

## GREAT PACIFIC INTERNATIONAL INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD & A") dated July 28, 2010 should be read in conjunction with the Company's audited consolidated financial statements at March 31, 2010 and 2009, the Company's Form 51-101F1 dated July 27, 2010, and the reference to forward-looking statements within this report. These documents are available at [www.gpicanada.net](http://www.gpicanada.net).

*The fiscal years ended March 31, 2011, 2010, and 2009 are referred to as "FY-2011", "FY-2010" and "FY-2009", respectively. The three month periods ended March 31, 2010 and 2009 are referred to as "Q4-2010" and "Q4-2009", respectively. The period from April 1, 2010 and up to July 28, 2010 is referred to herein as "YTD-2011".*

#### **CORPORATE OVERVIEW**

Great Pacific International Inc. is a development stage junior public oil and gas company. Great Pacific commenced operations as an oil and gas company in fiscal 2007.

Great Pacific and its wholly owned subsidiaries, GPI Oil and Gas Ltd., GPI Petroleum Inc. and GPI Oil and Gas Overseas Inc., are referred to herein collectively as "the Company", "Great Pacific", "GPI", "our" or "we".

Great Pacific's oil and gas operations are primarily located in Alberta, Canada. In FY-2009 we expanded the geographic scope of our operations when GPI Petroleum Inc., a wholly-owned subsidiary of Great Pacific, participated in an exploratory well in the Midland Basin, West Texas.

Great Pacific is a publicly traded Canadian corporation. The common shares of Great Pacific International Inc. trade on the TSX Venture Exchange ("TSX-V").

- The Company currently holds 33,944 gross acres (24,327 net acres) of PNG leases in Alberta, Canada
- Our Manning property has total heavy oil in place of 206 million barrels of oil with a contingent resource of 30,900,000 barrels of oil as per the "Heavy Oil in Place Determination Report" from Chapman Petroleum Engineering Ltd.
- The Company divested certain minority oil and gas rights for cash consideration of \$175,000 and GPI is no longer responsible for reclamation costs of \$245,921 on the property.

**CURRENT OIL AND GAS PROPERTIES**

Great Pacific's capital assets consist primarily of various oil and gas property rights in Alberta, Canada and Texas, USA.

Great Pacific holds the following oil and gas property interests at March 31, 2010 and July 28, 2010:

	Gross area		Net area		Well interests (net)	
	<u>Hectares</u>	<u>Acres</u>	<u>Hectares</u>	<u>Acres</u>	<u>Prod.</u>	<u>Susp.</u>
<b><u>Canada</u></b>						
Developed properties	192	474	69	171	1.08	0.36
Alberta crown leases (undeveloped)	10,155	25,093	9,546	23,588	-	-
<b><u>U.S.A.</u></b>						
Arkansas natural gas well	1,280	3,163	20	49	-	0
Midland Basin prospect area, participation rights	2,110	5,214	210	519	-	-
	<u>13,737</u>	<u>33,944</u>	<u>9,845</u>	<u>24,327</u>	<u>1.08</u>	<u>0.36</u>

*(numbers may not add due to rounding)*

At March 31, 2010 the Company held 25,567 gross acres (23,759 net acres) of PNG land leases in Alberta Canada,. These lands were acquired for cash through the Alberta Crown Petroleum and Natural Gas Right Auctions and through private agreements in 2007, 2008, 2009 and 2010.

In Q4-2010, as per an agent agreement entered into in Q3-2010, the Company acquired a 100% interest in an additional 4,352 Ha of PNG land leases in Alberta. In FY-2010, 689 Ha of land leases expired and 896 Ha of land were sold to an arms-length party. Further details follow under the heading Overview of Operations.

**OVERVIEW OF OPERATIONS – Fiscal year ended March 31, 2010**

In Q4-2010 (see news release dated July 28, 2010) the Company acquired 12,019 acres of 100% owned PNG land leases through an agent agreement for cash payment of \$68,895. These leases consist of eighteen (18) parcels, of these parcels, two were re-sold under special agreement for a net gain of \$5,663.. All of the properties have been purchased for the purpose of exploration and development. The company has a 100% working interest in all of these properties.

In Q3-2010 the Company determined it was in its best interest to divest itself of certain minority interest petroleum and natural gas rights for cash consideration of \$175,000. The Company sold its interest in certain Alberta Crown PNG leases, two producing oil wells, two suspended oil wells and one producing gas well. The Company no longer has any reclamation obligation in regard to these wells or the properties associated therewith. The Company has reclaimed previously deducted asset retirement obligation and depletion amounts related to these wells.

In Q3-2010 the Company commissioned a “Heavy Oil in Place Determination Report” from Chapman Petroleum Engineering Ltd. (“Chapman”) on 2,560 acres (four-sections) of petroleum and natural gas leases held by the Company near Manning Alberta. These leases are prospective for in-situ heavy oil from the Mississippian Elkton and Debolt formations. (see news release dated November 18, 2009). In the news release of June 7, 2010 the Company announced that it has received an updated report from Chapman on the Contingent Resources in the Company's Manning Area Prospect of Alberta.

## **FY-2010 Petroleum operations: Canada**

### Production

Canadian oil and gas production for FY-2010 and Q4-2010 and the comparative periods is as follows:

	<b>FY-2010</b>		<b>FY-2009</b>	
	Production Volumes	Producing Wells (net)	Production Volumes	Producing Wells (net)
Oil (bbls/d)	5	1.4	11	2.5
Gas (mcf/d)	0	0	2	0
Total (boe/d)	5	1.4	11	2.5
Realized oil price, CDN\$ per bbl	\$72		\$71	
Realized gas price, CDN\$ per mcf	\$2.8		\$7.5	
Operating cost, per boe	\$50		\$29	
Royalties, per boe	\$3		\$1.4	

  

	<b>Q4-2010</b>		<b>Q4-2009</b>	
	Production Volumes	Producing Wells (net)	Production Volumes	Producing Wells (net)
Oil (bbls/d)	5	1.4	20	2.5
Gas (mcf/d)	0	0	0	0
Total (boe/d)	5	1.4	20	2.5
Realized oil price, CDN\$ per bbl	\$77		\$49	
Realized gas price, CDN\$ per mcf	\$Nil		\$4.5	
Operating cost, per boe	\$58		\$26	
Royalties, per boe	\$7		\$1.2	

Oil and natural gas volumes and revenues were significantly lower in FY-2010 and Q4-2010 than in the comparative 2009 periods this was partially offset by an increase in the price per barrel received. The reasons for the decline in volumes and revenue are mainly due to the sale of two oil and one gas well in Q3-2009. These were minority interest wells with substantial accrued reclamation obligations of \$245,921 which amount was recovered in Q4-2010 upon the sale of these leases..

