

# **CENTURY ENERGY LTD.**

## **FORM 51-102F1 MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED NOVEMBER 30, 2009**

The following management's discussion and analysis of the consolidated financial condition and operating results of Century Energy, Ltd. (the "Company") for the three months ended November 30, 2009 is prepared as of January 29, 2010. The discussion should be read in conjunction with the unaudited interim consolidated financial statements of the Company and the notes thereto for the three months ended November 30, 2009 and the audited consolidated financial statements for the year ended August 31, 2009. The unaudited interim consolidated financial statements are prepared under Canadian generally accepted accounting principles and include the operating results of the Company and its subsidiaries.

### **Forward-Looking Statements**

Certain of the statements contained in this MD&A including, without limitation, financial and business prospects and financial outlook, reserve and production estimates, drilling and re-completion plans, timing of drilling, re-completion and tie-in of wells, productive capacity of wells and capital expenditures and the timing thereof may be forward-looking statements. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions may be used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources. As a consequence, actual exhaustive results may differ materially from those anticipated in the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhausted. Additional information on these and other factors that could effect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)). Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and the Company assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities laws. Historical results of operations and trends that may be inferred from the following discussions and analysis may not necessarily indicate future results from operations.

### **THE COMPANY**

The Company is a small oil and gas exploration and production company. The Company has one subsidiary, Topper Resources, USA, Inc., which is wholly owned and has an overriding royalty interest in a producing property in Texas.

The Company recently participated in the successful completion of an initial well adjacent to the Roncott/Bakken oil field in Southern Saskatchewan. A continued multi-well development program on adjoining acreage is currently being evaluated.

### **CRITICAL ACCOUNTING POLICIES**

A summary of significant accounting policies is presented in Note 2 of the consolidated financial statements for the year ended August 31, 2009. The Company follows the full cost method of accounting for exploration and development expenditures whereby all costs, net of incentives, related to the exploration for and development of oil and gas reserves are capitalized in cost centers on a country-by-country basis. Costs include lease acquisition, geological and geophysical expenditures, carrying costs of non-productive properties, the drilling of productive and non-productive wells and related plant and production equipment costs.

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Costs relating to properties which management considers to be unproved are initially held outside the cost centers. Costs held outside cost centers are evaluated periodically for impairment. When a decision to develop these properties has been taken, or there is evidence of impairment, the related costs are transferred to the relevant cost center

For each cost centre, the Company calculates a "cost ceiling" which limits the net book value of capitalized costs to the undiscounted and unescalated estimated future net revenues from production of proved reserves based upon year-end prices. This test also accounts for future general and administrative expenses, future site restoration and abandonment costs, financing costs and income taxes, all undiscounted and unescalated. Additional depletion is provided if the net book value of capitalized costs exceeds such future revenue.

Depletion is computed using the unit-of-production method where the ratio of production to proved reserves determines the proportion of depletable costs to be expensed. Undeveloped properties are excluded from the depletion calculation until the quantities of proved reserves can be determined.

The amounts recorded for depletion and amortization of oil and gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved 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 significant.

#### OVERVIEW

During the first quarter of 2009, the Company received oil and gas revenues from its producing property in the Roncott/Bakken oil field. In addition, the Company continued to evaluate oil and gas prospects for exploration and production opportunities with specific attention being devoted to a potential multi-well drilling program on acreage adjacent to the Company's producing property in the Roncott/Bakken oil field.

#### SUMMARY OF QUARTERLY RESULTS

	<u>Revenues</u>	<u>Net Loss</u>	<u>Net Loss per Share Basic and Diluted</u>
<b>Fiscal 2008</b>			
Second quarter	627	(176,360)	(.02)
Third quarter	366	(89,883)	(.00)
Fourth quarter	840	(95,841)	(.00)
<b>Fiscal 2009</b>			
First quarter	218	(63,438)	(.00)
Second quarter	33	(129,310)	(.00)
Third quarter	82,649	(17,893)	(.00)
Fourth quarter	52,678	(27,932)	(.01)
<b>Fiscal 2010</b>			
First quarter	43,035	(17,063)	(0.00)

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### **SUMMARY OF PROPERTIES**

The Company has an overriding royalty interest in one oil and gas property in Liberty County, Texas.

In December 2007, the Company entered into a Participation Agreement with Ravenwood Energy Corp. ("Ravenwood") of Calgary, Alberta to acquire 25% interest in Ravenwood's Kneller Prospect. In order to earn a 25% working interest, the Company paid 25% of the cost for the initial well on the prospect. The Company also paid a \$10,000 equilization fee for the right to participate in the well. The initial well was drilled to its target depth in January 2008 and was determined to be non-productive. The Company, with its joint venture partner, retained an interest in the leases and has the right to participate in additional wells drilled on the prospect by contributing its 25% share of subsequent well costs.

