



## **MANAGEMENT'S DISCUSSION AND ANALYSIS FORM 51-102F1**

**For the Period Ended June 30, 2008**

The following discussion and analysis of the results of operations and financial condition ("MD&A") for PetroWorth Resources Inc. ("PetroWorth" or the "Company") should be read in conjunction with the Company's interim unaudited financial statements and accompanying notes for the period ended June 30, 2008 and the audited financial statements for the year ended December 31, 2007.

This discussion and analysis of the operating results and financial position of the Company may contain forward looking statements about the future prospects of PetroWorth, but the Company provides no assurances that actual results will meet the expectations of management. This MD&A is prepared in conformity with National Instrument 51-102 F1 and has been approved by the Board of Directors. The Company's auditors have NOT reviewed this MD&A prior to release.

### **DATE**

This management discussion and analysis is as at August 14, 2008

### **OVERALL PERFORMANCE**

PetroWorth continued to be active during the first quarter ending June 30, 2008. The Company made progress on all fronts including corporate, financing and exploration activities.

Commencing March 2008, PetroWorth took advantage of the lower share price and commenced a normal course issuer bid and repurchased 1,300,000 shares at an average price of \$0.99 per share. All 1,300,000 shares were returned to treasury for cancellation. In June, the Company completed two private placements with gross proceeds in excess of \$10 million at an average price of \$1.51 per share.

In May PetroWorth announced the appointment of Christopher Mothersele as Vice President, Operations. Mr. Mothersele has over 33 years of experience in the oil and gas industry, including 19 years with Gulf Canada Resources Inc. as Senior Staff Engineer and Senior Petroleum Engineer.

During the quarter, PetroWorth reviewed commenced fracture simulation of two best zones in well E-08. The Company also completed drilling of a third well A-08 in New Brunswick. In Alberta, flow rate of the 2 producing wells improved after fracture simulation was conducted on one of the wells.

Subsequent to the quarter, the Company announced a revised agreement with Corridor regarding natural gas exploration activities on Prince Edward Island.

## **Natural Gas Exploration Activities**

PetroWorth was founded as an oil and gas exploration company in 2003. PetroWorth is engaged in the acquisition and exploration of natural gas properties in eastern Canada. The Company has extensive properties onshore in Eastern Canada with 100% working interests in approximately 960,000 acres in Prince Edward Island, Nova Scotia and New Brunswick. The Company has drilled three exploration wells on its Rosevale license in New Brunswick and carried out fracture stimulation on two zones in one of the wells. In Prince Edward Island, the Company via a farm-out agreement with Corridor Resources Inc. has had one exploration well drilled on its licensed property in Prince Edward Island. The Company also has 7 farm-in wells in Alberta of which 2 are in commercial production.

### **Prince Edward Island**

Pursuant to the data exchange and farm-in option agreement, Corridor Resources Inc. (“Corridor”) has drilled and completed testing operations in one zone in New Harmony #1 well. In July 2008, PetroWorth and Corridor entered into a revised agreement whereby PetroWorth agreed to finance 100% of the costs up to \$2 million of fracturing and testing the initial two zones in the Green Gables #3 well in early August to earn a 10% working interest in Corridor’s Green Gables licence 04-03. In return, PetroWorth extended the deadline of October 1, 2008 to July 31, 2009 for the drilling and fracturing of two exploration wells on PetroWorth’s licenses 03-01, 03-02, 04-05, 04-06 and 04-07 to earn Corridor a 50% interest in these licenses. The companies also agreed that each shall have the right to back into a 50% working interest in any licence acquired by the other party on Prince Edward Island for the next five years.

### **New Brunswick**

In New Brunswick, PetroWorth successfully performed four fracture stimulations at the E-08 well with all zones flowing gas at varying flow rates. The Company has extended the final comingled flow test for additional clean up and a more reliable estimate of the stabilized flow rate which recorded a final rate of 1.058 MMcfe/day at a flowing tubing pressure of 155 psi and a casing pressure of 347 psi prior to shut-in for pressure build-up measurements.

PetroWorth also completed drilling at A-08 (Feenan #3) and the logs are undergoing petrophysical analysis. At A-63 (Feenan #4), drilling reached a total depth of 1,340 metres. Preliminary log interpretations indicate that the well has extremely hard metamorphosed Hiram Brook formation rock. PetroWorth decided that it was deemed prudent to release the rig and consider a new drilling location which would be less costly.

### **Nova Scotia**

In Nova Scotia, PetroWorth is required to expend a total of \$4.5 million over a period of 3 years on the property of which \$1.5 million has to be expended before July 15, 2008 and an additional \$1.5 million for the next 2 years totaling \$4.5 million. PetroWorth’s planned seismic program did not complete as planned due to problems encountered in obtaining property access from absentee owners. The Company is currently negotiating an extension.

### **Alberta**

The Bruce well 15-21-46-13 (50% working interest to PetroWorth) and Ferrybank well 8-32-44-27 (55% working interest to PetroWorth) continued to generate cash flow in during the second quarter of 2008. Results from those two wells in Q2 2008 were estimated based on Q1 2008 results as the Company did not receive production results on time for financial reporting purposes.