Operating costs per barrel in FY-2010 and Q4-2010 were substantially higher than the same periods in 2009. This is mainly due to the suspension of three wells in FY-2010 which had production in FY-2009. The Company has to pay maintenance costs for suspended wells while not receiving income resulting in higher net per barrel costs.

Stated production volumes do not equate directly to monthly well flow-rates, as sales revenues (and thus sales volumes) are recognized by the Company when net revenue statements are provided by the property Operator.

Reported production amounts for the periods presented reflect the seasonality inherent in our Alberta oil assets as well as the sale of certain producing oil assets in FY-2010 as detailed previously.

### **Details on Canadian oil and gas property interests are as follows:**

#### *Manning Alberta Heavy Oil Project*

GPI, through its subsidiary GPI Oil and Gas, owns a 100% interest in leases on four sections (2,560 acres) of land in the Manning area of Northern Alberta. These sections were acquired through staking in FY-2009.

The Company received an initial report on this property from Chapman Petroleum Engineering Ltd. as detailed in a news release dated November 18, 2009.

On June 7, 2010 the Company released an updated news release regarding the final report received from Chapman. The report was prepared using assumptions and methodology guidelines outlined in the Canadian Oil and Gas Evaluation Handbook and in accordance with National instrument NI 51-101, Sec 5.9, pertaining to disclosures of resources, utilizing forecast prices and costs. The purpose of this report was to independently determine the feasibility of the Company undertaking the exploration and development of the contingent resources and the estimated economic value.

In the report, the Heavy oil reservoirs of the Elkton Formation and the Lower Debolt were mapped. Both of these formations are in the heavy oil saturated Mississippian formation. The isopach mapping of these heavy oil reservoirs excluded transitional zones of appreciably less porosity in the lower parts of each unit so that only the highest quality heavy oil reservoir had been mapped. Well log analysis showed excellent reservoir parameters including good porosity and high resistivity of both zones.

Total heavy oil in place was determined on the Company lands for the two most significant potential carbonate reservoir zones in the area, the Elkton and Lower Debolt formations and amounted to over 200 million barrels of oil. This was based on volumetric calculations using the detailed net oil reservoir mapping of both zones. Planimetry of these maps results in an average heavy oil reservoir thickness of 51 feet in the Elkton and 32 feet in the Lower Debolt. The Chapman Report lists the best estimate of contingent resources as 30,900,000 standard barrels of oil.

The oil gravity in these carbonate deposits is estimated at about 9 API, based on analogous pools in the general area. The Chapman report proposes exploitation through continuous steam injection. Estimated recoveries are based upon factors of 15, 10, and 25 percent for “best”, low, and high respectively.

The contingencies associated with recovery of these resources are mobility of the heavy oil under the proposed scheme and the efficacy of the scheme. Secondly, a commercially viable fuel source is essential for the implementation of this scheme.

**Project Net Value, Thousands of Dollars (CDN \$K)**

	Best Estimate \$K	Low Estimate \$K	High Estimate \$K	Arithmetic Average \$K	Arithmetic Average After Risk \$K
Undiscounted	1,432,432	807,015	2,694,377	1,644,608	468,000
Discounted @ 5% per year	823,512	440,274	1,596,868	944,551	265,000
Discounted @ 10% per year	487,283	242,018	953,656	560,986	153,000
Discounted @ 15% per year	291,789	130,794	598,835	341,139	90,000
Discounted @ 20% per year	176,620	65,588	385,817	210,308	52,000

It should not be assumed that the estimates of net present value presented in the table represent the fair market value of the Company’s resources.

Given the inherent uncertainty of such a project, GPI is considering ways to proceed with the development of these properties while mitigating risk.

**Conventional Oil and Gas properties**

**Developed Alberta lease interests**

The Company started participating on a non-operated basis in oil and gas production on April 1, 2007. In the years ended March 31, 2010 and 2009, all production and sales attributed to the Canadian oil and gas cost centre was earned from these Alberta properties.

In Fiscal 2010 the Company sold a number of its minority interests in 6 non producing wells and 3 producing wells, as well as one 100% owned 128 ha property. The consideration payable to the Company for these assets totalled \$175,000, which was received in full on December 23, 2009.

These oil and gas properties interests were part of a group of properties acquired from Mistahiya Resources Ltd in March 2007. The Company retains its interest in the balance of the properties acquired from Mistahiya Resources Ltd. in 2007.

#### Undeveloped Alberta lease interests

At March 31, 2010 the Company holds certain petroleum and natural gas (“P & NG”) leases from the Crown throughout Alberta. These undeveloped, non-producing leases are exploration lands that are undrilled and have no reserves assigned. They are as follows:

- 100% working interest in certain petroleum and natural gas leases) (“P & NG leases”) throughout Alberta, Canada
- 65% interest in a P & NG lease near Red Earth, Alberta
- 100% interest in leases on four sections (2,560 acres) of land in the Manning area of Northern Alberta
- 25% interest in a P & NG lease near Drumheller, Alberta. At the time of acquisition, a joint working interest holder on this property was related to the Company by way of a common officer.
- 100% interest in 16 undeveloped leases totaling 4,624 hectares in various locations in Alberta.

These lands will be explored as funds permit.

#### Oil and gas properties forfeited

##### *Haro East and RLE Red Earth farm-in properties*

In the fiscal year ended March 31, 2008, the Company acquired options to earn working interests in certain Alberta P & NG leases. These options, collectively referred to as the “Haro East and RLE Red Earth farm-in”, granted the Company the right to acquire working interests in the “Haro East” and “RLE Red Earth” properties by drilling a total of 3 earn-in wells in the fiscal year ending March 31, 2009.

Pursuant to these option agreements, the Company placed a \$100,000 drilling deposit in trust with the property owner, to be applied against the cost of drilling the earn-in wells.

In the year ended March 31, 2009 the Company decided not to proceed with drilling the earn-in wells. As a result of this election not to drill those three earn-in wells, the Company forfeited all earn-in rights to the Haro East and the RLE Red Earth farm-in lands and forfeited the drilling deposit. The Company has no additional commitments in respect of those farm-in agreements.

In FY-2010 the 65% working interest in a petroleum and natural gas lease acquired adjacent to the RLE Red Earth farm-in lands pursuant to the “Area of Mutual Interest” clause of the farm-in agreements expired.

#### 3-20 project

In the year ended March 31, 2008, the Company acquired by cash purchase totalling approximately \$309,000 certain rights to a light oil prospect referred to as the “3-20 project”. At the time of acquisition, the Company’s interest in the 3-20 project consisted of a 37.5% interest in a re-entry target in the “3-20 wellbore.

