurred during the six month period ended May 31, 2011:

- Repurchased 70,000 common shares of the Company for cancellation for \$17,884.
- Renounced \$300,000 in exploration expenditures to flow-through share investors and recorded the tax effect as a \$75,000 reduction in share capital and increase in future tax liability.

The following is a summary of the significant events and transactions that occurred during the year ended November 30, 2010:

- Completed the drilling of four horizontal wells in the Viewfield area of Saskatchewan and has retained a 20% overriding royalty interest in these wells.
- Earned a 27% in one natural gas well and a 6.67% working interests in another well in the Pembina area of Alberta 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.
- The operator of Willesden Green area completed its obligations, paid the Company \$460,000 based on a BOE/day calculation and earned its 40% working interest.
- 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's 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.

## **RESULTS OF OPERATIONS FOR THE SIX MONTH PERIOD ENDED MAY 31, 2011**

Oil and Gas revenue for the six month period ended May 31, 2011 were \$841,206 compared to \$1,106,373 in 2010. The decrease is a result of decreased royalties and production revenue from Viewfield and Pembina properties.

**RESULTS OF OPERATIONS FOR THE SIX MONTH PERIOD ENDED MAY 31, 2011 (cont'd...)**

Direct costs of production for the six month period May 31, 2011 were \$188,671 compared to \$27,770 in 2010. The increase is primarily of a result of increased operating costs and depletion expense.

Operating expenses for the six month period May 31, 2011 were \$324,846 compared to \$374,373 in 2010. The change is comparable.

**PETROLEUM AND NATURAL GAS INTERESTS**

*Viewfield Area, Saskatchewan*

On October 10, 2002, the Company completed its agreement for the purchase of petroleum and natural gas assets ("Assets") from Charter Oil Corporation ("Charter"). The petroleum and natural gas assets consisted of an approximate 90% net working interest in 2,880 freehold acres in the Viewfield area of southeast Saskatchewan. In consideration of the acquisition of the Assets from Charter, the Company paid cash consideration 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.

In 2004, the Company entered into several leases on portions of the Company's free acreage in the Viewfield area, of southeast Saskatchewan totaling approximately 1,440 acres. These leases had terms varying from six months to two years and are in good standing. The Company is currently receiving fee simple royalty and rental revenue from three (3) wells drilled in 2004.

On May 27, 2005, the Company entered into a definitive sale agreement for the sale of a non-producing undivided four-fifths 1,440 gross (1,152 net) acres situated in the Viewfield area, of southeast Saskatchewan for a total purchase price of \$1.45 million. The transaction closed June 6, 2005, and the Company received the funds on July 15, 2005. The sale of these freehold properties represented approximately 39 percent of the Company's non-producing Saskatchewan landholdings.

On October 19, 2006 the Company announced that it had entered into a multi-well farmout with Acero Energy Inc. ("Acero") of Calgary, Alberta, covering the Company's lands located in the Viewfield area of southeast Saskatchewan. Acero is a privately owned Calgary based oil exploration company with operations in the Viewfield area of Saskatchewan operated by the former principals of Bison Resources Ltd. By applying unconventional geological interpretations and utilizing modern drilling techniques, the Bison group discovered the Bakken light, sweet oil play in the greater Viewfield area leading to the further expansion of the play throughout SE Saskatchewan. Relying exclusively on geology and maintaining a hands-on approach to business, the team built that company to its eventual sale value in January 2006 of approximately \$113.4M. The Company has an average of 75% working interest in all of the combined lands in the farmout, and has negotiated a gross overriding royalty of 16% with no deduction on all production achieved on the subject lands.

During the year ended November 30, 2008, the Company sold 480 acres of 640 acres in the Province of Saskatchewan for a total purchase price of \$790,000, resulting in a gain of \$330,737.

During the year ended November 30, 2009, two horizontal wells were completed and the Company has retained a 20% overriding royalty interest in these wells.

During the year ended November 30, 2010, four horizontal wells were completed and the Company and has retained a 20% overriding royalty interest in these wells. Additional horizontal wells are possible and would be completed under the terms of the same agreement.

**PETROLEUM AND NATURAL GAS INTERESTS (cont'd...)**

***Viewfield Area, Saskatchewan*** (cont'd...)

During the year ended November 30, 2010, the Company received \$1,844,165 (2009 - \$747,351) in royalty revenue.

During the six month period ended May 31, 2011, the Company received \$769,621 (2010 - \$1,087,361) in royalty revenue.

Subsequent to May 31, 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, southeast Saskatchewan. The land is a 100% owned fee simple mineral title by the Company. The lease has a term of two years with a net gross overriding production royalty of 20% to the Company. The Company also received a bonus sum of \$200,000.

***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% in one natural gas well and a 6.67% working interests 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, 2010, the Company received \$35,924 (2009 - \$56,602) in production revenue.