In June 2008 the Company agreed to purchase a 100% interest in certain petroleum and natural gas leases in Southern Saskatchewan, Canada. In consideration for the leases, the Company paid \$150,000. The vendor retains a 3% royalty interest on the monthly production from wells drilled on the leases acquired. In September 2008, the Company entered into a farm-in agreement with Triaxon Resources Ltd. whereby Triaxon agreed to pay 100% of the costs to drill and complete a well. In addition, the Company received proceeds of \$70,070 from Triaxon. Triaxon drilled and completed the well and earned a 70% interest. The Company retained a 30% interest. The Company also agreed to pay the facilities costs. The well was successful and began commercial production in early 2009. The Company began receiving oil and gas revenue in the third quarter 2009.

### **OIL AND GAS PRODUCTION**

For three month period ended November 30, 2009, the Company had a 30% working interest in a well adjacent to the Roncott/Bakken oil field in Southeast Saskatchewan which is currently producing between 40 and 50 barrels of oil per day. The Company also has an overriding royalty interest in one well in Texas which produced approximately 15 barrels of oil per day.

### **RESULTS OF OPERATIONS**

**For The Three Month Period Ended November 30, 2009 Compared With The Three Month Period Ended November 30, 2008.**

Oil and gas revenues totaled \$43,035 for the three months ended November 30, 2009 compared to \$228 for the prior year. This is attributable to the successful completion of the Roncott well. There was a corresponding increase in oil and gas operating expenses to \$20,328 from \$10.

Overall administrative expenses totaled \$38,796 in the current period compared to \$63,656 in the prior period. This decrease is primarily attributable to the following:

- Professional fees and investor relations services decreased from \$22,340 to \$8,453. In the prior period, the Company utilized the services of outside firms in assistance with corporate governance and shareholder information/investor relations to a greater degree than was need in the current period.
- Foreign exchange losses of \$2,466 were incurred in the prior period compared to a gain of \$985 in the current period. This is attributable to transactions between the parent company and its subsidiary in the United States.
- Stock based compensation increased from \$10,260 to \$16,972 as a result of fewer vested options in the period.

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### LIQUIDITY

The Company has financed its operations to date primarily through the issuance of common shares and exercise of stock options. The Company continues to seek capital through various means including the issuance of equity and/or debt.

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

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	November 30, 2009	August 31, 2009
Deficit	\$ (7,108,034)	\$ (7,090,971)
Working capital deficiency	(192,689)	(189,345)

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The Company's cash and cash equivalents increased to \$5,811 on November 30, 2009 from \$3,648 on August 31, 2009. This is a result of cash from operating activities of \$26,010 offset by cash used in investing activities of \$23,847.

### CAPITAL RESOURCES.

The Company's main source of liquidity is access to equity capital markets. The Company will require continued additional funding in order to execute on its business strategy. The Company anticipates that public capital markets will serve as the principal source of capital to finance its future oil and gas activities and/or significant property purchases. Changes in the capital markets, including a decline in the prices of natural gas and oil, could materially and adversely impact on the Company's ability to complete further equity financings, with the result that the Company may be forced to scale back its operational activities.

The Company's future capital requirements will depend on many factors, including, among others, cash flow from operations. To the extent that existing resources are insufficient to fund the Company's losses until profitability is reached, the Company may need to raise additional funds through debt or equity financing. If additional funds are raised through the issuance of equity securities, the percentage ownership of current shareholders will be reduced and such equity securities may have rights, preferences, or privileges senior to those of the holders of the Company's common stock. No assurance can be given that additional financing will be available, or that it can be obtained on terms acceptable to the Company and its shareholders. If adequate funds are not available, the Company may be required to delay possible expansion plans or acquisitions.

### THREE MONTHS ENDED NOVEMBER 30, 2009

#### CASH FLOWS FROM OPERATING ACTIVITIES

The company's loss for the period of \$17,063 offset by the net increase in working capital items of \$25,127 and the add back of \$16,972 of stock-based compensation and \$974 of depletion, resulted in net cash of \$26,010 from operating activities.

#### CASH FLOWS FROM INVESTING ACTIVITIES

The Company used \$23,847 for oil and gas property additions.