In FY-2010, the Company’s interest in the 3-20 well-bore increased to 60%, as a result of the default of a third-party joint interest-holder in that property. Pursuant to the joint venture agreement governing the property, as a result of the default by that party, the Company was deemed to have acquired its proportionate share of the defaulting working interest. The Alberta government denied the operator of the 3-20 project permission to complete further exploration work on the property. As a result, the Company is required to participate to its 60% working interest in the reclamation costs for this project. It is anticipated that the reclamation will be completed by August 31, 2010.

## **United States oil and gas properties**

The Company's U.S.A. petroleum operations consisted of our operations in the Midland Basin prospect area, and production from our Arkansas natural gas well interest. Details on our FY-2010 petroleum operations in the U.S.A. are as follows:

### Midland Basin Prospect Area

There was no activity on this prospect in fiscal 2010.

In FY-2009, we acquired participation rights to an 8.25 square mile oil prospect (the "Midland Basin prospect area") in Scurry County, West Texas. Our participation rights to the Midland Basin prospect area, held by our wholly-owned subsidiary GPI Petroleum Inc., are to a 13% working interest (9.75% net revenue interest). GPI Petroleum acquired these participation rights by cash payment of \$104,765. These initial prospect fees also provided the Company access to proprietary 3-D seismic covering the prospect area.

We participated in the drilling of the initial test well on this property in FY-2009, with the initial test well spudded in September 2008. This well reached total depth of approximately 2,400m sub-surface in mid-October, 2008. Drilling was completed substantially on budget, without incident. Drill-stem testing of the most prospective Straw-nage formations failed to yield commercial quantities of hydrocarbons at economic flow-rates, however, and the well was thus not completed.

We may participate in the drilling of at least one additional well on this property in future periods, subject to financing. Our geophysical and geological consultants have identified several additional drilling targets within this prospect area that may be suitable follow-up targets should a second hole prove economic. As we are not the operator of this project, the timing of well drilling is at the election of the joint participants, subject to the joint operating agreement.

Our investment in the Midland Basin prospect area has increased the size and relative importance of our United States geographic segment. The breakdown of the carrying value of our oil and gas property interests by geographic cost centre is provided in Note 5 to the accompanying consolidated financial statements.

### Arkansas gas well

In the fiscal year ended March 31, 2008, the Company acquired, for cash consideration of \$32,166, a non-operated minority working interest in a producing natural gas lease in Arkansas, U.S.A.

The Company's U.S.A. oil and gas sales revenue from the periods presented were earned pursuant to a minority working interest in a natural gas well in Logan County, Arkansas,

### International investment evaluation

In FY-2009, GPI Oil and Gas Overseas Inc. ("GPI Overseas"), a wholly owned subsidiary of GPI, engaged in an active evaluation of opportunities for investment in the petroleum sector of the Republic of Iraq. We had consultants overseas for much of FY-2009 presenting GPI Overseas to the oil authorities of that country, pursuant to applicable qualifying procedures. Prospect evaluation and due diligence expenses of \$95,966 recorded in the year ended March 31, 2009 related to this undertaking.

In order to be in a position to pursue any opportunities, GPI Overseas submitted to the Iraq Ministry of Oil a formal application for pre-qualification as an approved petroleum-sector contractor, pursuant to the Ministry's pre-qualification process. Successfully being pre-qualified and approved was a pre-condition for making direct investments in the Iraqi upstream oil and gas sector. GPI Overseas was not successful in obtaining such approval, however.

Great Pacific is no longer incurring consulting or other costs in respect of this undertaking, and is not pursuing pre-qualification further at this time.

### FY-2010 FINANCING

#### Private placement

In Q3-2010 the Company completed a \$700,500 (net) equity financing, by private placement of 10,000,000 equity units (the "Q3-2010 Equity Financing") at \$0.075 per unit. Each unit consisted of one common share and one 2-year, \$0.15 warrant. (Please see the section "*Liquidity and Capital Resources*" within this document)..

#### FY-2010 and Q4-2010 net loss

Net loss in FY-2010 was \$1,355,146 or \$0.05 per share (FY-2009: \$1,985,566; \$0.09 per share). Total cash required to fund operating activities in FY-2010 was \$736,626 (FY-2009: \$674,176).

Net loss in Q4-2010 was \$423,739 (Q4-2009: \$327,170).

Details of the net loss for Q4-2010 and FY-2010 are provided in the section "*Results of operations*", and in the accompanying consolidated financial statements.

### FUTURE PLANS

In FY-2010 the Company re-focused its efforts and began to pursue 100% owned prospective oil and gas leases rather than partnering with other companies at a minority interest.

Future development plans are all subject to securing necessary financing and will include the four areas outlined below:

1. **100% owned properties in Alberta** - The Company intends to commence a prospect evaluation and target identification program on its 100% owned Alberta Petroleum and Natural Gas leases. This process involves: reviewing all existing technical information on all properties and acquiring new technical data through purchases or studies. The company also intends to increase its land holdings either through participating in Crown auctions or through farm-ins.
2. **Manning Heavy Oil Deposit** - The Company will continue to move its' Manning project further towards development. The Company is considering steps to further de-risk the property and alternative plans for a pilot project using different technologies.
3. **Minority Interests** - The Company intends to review and optimize all of its minority interest holdings and continue to participate in them so long as the investment is for the best interest of the company and its' shareholders.
4. **International Opportunities** - The Company will continue to review opportunities in the international arena as they present themselves.

### CAPITAL SPENDING:

Capital spending in FY-2010 was as follows:

#### Canada (Alberta)

Property interest in the 3-20 well-bore increased from 37.5% to 60%,	8,628
Crown P & NG lease acquisition	64,558
Other development expenditures	37,777
	<hr/>
	110,963

#### USA (Midland Basin prospect area)

Acquisition	-
Exploration and development	3,079
	<hr/>
	\$114,042

### Capital expenditures – Alberta oil and gas

In the year ended March 31, 2010 capital expenditures were incurred in respect of lease rental payments of \$35,842. The Company acquired an additional 22.5% working interest (bringing our total interest to 60%) in the “3-20 wellbore”, upon the default by a joint participant. The Company advanced the operator \$8,628, being our proportionate share of the amount in default. The Company also recovered \$663 on the sale of certain surface equipment on our “Acadia” natural gas well interest.

Crown P & NG leases acquired in FY-2010 totalled approximately 10,754 hectares, for an average cost of \$5.88/ha. Acquisition costs consisted of bonus payments, lease rentals and fees.

### Capital expenditures – Midland Basin prospect area

In the year ended March 31, 2010 capital expenditures of \$3,079 were incurred for reclamation of the Tonto-east prospect.