During the six month period ended May 31, 2011, the Company received \$5,741 (2010 - \$19,012) 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 a 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.

During the year ended November 30, 2010, the Company received \$5,766 (2009 - \$Nil) in royalty revenue and \$88,518 (2009 - \$Nil) in production revenue.

During the six month period ended May 31, 2011, the Company repaid \$4,007 (2010 - \$Nil) in royalty revenue and received \$61,491 (2010 - \$Nil) in production revenue.

**PETROLEUM AND NATURAL GAS INTERESTS (cont'd...)**

***Alderson Area, Alberta***

In the fall of 2007, the Company obtained a 50% net working interest in 320 acres of land in Central Alberta for \$77,215.

The proposed 3D program has been completed by a 3<sup>rd</sup> party at no cost to the Company. The evaluation by this 3D seismic seems to indicate the presence of a large high anomaly, which has the potential for a new oil pool. The anomaly is offset by a smaller anomaly that produced 98,000 barrels from depths of only 900 meters. The Company holds a 25% working interest in the existing lands and 3D seismic.

The Company has determined that further seismic evaluation in the area is required before a well can be drilled. Work on this prospect continues and any drilling will be subject to such seismic evaluations and future potential land acquisitions in the area.

***Iosegun Area, Alberta***

In the fall of 2007, the Company obtained a 20% net working interest in 160 acres of land in Central Alberta for \$15,543.

The surface audit of the existing well site has been completed by the current owner of the wellbore. Cobra has vetted this environmental audit and is fully satisfied that no environmental liabilities exist with the old well site and it is anticipated that the Corporation will now be proceeding with taking over the existing wellbore from the current owners. The potential re-entry is anticipated to re-establish the production of approximately 20-30 barrels of light oil per day that existed when the well was abandoned in the 1980's. The Company owns a 20% working interest but may earn additional percentages by farm-in from the current owners.

The company is reviewing the Iosegun prospect as activity in the area has picked up and economics have improved due to higher oil prices.

***Morinville area, Alberta***

During the year ended November 30, 2008, the Company acquired a 40% net working interest in a 5 year crown lease for \$73,675 and annual rental fees. The lease is for one section of land in Central Alberta.

***Inga Area, N.E. British Columbia***

Early in the summer of 2006, having reviewed seismic data, the Company obtained 640 gross, 480 net acres of crown leased land underlying a significant structure in Northeastern British Columbia. The Company's net working interest is 75%, and additional seismic structures are being reviewed with the intent to accumulate a larger land position in the prospect area.

During the year ended November 30, 2010, the Company determined the property to be impaired and the cost of the property became subject to depletion.

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**PETROLEUM AND NATURAL GAS INTERESTS (cont'd...)**

*Davey Lake area, Alberta*

During the year ended November 30, 2010, the Company entered into an agreement RNM Services Ltd. ("RNM") to earn a 13.5% working interest in a well located in the Davey Lake area by incurring all RNN's 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 six month period ended May 31, 2011, the Company received \$8,360 (2010 - \$Nil) in production revenue.

**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, 2011, the Company had working capital of \$2,525,876 compared to working capital of \$2,673,124 as at November 30, 2010. As at May 31, 2011, the Company had cash and cash equivalents of \$2,173,633 compared to \$2,914,709 as at November 30, 2010.

Net cash used by operating activities for the six month period ended May 31, 2011 was \$206,288 (2010 – provided \$575,763) consisting primarily of the operating income, and the change in non-cash items.

Net cash used in investing activities for the six month period May 31, 2011 was \$576,904 (2010 – provided \$191,254) which consisted primarily of petroleum and natural gas expenditures.

Net cash provided by financing activities for the six month period May 31, 2011 was \$42,116 (2010 - \$Nil) which consisted of issuance of common shares.

**INVESTMENTS**

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	May 31, 2011	November 30, 2010
Shares in Zodiac Exploration Corp.	\$ 4,227,500	\$ 2,247,500

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At November 30, 2009, the Company held 2,500,000 shares of a private company representing a 3.2% interest in that company, which is related by virtue of a common director. The shares were being carried at cost because, without an active market for shares of a private company, fair value cannot be measured reliably.

During the year ended November 30, 2010, the above mentioned private company underwent an amalgamation with a wholly owned subsidiary of Peninsula Resources Ltd. and the 2,500,000 common shares held by the Company were exchanged for 3,625,000 common shares of Zodiac Exploration Corp. The new shares are to be released over a period of 15 months. As of May 31, 2011, the Company has received 2,356,250 shares and the balance of 1,268,750 shares remains in escrow.

During the six month period ended May 31, 2011, the Company recorded an unrealized gain of \$2,030,000 (2010 - \$Nil) to adjust the shares to market value, net of tax \$253,750 as other comprehensive income.