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### CASH FLOWS FROM FINANCING ACTIVITIES

None

### SHARE CAPITAL

	Number of Shares	Share Capital	Contributed Surplus
Authorized:			
Unlimited common shares without par value			
Balance, August 31, 2008	24,762,395	\$ 6,656,537	\$ 268,159
Private placement	787,350	70,862	-
Share issuance costs	-	(1,440)	-
Stock issued for debt settlement	91,677	8,251	-
Stock-based compensation	-	-	73,701
Balance, August 31, 2009	25,641,422	6,734,210	341,860
Stock-based compensation	-	-	16,972
Balance, November 30, 2009	25,641,422	\$ 6,734,210	\$ 358,832

- a) At January 29, 2010, there were 30,141,422 common shares outstanding. This increase of 4,500,000 shares from those outstanding at November 30, 2009 is due to the issuance of 4,500,000 units pursuant to the completion of a private placement. At January 29, 2010, there were 7,933,822 warrants and 1,774,427 options outstanding. The warrants expire on July 17, 2010, August 11, 2010, December 18, 2010 and December 31, 2010. The stock options expire on July 23, 2012, June 12, 2013 and September 30, 2013. Assuming that the warrants and the stock options are exercised before they expire, the Company would receive gross proceeds of \$1,167,088 and \$314,585 respectively.

### LIQUIDITY AND CASH RESOURCES

In December 2009, the Company completed a non-brokered private placement for 4,500,000 units at a price of \$0.07 per unit for gross proceeds of \$315,000. Each unit consists of one common share in the capital of the Company and one common share purchase warrant, exercisable at a price of \$0.14 per warrant until December 18, 2010. In connection with the private placement, the Company paid offering, cash commissions and expenses of \$31,800 and issued 450,000 agents' warrants exercisable at a price of \$0.10 per unit until December 18, 2010.

The Company's future capital requirements will depend on many factors, including, among others, cash flow from operations. To the extent that existing resources are insufficient to fund the Company's losses until profitability is reached, the Company may need to raise additional funds through debt or equity financing. If additional funds are raised through the issuance of equity securities, the percentage ownership of current shareholders will be reduced and such equity securities may have rights, preferences, or privileges senior to those of the holders of the Company's common stock. No assurance can be given that additional financing will be available, or that it can be obtained on terms acceptable to the Company and its shareholders. If adequate funds are not available, the Company may be required to delay possible expansion plans or acquisitions.

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### RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$7,500 (2008 - \$7,500) to a company controlled by Jimmy McCarroll, a director and officer of the Company.
- b) Paid or accrued legal fees of \$3,428 (2008- \$5,209) to a law firm in which Cory Kent, a director of the Company is an employee of the firm.
- c) Included in accounts payable at November 30, 2009 is \$39,603 (August 31, 2009 - \$ 26,276) due to a company controlled by Jimmy McCarroll, a director and officer of the Company, Charles Wheeler, a director of the Company and M. Jane Costello, an officer of the Company. The amounts are non-interest bearing unsecured and have no fixed terms of repayment.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

### CHANGES IN ACCOUNTING POLICIES

Effective September 1, 2009, the Company adopted the following new accounting standards issued by the CICA:

#### *Goodwill and Intangible Assets (Section 3064)*

This new standard replaces the current standard for goodwill and intangible assets, *Section 3062*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred. The adoption of this section did not have an impact on the Company's financial statements.

### NEW ACCOUNTING PRONOUNCEMENTS

#### *Business combinations (Section 1582)*

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effect for the first annual reporting period beginning on or after January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards. 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 Company does not expect the adoption of this section to have a significant effect on its financial statements.

#### *Consolidated Financial Statements (Section 1601) and Non-Controlling Interests (Section 1602)*

The CICA concurrently 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. Theses standards are effective for fiscal years beginning on or after January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations." The Company does not expect the adoption of this section to have a significant effect on its financial statements.

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*International Financial Reporting Standards (“IFRS”).*

In addition to the above new accounting pronouncements the Canadian Accounting Standards Board (“AcSB”) in 2006 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 International Financial Reporting Standards (“IFRS”) over a five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-accountable enterprises 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 September 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended August 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition of IFRS cannot be reasonably estimated at this time.

### **FINANCIAL INSTRUMENTS**

The Company’s financial instruments consist of cash, receivables, accounts payable and accrued liabilities and amounts due to related parties. Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

### **DISCLOSURE CONTROLS AND PROCEDURES**

The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company’s disclosure controls and procedures as of the end of the period covered by the required filings.

Based upon the evaluation described above, the Chief Executive Officer and the Chief Financial Officer concluded that as of the end of the period covered by the required filings, the Company’s disclosure controls and procedures were effective in timely alerting them to the material information relating to the Company (or its consolidated subsidiaries) required to be included in reports that the Company files.

### **ADDITIONAL INFORMATION**

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