### **RESULTS OF OPERATIONS**

	FY-2010	FY-2009	Variance	Q4-2010	Q4-2009	Variance
	\$	\$	\$	\$	\$	\$
<b>Loss (gain) on oil and gas Operations</b>	<b>54,513</b>	<b>848,200</b>	<b>(793,687)</b>	<b>(9,473)</b>	<b>(32,763)</b>	<b>23,290</b>
<b>General and administrative expenses</b>						
Remuneration and staffing	503,101	484,774	18,327	127,588	173,185	(45,597)
Accounting, audit and professional fees	177,994	234,512	(56,518)	72,861	118,813	(45,952)
Regulatory and transfer agent	20,154	22,135	(1,981)	2,954	7,762	(4,808)
Insurance	17,326	34,209	(16,883)	2,892	8,222	(5,330)
Prospect evaluation and due Diligence	17,105	134,315	(117,210)	16,266	24,186	(7,920)
Corporate and shareholder communications, marketing, travel and entertainment	70,743	136,137	(65,394)	10,757	16,544	(5,787)
Office, rent, and miscellaneous	126,091	120,913	5,178	32,770	32,090	680
Amortization	13,902	28,822	(14,920)	(1,585)	24,560	(26,145)
Impairment charges and loss provisions, net of reversal gains	-	232	(232)	-	(17,904)	17,904
Vehicle cost recoveries, net of expenses	-	(47,357)	47,357	-	(16,276)	16,276
Loss (gain) on sale of trucks	(1,648)	-	(1,648)	(8,946)	-	(8,946)
Loss (gain) on sale of Oil and Gas Properties	-	-	-	(167,993)	-	(167,993)
Loss on abandonment of Oil and Gas Properties	355,020	-	355,020	355,020	-	355,020
Other (income) expenses	845	(11,326)	12,171	(9,372)	(11,249)	1,877
<b>Net loss for the period</b>	<b>1,355,146</b>	<b>1,985,566</b>	<b>(630,420)</b>	<b>423,739</b>	<b>327,170</b>	<b>96,569</b>

### Significant Variances in Operating Items

Significant variances in operating items for the three and twelve month periods ended March 31, 2010 and 2009 are discussed below:

#### Oil and natural gas sales and costs of sales

Costs of oil and gas operations are broken down as follows:

	<u>FY-2010</u>	<u>FY-2009</u>	<u>Q4-2010</u>	<u>Q4-2009</u>
	\$	\$	\$	\$
<u>Canada</u>				
Oil and natural gas sales, net of royalties	(127,465)	(287,748)	(31,148)	(81,811)
Field operating costs	94,327	117,144	19,845	46,998
Depletion and accretion	89,638	756,418	3,204	(5,044)
	<u>56,500</u>	<u>585,814</u>	<u>(8,099)</u>	<u>(39,857)</u>
<u>U.S.A.</u>				
Oil and natural gas sales, net of royalties	(6,894)	(11,850)	(2,050)	(2,322)
Field operating costs	1,307	934	676	228
Depletion and accretion	3,600	273,302	0	9,188
	<u>(1,987)</u>	<u>262,386</u>	<u>(1,374)</u>	<u>7,094</u>
	<u><b>54,513</b></u>	<u><b>848,200</b></u>	<u><b>(9,473)</b></u>	<u><b>(32,763)</b></u>

Field operating costs decreased in FY-2010 as a result of the impact of lower production on fixed costs, and normal variances in well operations.

Depletion charges, the major component of “Costs of oil and gas operations” significantly decreased in FY-2010. This was a result of a smaller pool of oil and gas expenditures which were subject to depletion. The decrease in this pool of oil and gas expenditures was mainly due to the Company selling a number of its minority interests in 6 non producing wells and 3 producing wells during the FY-2010.

#### Remuneration and staffing

Amounts classified in this MD & A as “Remuneration and staffing expenses” are itemized as follows:

	<u>FY-2010</u>	<u>FY-2009</u>	<u>Q4-2010</u>	<u>Q4-2009</u>
	\$	\$	\$	\$
Management fees	150,000	150,000	30,000	\$45,000
Consulting and staffing	177,431	145,557	47,861	38,594
Stock-based compensation	175,670	189,217	49,727	89,591
	<u>503,101</u>	<u>484,774</u>	<u>127,588</u>	<u>173,185</u>

Management fees in FY-2010 were paid or accrued to the two senior officers in Q1-2010 and Q2-2010. In Q3-2010 the CFO resigned thus management fees decreased to \$30,000 per quarter from \$45,000 per quarter, contributing to the year over year decrease in management fees. In Q3-2009 the fee paid to the President increased from \$5,000 per month to \$10,000 per month. As a result there was no net change in management fees paid in FY-2010 over FY-2009.

Consulting and staffing costs are primarily borne through our “Office Management Agreement” pursuant to which we pay a flat fee of \$28,000 per month (FY-2009: Q1-Q2-\$24,000; Q3-Q4 \$28,000) for office, accounting and administrative staff, office services and supplies, and corporate premises rent. This includes \$10,350 per month classified as consulting and staffing (FY-2009: \$10,350). As of April 1, 2010 this fee has been reduced to \$17,000 per month under the newly signed contract, with \$3,350 charged to consulting. Consulting and staffing increases in

FY-2010 compared to FY-2009 are mainly due to an increase in external consultants providing promotional and other services.

Stock-based compensation expenses decreased partially due to the repricing of stock options granted in previous years, the exercise price was reduced in Q4-2010 upon approval from the TSX.V, and a lower number of stock options which were granted in prior periods vested or were deemed earned in the current period. For more details on stock option grants in the periods presented, please see the section of the document “*Liquidity and Capital Resources*”.

Accounting, audit and professional fees

	<u>FY-2010</u>	<u>FY-2009</u>	<u>Q4-2010</u>	<u>Q4-2009</u>
	\$	\$	\$	\$
Staff accounting and audit fees	161,253	143,190	67,624	60,000
Legal fees	12,241	86,894	737	52,313
Reserves evaluation expense	4,500	4,428	4,500	6,500
	<u>177,994</u>	<u>234,512</u>	<u>72,861</u>	<u>118,813</u>

Staff accounting fees were paid pursuant to the “Office Management Agreement” at a flat rate of \$9,750 per month in FY-2010 while in FY-2009 these fees were \$8,000 per month for the first six months of FY-2009 and then increased to \$9,750 per month in Q3-2009, as per the new contract. Spending on staff accounting fees were reduced to \$5,750 in Q1-2011 upon re-negotiation of the services contract. FY-2010 audit fees incurred included \$7,500 for FY-2009 audit expenses not recorded in FY-2009.

Legal fees in FY-2010 were reduced significantly when compared to FY-2009 reflecting the lower activity level in regard to the Mistahiya lawsuit (see Legal Proceedings).