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**SELECTED ANNUAL INFORMATION**

The following table provides a brief summary of the Company's financial operations. For more detailed information, refer to the financial statements.

	Year Ended November 30, 2010	Year Ended November 30, 2009	Year Ended November 30, 2008
Total revenues	\$ 1,974,373	\$ 803,953	\$ 1,033,684
Other income	9,331	17,619	420,584
Working capital	2,673,124	1,217,427	1,105,822
Income (loss) before income taxes	766,529	(25,036)	681,692
Net comprehensive income	2,236,310	4,019	528,646
Income taxes recovery (provision)	(278,031)	29,055	(153,046)
Basic income (loss) per share	0.03	0.00	0.04
Diluted income (loss) per share	0.03	0.00	0.03
Total assets	6,154,532	2,881,456	3,724,543
Cash dividends	-	-	-

**SUMMARY OF QUARTERLY RESULTS**

	May 31, 2011	February 28, 2011	November 30, 2010	August 31, 2010
Total assets	\$ 7,883,992	\$ 6,161,625	\$ 6,154,532	\$ 4,078,717
Petroleum and natural gas interests	1,036,912	920,659	623,804	1,006,261
Working capital	2,525,876	2,563,812	2,673,124	2,454,270
Shareholders' equity	7,138,203	5,420,641	5,133,412	3,452,913
Revenue	392,207	448,999	393,935	474,065
Other income	5,287	5,564	4,037	2,817
Operating expenses	159,451	165,395	323,436	210,963
Income tax recovery (provision)	(37,857)	(59,622)	15,817	(106,684)
Net income (loss)	89,724	151,337	(153,703)	95,058
Basic and diluted income (loss) per share	\$ 0.01	\$ 0.01	\$ (0.01)	0.01

	May 31, 2010	February 28, 2010	November 30, 2009	August 31, 2009
Total assets	\$ 3,527,874	\$ 3,103,546	\$ 2,881,456	\$ 2,464,651
Petroleum and natural gas interests	1,053,776	1,168,763	1,261,191	1,219,314
Working capital	1,970,312	1,503,879	1,217,427	913,429
Shareholders' equity	3,004,937	2,627,598	2,412,564	1,992,621
Revenue	568,546	537,827	539,240	92,232
Other income	1,589	888	943	3,790
Operating expenses	227,385	149,715	177,032	139,555
Income tax recovery (provision)	(89,974)	(97,190)	29,168	-
Net income (loss)	354,724	192,419	397,328	(116,467)
Basic and diluted income (loss) per share	0.02	0.01	0.03	(0.01)

## **RELATED PARTY TRANSACTIONS**

The fair value of the amounts due to or from related parties is not determinable as they have no fixed terms of repayment, do not bear interest and are unsecured.

During the six months ended May 31, 2011, the Company paid or accrued:

- i) \$24,546 (2010 - \$33,259) in rent to a company in which a director and officer holds an interest.
- ii) \$110,000 (2010 - \$122,000) in management fees to a company owned by a director and officer of the Company.
- iii) \$24,000 (2010 - \$21,000) in directors fees, disclosed as management fees, to directors and officers of the Company.
- iv) \$6,815 (2010 - \$1,835) in professional fees to a firm in which an officer of the Company is a partner.
- v) \$74,250 (2010 - \$40,625) in professional fees to a firm in which a director of the Company is a partner.

Included in accounts payable is:

- i) \$14,600 (November 30, 2010 - \$38,904) due to a firm in which a director of the Company is a partners.
- ii) \$Nil (November 30, 2010 - \$117,000) due to directors and officers.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## **NEW ACCOUNTING POLICIES**

No new accounting policies adopted during the six month period ended May 31, 2011.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

### *International financial reporting standards ("IFRS")*

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of December 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011. Management has attended briefing seminars on the transition to IFRS and are waiting the release of various exposure drafts and reports which will clearly define the accounting standards for the oil and gas exploration industry.

### *Business combinations*

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-Controlling Interests", which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections are applicable for the Company's interim and annual financial statements for its fiscal year beginning on or after January 1, 2011. Early adoption of these Sections is permitted, although all three Sections must be adopted concurrently. The Company will consider the impact of adopting the pronouncements on its financial statements if future acquisitions are completed.

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**FINANCIAL INSTRUMENTS AND RISK**

**Fair value**

The carrying value of receivables and accounts payable and accrued liabilities approximated their fair value because of the short-term nature of these instruments.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

	May 31, 2011			November 30, 2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and cash equivalents	\$2,173,633	\$ -	\$ -	\$ 2,914,709	\$ -	\$ -
Investment	\$4,277,500	\$ -	\$ -	\$ 2,247,500	\$ -	\$ -

**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 a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to accounts receivable and cash and cash equivalents. Management believes that the credit risk concentration with respect to accounts 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, 2011, the Company had a cash and cash equivalents balance of \$2,173,633 (November 30, 2010 - \$2,914,709) to settle current liabilities of \$40,998 (November 30, 2010 - \$606,919). 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 (May 31, 2011 - \$1,750,000) at an interest rate between prime less 1.75% and prime less 1.95%. 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.