Regulatory and transfer agent fees

In Q4-2010 filing fees of \$3,500 relating to the year end were not accrued whereas in FY-2009 they were included.

Insurance

The decreased insurance expense arose because Great Pacific discontinued its D&O insurance coverages in the FY-2010. The Company decided to discontinue this coverage due to economic reasons.

Prospect evaluation and due diligence

Prospect evaluation and due diligence expenses consisted of the cost of evaluating petroleum property acquisition and investment opportunities we did not proceed with.

These expenditures were incurred as follows:

	<u>FY-2010</u>	<u>FY-2009</u>	<u>Q4-2010</u>	<u>Q4-2009</u>
	\$	\$	\$	\$
Canadian oil and gas property evaluation expenditures	15,831	38,349	16,266	8,771
Iraqi investment evaluation	1,274	95,966	0	15,415
	<u>17,105</u>	<u>134,315</u>	<u>16,266</u>	<u>24,186</u>

In Q4-2010 the Company incurred due diligence expenses in regard to geological review of certain potential exploration property acquisitions in Alberta, in FY-2009 the Company incurred more fees in this regard.

In FY-2010 the Company discontinued its pursuit of Iraqi investment opportunities, and is not planning any further activities in respect of the Iraqi petroleum sector at this time. Canadian oil and gas prospect evaluation expenditures are expected to be incurred from time to time in future periods based on operating activity levels.

Corporate communications, shareholder communications, travel and entertainment

This expense category consists of the following items:

	<u>FY-2010</u>	<u>FY-2009</u>	<u>Q4-2010</u>	<u>Q4-2009</u>
	\$	\$	\$	\$
Corporate and shareholder communication	13,569	21,207	(2,752)	4,095
Marketing	2,572	53,615	(12,460)	-
Travel	54,602	61,315	25,969	12,449
	<u>70,743</u>	<u>136,137</u>	<u>10,757</u>	<u>16,544</u>

- Marketing costs in FY-2010 were greatly reduced in comparison to FY-2009 as the Company did not participate in promotional activities in 2010 as compared to 2009. In FY-2009 the Company registered for one trade show, purchased promotional materials and placed corporate advertising. The credit in Q4-2010 offsets a accrual to marketing made in Q1-2010, the Company did not proceed with planned advertising.
- Travel costs in FY-2010 were lower than FY-2009 as these costs include vehicle expenses. In FY-2009 the Company owned three vehicles, two of which were sold in FY-2010..

Office, rent, and miscellaneous

This expense category includes the following items:

	<u>FY-2010</u>	<u>FY-2009</u>	<u>Q4-2010</u>	<u>Q4-2009</u>
	\$	\$	\$	\$
Office fees pursuant to the <i>Office Management Agreement</i>	36,600	34,950	9,150	9,150
Office premises rent	58,200	55,650	14,550	14,400
Office services and supplies	9,027	7,753	2,005	1,506
Telephone, fax and long distance	14,946	20,181	3,381	4,937
Bank charges and interest	7,318	2,379	3,684	2,097
	<u>\$ 126,091</u>	<u>\$ 120,913</u>	<u>\$ 32,770</u>	<u>\$ 32,090</u>

- Office services and supplies increased slightly over 2009 levels due to minor expenses not incurred in the comparative period.
- Telephone, fax and long distance charges in FY-2010 are lower than FY-2009 mainly attributable to less travel in 2010 which resulted in fewer long distance charges using cell phones as well as reductions due to changing cell phone access plans.
- Bank charges and interest costs increased in FY-2010 mainly due to interest accrued on our outstanding payables in 2010.

Amortization

Amortization costs are less in FY-2010 due to the sale of two trucks in the year.

Vehicle cost recoveries, net of expenses

In FY-2009 the Company did not commence planned drilling activities in Alberta in Q3-2008 as anticipated, the Company was able to rent these trucks out from time to time. Gains classified as vehicle cost recoveries consisted of rental revenues charged for the use of these vehicles, net of operating costs and depreciation. Rental revenue was charged to a private company controlled by a Director of the Company. This situation was not repeated in FY-2010.

### *Gain on sale of trucks*

During Q3-2010, the Company sold two trucks for \$26,000 which resulted in a gain of \$1,648. The Company currently owns one truck.

### *Gain on sale of oil and gas properties*

In fiscal 2010, the Company sold, for gross proceeds of \$10,000, two P & NG leases that were purchased from the Province of Alberta and held in trust for the Company. The gain of \$5,663 recognized on the disposition of this property has been applied against the company's Canadian cost centre depletion and depreciation pool.

In fiscal 2010 the Company sold its minority interests in 6 non producing wells and 3 producing wells, as well as one 100% owned 128 hectare property. The consideration payable to the Company for these properties totalled \$175,000, which was received in full on December 23, 2009. No gain or loss was recognized on the disposition of these properties.

These oil and gas properties interests were part of a group of properties acquired from Mistahiya Resources Ltd in March 2007. The Company retains its interest in the balance of the properties acquired from Mistahiya Resources Ltd. in 2007.

### *Loss on abandonment of Oil and Gas Properties*

In fiscal 2010 the Alberta government denied the operator of the 3-20 project permission to complete further exploration work on the property. As a result, the Company is required to participate to its 60% working interest in the reclamation costs for this project. Due to the abandonment of this project, the Company has written down the carrying value to \$nil and recognized a loss of \$355,020 as inclusion in the depletion and depreciation pool would result in a change to the depletion and depreciation rate of 20% or more.

### **EIGHT QUARTER REVIEW**

	March 31, 2010 \$	Dec 31, 2009 \$	Sept 30, 2009 \$	June 30, 2009 \$
Sales, net of royalties	33,198	34,363	45,011	21,787
Net loss for the quarter	423,739	404,969	273,414	253,024
Net loss per share	\$0.05	\$0.02	\$0.01	\$0.01
Total assets, end of period	823,459	1,125,999	1,316,218	1,404,914
Deficit, end of period	10,803,114	10,379,375	9,976,546	9,700,992
	March 31, 2009 \$	Dec 31, 2008 \$	Sept 30, 2008 \$	June 30, 2008 \$
Sales, net of royalties	84,133	68,701	64,843	81,921
Net loss for the quarter	327,170	712,144	667,679	278,573
Net loss per share	\$0.01	\$0.03	\$0.03	\$0.01
Total assets, end of period	1,504,804	1,677,491	2,213,106	2,866,060
Deficit, end of period	9,447,968	9,120,798	8,408,654	7,740,975

## Selected annual information

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	\$	\$	\$
Net sales for the year	134,359	299,598	517,413
Net loss for the year	1,355,146	1,985,566	867,784
Net loss per share	\$0.05	\$0.09	\$0.05
Total assets	823,459	1,504,804	2,555,406

The trends inherent in this data reflect the economic and operational factors that drove the annual trends over the same periods.

Results over the eight quarters presented were significantly impacted by the following events, transactions and business trends:

- There was a significant decrease in total assets in FY-2010 due to the sale of minority interests in 6 non producing wells and 3 producing wells, as well as one 100% owned 128 hectare property. The Company also has written down the value of the 3-20 project to \$nil and recognized a loss of \$355,020.
- A significant increase in depletion charges in FY-2009 contributed to the decrease in assets in FY-2009 vs FY-2008. These depletion charges, which include impairment provisions recorded on the Canadian and U.S. oil and gas cost centres, largely account for the decrease in asset size subsequent to Q1-2009 and much of the increase in net loss.
- The private placement equity financing conducted through Q4-2008 and Q1-2009 and Q3-2010 significantly increased asset size over prior quarters, as did the warrant and option exercises for in FY-2009 and FY-2008.
- Those additional factors discussed in the sections “Results of operations” for the 3-month and 12-month periods ended March 31, 2010.

### **LIQUIDITY AND CAPITAL RESOURCES**

Great Pacific’s major source of liquidity has been the issuance of equity capital. The Company obtains equity capital financing from private placement offerings of shares and share purchase warrants, and the exercise of share purchase warrants and stock options. The Company conducts private placement equity financings from time-to-time, based on cash flow needs and subject to investor interest. Our oil and gas assets have not generated sufficient cash to finance our development-stage business model and to fund corporate overhead activities.

In FY-2010 the Company completed a private placement of 10,000,000 units at a price of \$0.075 for total proceeds of \$750,000. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.15 per share until November 26, 2011. The Company paid \$45,000 in cash finder’s fees and issued 600,000 agent warrants exercisable at \$0.15 per warrant for two years. Share issuance costs in the amount of \$4,500 include legal, closing, listing and filing fees.

In order to continue as a going concern, meeting our commitments and current obligations, we will require additional net equity financing of at least \$1,250,000 in the coming twelve months. At July 28, 2010, our working capital deficiency is approximately \$440,000

Furthermore, additional equity financing will be required in order to carry out the exploration and development necessary to achieve a self-sustaining level of production and oil reserves, and achieve our oil and gas business goals. We expect that additional financing – in the order of \$1.5 - \$5 million dollars – will be required to carry out a

drilling program sufficient to attain a self-sustaining level of revenue. There is no assurance that we will be successful in obtaining such financing. We expect that substantially all external financing will need to be provided by the sale of common shares.

Our ability to obtain financing is sensitive to economic factors beyond the control of management. Declines in the Canadian-dollar price of oil and gas, changes in interest rates or continued economic recession or disruption could significantly affect our ability to obtain adequate private placement financing. Being a development stage oil and gas company reliant on external financing, a sustained economic recession resulting in a continued reduction of available capital would materially harm Great Pacific. Current financial market conditions and the deterioration of oil prices have exposed Great Pacific, as with many junior resource sector peers, to material liquidity risk, as available equity capital has significantly decreased below recent levels, and the cost of such capital has simultaneously increased.

The Company had no long-term debt or financial liabilities outstanding at July 28, 2010 or March 31, 2010.

### **CONTRACTUAL OBLIGATIONS**

Material contractual obligations not disclosed elsewhere in this MD & A are as follows:

1. The Company is required to pay its proportionate share of gross asset retirement costs having a future value, estimated by management to be approximately \$347,000, over the next fifteen years. The present value of Great Pacific's share of these costs is estimated at approximately \$246,000. This is a non-financial commitment, and our obligation is performance-based (i.e. we must reclaim and remediate well sites to the satisfaction of regulatory, statutory and contractual standards). The Company expects that approximately \$111,425 of this amount will be incurred in FY-2010,
2. Under the terms of the Company's oil and gas property interests, Great Pacific may face dilution or complete loss of certain oil and gas property interests should it fail to pay its share of expenditures authorized by the project operator and the other joint interest participants. At the present, there are no authorized work programs planned on the Company's jointly owned properties.
3. The company has a consulting agreement for the services of the President paying \$10,000 per month. The contract expires in September, 2014.
4. The Company also has a contract with an office and administration services management company paying \$17,000 per month, for office rent, office services and supplies, and administration staffing services (the "Office Management Agreement", as described elsewhere). This contract expires in March 2011.
5. The Company has on-going lease payments (to both the Crown and several private leaseholders) for P & NG property rights. While these lease payments are individually immaterial, failure by the Company (or the Company's operator, in the case of non-operated property interests) to pay these fees in a timely manner would result in a loss of property rights. These lease payments total approximately \$33,900 per annum.

### **OFF BALANCE SHEET ARRANGEMENTS**

The Company has no material off-balance sheet arrangements.

### **FINANCIAL INSTRUMENTS**

Details on the Company's significant financial instruments are as follows:

#### **Cash**

Cash is held in demand accounts at a Canadian chartered bank. The Company does not believe it is subject to any significant counterparty risk with respect to cash,

### Accounts receivable

Accounts receivables typically arise from normal joint operating arrangements governing the Company's producing oil and gas properties, and from cost-recovery billings. Credit valuations are performed on a regular basis and the financial statements take into account any requirement for an allowance for bad debts.

Management does not assess material credit risk to exist in respect of accounts receivable other than in regards to those amounts subject to a provision for impairment.

### Accounts payable and accrued liabilities

At March 31, 2010 accounts payable and accrued liabilities consists of amounts owing to suppliers on trade credit terms, and amounts owing to the operator of the Midland Basin prospect area for our share of drilling costs.

Included in the balance of accounts payable at March 31, 2010 is approximately \$28,600 owing to the operator of the Midland Basin prospect area. The Company is in an un-notified state of default with respect to that amount. In order to maintain its interest in that prospect block, the Company must make the payment within a specified 20-day "grace period" upon notification of the default.

The Company's financial liabilities primarily constitute trade payables owing to both arms' length and related parties, and loans payable. These are unsecured and, excepting normal trade credit terms, are due on demand.

### **Financial instrument risk**

Significant sources of financial instrument risk are detailed as follows:

#### Interest rate risk

The Company has no debt instruments outstanding, besides trade credit as provided from time to time, the Company does not believe its overall exposure to interest rate risk is material.

#### Currency risk

The Company generates approximately 4% of its gross revenue from a natural gas well in the United States, and holds petroleum land interests in the United States having a book value of approximately \$69,641. Accordingly, changes in the U.S. denominated value of the Canadian dollar will impact the Canadian dollar cost of meeting any future obligations under that prospect area and will affect the Canadian dollar-denominated value of natural gas production.