## **FINANCIAL INSTRUMENTS AND RISK (cont'd...)**

### **Financial risk factors (cont'd...)**

#### *Market risk (cont'd...)*

##### (c) Price risk

The Company is exposed 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. The Company closely monitors commodity prices of petroleum and natural gas, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. The Company's price risk is primarily attributable to investments. Management believes that the price risk concentration with respect to investments is moderate, and that a 1% change in investments would result in an increase/decrease of \$42,775 in income from operations.

## **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 share capital, contributed surplus and retained earnings).

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.

The Company's overall strategy remains unchanged from 2010.

## **IFRS CHANGEOVER PLAN DISCLOSURE**

The Canadian Accounting Standards Board (AcSB) has announced its decision to replace Canadian generally accepted accounting principles ("GAAP") with International Financial Reporting Standards (IFRS) for all Canadian Publicly Accountable Enterprises ("PAEs"). The effective changeover date is December 1, 2011, at which time Canadian GAAP will cease to apply for the Company and will be replaced by IFRS. Following this timeline, the Company will issue its first set of interim financial statements prepared under IFRS in the first quarter of 2012 including comparative IFRS financial results and an opening balance sheet as at December 1, 2011. The first annual IFRS consolidated financial statements will be prepared for the year ended November 30, 2012 with restated comparatives for the year ended November 30, 2011.

Management has developed a project plan for the conversion to IFRS based on the current nature of operations. The conversion plan is comprised of three phases: 1) Scoping phase which will assess the overall impact and effort required by the Company in order to transition to IFRS; 2) Planning phase which will include a detailed analysis of the conversion process and implementation plan required for disclosure for the Company's first quarter; and, 3) Transition phase which will include the preparation of an IFRS compliant opening balance sheet as at December 1, 2010, any necessary conversion adjustments and reconciliations, preparation of a fully compliant pro forma financial statements including all note disclosures and disclosures required for the MD&A.

Management has completed phase one, IFRS Scoping phase, and is now advancing through phase two, the Planning stage. Management prepared a component evaluation of its existing financial statement line items, comparing Canadian GAAP to the corresponding IFRS guidelines, and has identified a number of differences. Many of the differences identified are not expected to have a material impact on the reported results and financial position.

## **IFRS CHANGEOVER PLAN DISCLOSURE (cont'd...)**

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards", provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Company is planning to elect to take the following IFRS 1 optional exemptions:

- To apply the requirements of IFRS 3, Business Combinations (2004), prospectively from the Transition Date.
- To apply the requirements of IFRS 2, Share-based payments, only to equity instruments granted after November 2002, which had not vested as of the Transition Date.

Set out below are the most significant areas, management has identified to date, where changes in accounting policies may have the highest potential impact on the Company's consolidated financial statements based on the accounting policy choices approved by the Audit Committee and Board of Directors.

In the period leading up to the changeover in 2011, the AcSB has ongoing projects and intends to issue new accounting standards during the conversion period. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the IFRS accounting standards at the conversion date are known. Management will continue to review new standards, as well as the impact of the new accounting standards, between now and the conversion date to ensure all relevant changes are addressed.

### **IFRS 2 – Share Based Payments**

IFRS and Canadian GAAP largely converge on the accounting treatment for share based transactions with only a few differences. Starting in the first quarter of 2010, the Company is moving from 'straight line' to 'graded' vesting for the recognition of stock-based compensation expense. A greater portion of expense is recorded in the first and second vesting periods compared to distributing the expense equally over all vesting period.

### **IAS 36 – Impairment of Assets**

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with discounted cash flows. International Accounting Standard (IAS) 36, "Impairment of Assets" uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in write downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

## **OUTSTANDING SHARE DATA**

### **As at July 22, 2011:**

- a) Authorized: unlimited common shares without par value  
unlimited preferred shares
- b) Issued and outstanding: 17,740,748 common shares.

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**OUTSTANDING SHARE DATA (cont'd...)**

c) Outstanding incentive stock options:

	Number of Options	Exercise Price	Expiry Date
<b>Stock Options</b>	5,000	0.27	June 19, 2012
	500,000	0.34	December 18, 2012
	1,050,000	0.16	April 3, 2014
	600,000	0.175	May 27, 2015

d) Outstanding warrants: Nil.

e) Shares in escrow or pooling agreements: Nil.

**Adoption of 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").

The Plan is designed to ensure the fair treatment of shareholders in connection with any take-over bid for outstanding common shares of Cobra. 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 Cobra 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 has been 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

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**OTHER**

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