For a 1% increase in the United States – Canada exchange rate above March 31, 2010 levels, the Canadian dollar cost of the Midland Basin prospect area liability will increase by approximately \$290, net of the offsetting gain from enhanced natural gas revenues.

#### Commodity price risk

The Company is exposed to material oil and gas commodity price risk. A relative decrease in the price of oil and gas would reduce the Company's cash flows, reduce the realizable market value of the Company's oil and gas assets, reduce the Company's economic reserves, and make it more difficult for the Company to raise the equity capital required to meet its commitments and carry out its development-stage business plans. The Company sells its production on the spot market. Management has assessed that the Company's degree of exposure to commodity price risk is material, but consistent with our development stage oil and gas business operations.

### Liquidity risk

The Company faces material liquidity risk in that it has approximately \$292,000 in accounts payable which are overdue at March 31, 2010 and insufficient cash on hand to satisfy those debts should they be demanded. The Company is seeking equity financing in order to obtain additional liquidity to mitigate this risk.

### **RELATED PARTY TRANSACTIONS**

Related party transactions and balances entered into during the years ended March 31, 2010 and 2009 and not disclosed elsewhere in these financial statements are as follows:

- (a) In the year ended March 31, 2010 the Company paid or accrued management fees to three officers totalling \$150,000 (2009: \$150,000).
- (b) The Company paid or accrued professional and consulting fees to related parties (or to private companies controlled by related parties, or parties affiliated with related parties) in the years ended March 31, 2010 and 2009 as follows

	2010	2009
	\$	\$
Private companies controlled by directors, officers or persons related to them	–	45,435
Directors, officers, or persons related to them	6,000	6,000
	<u>6,000</u>	<u>51,435</u>

Of these professional and consulting fees, \$nil were capitalized as oil and gas property expenditures in the fiscal year ended March 31, 2010 (2009: \$28,042).

- (c) Amounts due to related parties consists of amounts owing to officers, directors (or to persons related to them or companies controlled by them) for services as noted in a) and b), above, and for expense reimbursements.
- (d) The Company paid finders' fees of \$nil (2009: \$75,000) to a person related to a director of the Company in connection with a private placement financing conducted in the year ended March 31, 2009.

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

### **OUTSTANDING SHARE DATA**

#### **Common shares**

At July 28, 2010 and March 31, 2010 there are 32,411,433 common shares of Great Pacific issued and outstanding.

#### **Share purchase instruments**

Outstanding share purchase instruments consist of share purchase warrants and incentive stock options. Details of outstanding share purchase warrants and incentive stock options as at July 28, 2010 are as follows:

## Warrants

	<b>Number of underlying shares</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
FY-2009 grant *	1,952,000	\$0.13	April 14, 2011
FY-2010 grant	10,600,000	\$0.15	

\* On February 18, 2010, as per a news release dated December 2, 2009, the Company received TSX Venture Exchange approval to re-price these warrants to \$0.13 per common share from \$1.00 per common share. If the closing price for the Company's shares exceeds \$0.1575 for a period of 10 consecutive trading days, then the warrant holders will have 30 days to exercise their warrants; otherwise the warrants will expire on the 31st day.

## Incentive stock options

A summary of share purchase options cancelled, issued and exercised since the year ended March 31, 2010:

	July 28, 2010 Number of options	Weighted average exercise price \$	March 31, 2010 Number of options	Weighted average exercise price \$
Balance, beginning of year	1,561,000	1.04	1,951,000	1.04
Cancelled or expired	(470,000)	0.20	(390,000)	0.75
<b>Balance, end of year</b>	<b>1,091,000</b>	<b>0.20</b>	<b>1,561,000</b>	<b>0.20</b>
<b>Options exercisable, end of year</b>	<b>725,000</b>	<b>0.20</b>	<b>874,000</b>	<b>0.20</b>

The weighted average exercise price for the FY-2008 and FY-2009 grants reflect graduated exercise prices and straight-line, semi-annual vesting, wherein the exercise prices increase on each anniversary date from \$0.18 to \$0.27 with vesting as to 10% every six months.

## **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

During the year ended March 31, 2010, the Company adopted the following new guidance issued by the CICA. The Company's adoption of the guidance or Handbook section has not resulted in a restatement of comparative information.

### CICA 3862, "Financial Instruments – Disclosures"

During the year, the CICA amended Section 3862 to enhance fair value and liquidity disclosures. The standard now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels. Each level is based on the transparency of inputs to the valuation of the financial asset or liability as of the measurement date. Adoption of this standard did not have any material effect on the consolidated financial statements. The disclosures required by this amendment are disclosed in Note 2 and Note 15.

### **Recent Canadian accounting developments**

Recent Canadian accounting pronouncements that have been announced but are not yet effective are as follows:

#### Business Combinations - CICA Handbook Section 1582

In January 2009, the CICA issued Section 1582, "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively

harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards (“IFRS”). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The adoption of this standard is not expected to have a material effect on the Company’s financial statements.

#### Consolidated Financial Statements and Non-Controlling Interests – CICA Handbook Sections 1601 and 1602

In January 2009, the CICA issued Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-Controlling Interests” which replace Section 1600 “Consolidated Financial Statements.” Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 “Business Combinations.” The adoption of this standard is not expected to have a material effect on the Company’s financial statements.

#### International Financial Reporting Standards (“IFRS”)

The Canadian Accounting Standards Board (“AcSB”) has published a strategic plan that calls for the convergence of Canadian GAAP (Generally Accepted Accounting Principles) with IFRS over an expected five year transitional period commencing 2006. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada’s own GAAP. As the Company has a non-calendar fiscal year it will be required to produce the first IFRS financial statements in the first quarter of its 2012 fiscal year (the quarter ending June 30, 2012). The transition date of April 1, 2012 will require the restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2012. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

The Company is monitoring the impact of these convergence initiatives on its financial reporting and disclosure. At present, significant differences from the Company’s Canadian GAAP financial reporting and disclosure are expected to be with respect to the carrying value and impairment testing of its oil and gas assets. The International Accounting Standards Board is undertaking a project on the extractive industries; however this project is not anticipated to be complete by the time of Canada’s changeover to IFRS.

#### Equity - CICA Handbook Section 3251

In August 2009, Section 3251 Equity was issued in response to issuing Section 1602 Non-controlling Interests. The amendments require non-controlling interests to be recognized as a separate component of equity. The amendments apply only to entities that have adopted Section 1602. The adoption of this section is not expected to have a material impact on the financial statements.

#### Comprehensive Revaluation of Assets and Liabilities - CICA Handbook Section 1625

In August 2009, Section 1625 Comprehensive Revaluation of Assets and Liabilities was issued for consistency with new Section 1582 Business Combinations. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. The adoption of this section is not expected to have a material impact on the financial statements

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the periods reported. Significant estimates are required in the determination of the recoverability or valuation of accounts receivable, the fair value of future asset retirement obligations, depletion costs per unit of production, stock-based compensation expense, determining the fair value of financial instruments,

measuring impairment losses, measuring the recoverability of amounts shown for oil and gas properties, and the utilization of future income tax assets and tax rates. These critical estimates are reviewed periodically, and, as adjustments become necessary, they are reported in operations in the period in which they become known.

Any amounts recorded for depletion of oil and gas properties and any provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proven reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements of changes in such estimates in future periods could be material

Similarly, references herein to oil and gas reserves, future value of oil and gas production, estimates of future production, and estimates of future petroleum exploration, development and decommissioning costs are subject to estimates by management and our independent reserves evaluator. These estimates are made in accordance with the terms of National Instrument 51-101, and are made on a best efforts' basis, however, they are subject to variance and actual results may differ materially from expected outcomes.

## **LEGAL PROCEEDINGS**

### **Ordinary course business proceedings**

The Company is subject from time to time to various legal proceedings and claims that arise in the ordinary course of business. Management is of the opinion that such claims are not likely to have a material adverse effect on the Company's future operations or financial position. The Company is not subject to any material claims at this time.

### **Operatorship dispute**

In the fiscal year ended March 31, 2009, the Company filed a Statement of Claim in the Court of Queen's Bench of Alberta in the Judicial District of Calgary, against the operator of the Company's Mistahiya-group properties.

The Statement of Claim is in respect of certain operatorship issues and seeks a judicial resolution of disputed revenue with-holdings, the assertion of our take-in-kind rights to oil revenue, and other issues. A trial date has not yet been set.

In the interim the Company has obtained an Order in the Court of Queen's Bench of Alberta, Judicial District of Calgary requiring that the operator pay Great Pacific its proportional 36% share of the gross revenue and provide a statement of expenses arising out of the joint venture operations on our Red Earth wells within 50 days of the end of each production month. Upon receipt of the revenue, Great Pacific is to pay the Operator its share of proper expenses, with any disputed expenses to be paid into Court with an explanation as to the nature of the dispute.

The operator has filed a Statement of Defense in respect of this matter, and has also filed a counter-claim against the Company. The counter-claim is seeking unspecified punitive and compensatory damages against the Company in respect of alleged interference with an oil marketing contract formerly held in respect of the jointly owned wells. Management believes the counter-claim to be completely without merit, and the Company is vigorously defending itself against these allegations.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS**

### *Disclosure Control Risks*

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company's management has concluded, based on their evaluation of the effectiveness of the Company's disclosure controls and procedures as of March 31, 2010 that disclosure controls and procedures provide reasonable assurance that material information is made known to them by others within the Company subject to the reportable weakness identified below regarding segregation of duties. However, a control system, no

matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

#### *Internal Control Risks*

Management is responsible for certifying the design of the Company's internal control over financial reporting ("ICFR") as required by Multilateral Instrument 52-109 – "Certification of Disclosure in Issuers Annual and Interim Filings". Our ICFR is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP). ICFR includes those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and disposition of our assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP;
- receipts and expenditures only being made in accordance with authorizations of management and the Board of Directors; and
- reasonable assurance regarding prevention or timely detection of unauthorized collection, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, ICFR may not prevent or detect misstatements. Also, the effectiveness of ICFR is subject to the risk that controls may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate. Management carried out the design of the Company's internal controls over financial reporting and concluded, subject to the inherent limitations noted above, the Company has sufficient controls to meet the requirements as stated above and that one reportable weakness existed at March 31, 2010 as detailed below.

#### *Segregation of Duties*

Segregation of duties is a basic, key internal control and one of the most difficult to achieve in a small company. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Due to limited resources, a complete segregation of duties within the Company's operating and accounting groups cannot be fully achieved. The result is that the Company is highly reliant on the qualifications, experience and integrity of its staff and on the performance of mitigating procedures during its financial close processes in order to ensure the financial statements are presented fairly in all material respects. Any changes in the current control process will be dependant upon the growth of the Company's operations and the number of its staff to allow further segregation of duties. Management will continue to review existing mitigating controls and, if appropriate, implement changes to its internal control processes whereby more effective mitigating controls will be adopted.

### **OTHER MATTERS**

#### **Corporate Governance**

Management believes that quality corporate governance is essential to ensuring effective management of our Company. The Company's corporate governance policy is substantially aligned with the guidelines set out in the report of The Toronto Stock Exchange Committee on Corporate Governance in Canada.

#### **Oil and gas production estimates**

Oil and gas reserves and expected production information disclosed herein reflect the reserves attributed to particular properties as disclosed in our Form 51-101 report. This document is to be read in conjunction with that report, dated July 27, 2010 and available at [www.Sedar.com](http://www.Sedar.com). The reader is cautioned that the estimates of reserves (and, by extension, estimates of well life and production rates derived from reserves estimates) and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

**Quantities and conversions:** In this MD & A the following acronyms are used:

ac	Acres	P & NG	Petroleum and natural gas
bbls	Barrels of oil	/d	Per day
Boe	Barrels of oil equivalent	Ha	Hectare

Please note that oil equivalency measures are expressed based on energy equivalence, assumed at 6 mcf natural gas = 1 bbl oil = 1 boe. Energy equivalence values differ materially from market value equivalency measures.

Per diem production (expressed in terms of bbls/d, mcf/d or boe/d) is expressed on the basis of total volumes produced in a specified period, divided by the total number of calendar days within that period.

**Note Regarding Forward-Looking Statements**

**Statements herein that are not historical facts are forward-looking statements that are subject to risks and uncertainties. Words such as “expects”, “intends”, “may”, “could”, “should”, “anticipates”, “likely”, “believes” and words of similar import also identify forward-looking statements. Forward-looking statements are based on current facts and analyses and other information that are based on forecasts of future results, estimates of amounts not yet determined and assumptions of management, including, but not limited to, the Company’s ability to raise additional debt and/or equity financing to fund operations and working capital requirements and the Company’s oil and gas reserves. Actual results may differ materially from those currently anticipated due to a number of factors including, but not limited to, general economic conditions, the geology of oil and gas properties, oil and gas industry conditions, the Company’s ability to generate sufficient cash flows from operations and financing to support general operating activities and capital expansion plans, and laws and regulations and changes thereto that may affect operations, and other factors beyond the reasonable control of the Company. Additional information on factors that may affect the business and financial results of the Company can be found in filings of the Company with the British Columbia Securities Commissions on [www.sedar.com](http://www.sedar.com)**

**On behalf of the Board of Directors**

**“Thal S. Poonian”**

Thal S. Poonian, President