The following is a summary of oil and gas reserves as of December 31, 2007 based on forecast prices and costs as evaluated by Sproule in their reserve evaluation report dated April 17, 2008.

Reserve Category	Natural Gas (non-associated & associated)		Natural Gas Liquids	
	Gross (Mcf)	Net (Mcf)	Gross (Mbbbl)	Net (Mbbbl)
<b>Proved</b>				
Developed Producing	116	91	0.9	0.6
Developed Non-Producing	0	0	0.0	0.0
Undeveloped	70	59	0.2	0.1
<b>Total Proved</b>	<b>186</b>	<b>149</b>	<b>1.1</b>	<b>0.7</b>
Probable	191	152	1.3	0.8
<b>Total Proved Plus Probable</b>	<b>377</b>	<b>302</b>	<b>2.4</b>	<b>1.6</b>

### **Financing Activities**

In June 2008, Petroworth completed a brokered and a non-brokered private placement consisting of flow-through and common shares with combined gross proceeds in excess of \$10 million. A total of 2,474,375 flow-through shares were issued at \$1.60 per share and a total of 4,179,000 common shares were issued at \$1.45 per share.

### **RESULTS OF OPERATIONS**

#### **Three Month Period Ended June 30, 2008**

Total operating revenue for the three month period ending June 30, 2008 was \$44,336 (2007 - \$Nil) from 2 wells in Alberta. Net operating loss to PetroWorth after royalty and production expense is \$8,182 (2007 - \$Nil). The Company incurred a loss before income taxes during the second quarter of 2008 in the amount of \$992,901 (2007 - \$3,842,893) after interest income of \$40,138 (2007 - \$31,833). Salaries and management fees during the quarter were \$171,301 (2007 - \$508,426), a decrease of \$337,125 largely due to a large severance payment in 2007. Professional fees during the quarter were \$88,110 (2007 - \$115,882) as employees took on more responsibilities in-house. The Company also incurred consulting fees of \$108,906 (2007 - \$328,000), a decrease of \$219,094 as the Company replaced consultants' per diem rate to fix contracts. Total corporate expenses for the period were \$1,024,857 (2007 - \$3,874,726), a decrease of \$2,874,726 largely due to stock based compensation of \$362,600 (2007 - \$2,764,588), a reduction of \$2,401,988 from the same period last year.

During the three month period ended June 30, 2008, PetroWorth recorded a total of \$2,449,511 (\$2007 - \$448,758) in natural gas exploration expenditures which is summarized by province as follows:

Province	June 30, 2008	June 30, 2007
Alberta	\$ 2,088	\$ 330,820
New Brunswick	2,290,203	24,291
Nova Scotia	92,444	51,874
Prince Edward Island	38,686	40,317
General Exploration	11,532	1,456
<b>Total Exploration</b>	<b>\$ 2,434,953</b>	<b>\$ 448,758</b>

During the three months ended June 30, 2008, no general and administrative expenses, and no travel expenses relating to general corporate purposes were capitalized. Natural gas exploration expenditure can be summarized as follows:

<b>Exploration Expenditures</b>	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Drilling	\$ 670,172	\$ 330,820
Geological & Environmental Consulting	154,994	68,556
Seismic	13,854	9,019
Rental	26,457	26,458
Insurance	0	13,905
Travel	8,482	0
Completion	302,269	0
Test/Frac	1,258,725	0
<b>Total Natural Gas Exploration</b>	<b>\$ 2,434,953</b>	<b>\$ 448,758</b>

### Selected Annual Information

	<b>Year Ended December 31, 2007 (Audited)</b>	<b>Year Ended December 31, 2006 (Audited)</b>	<b>Year Ended December 31, 2005 (Audited) (Restated)</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net income (loss) before taxes	(8,389,423)	(1,026,888)	(1,072,127)
Net income (loss) after taxes	(7,347,423)	(1,026,888)	57,873
Basic and diluted income (loss) per share	(0.22)	(0.05)	0.01
Total Assets	23,700,217	9,329,311	9,736,098
Total long-term liabilities	Nil	Nil	Nil
Dividends declared per share	Nil	Nil	Nil

The financial statements have been prepared in accordance with Canadian GAAP and amounts are reported in Canadian Dollars.

### SUMMARY OF QUARTERLY RESULTS

	<b>June 30, 2008</b>	<b>March 31, 2008</b>	<b>December 31, 2007</b>	<b>September 30, 2007</b>
	<b>Unaudited</b>	<b>Unaudited</b>	<b>Audited</b>	<b>Unaudited</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	44,336	25,171	140,788	163,293
Net gain (loss) for the period	(850,679)	(396,263)	(1,571,978)	(1,324,627)
Net gain (loss) per share - basic	(0.02)	(0.01)	(0.03)	(0.04)
<b>Number of shares outstanding</b>	<b>43,667,181</b>	<b>38,263,806</b>	<b>38,163,806</b>	<b>36,418,273</b>
	<b>June 30, 2007</b>	<b>March 31, 2007</b>	<b>December 31, 2006</b>	<b>September 30, 2006</b>
	<b>Unaudited</b>	<b>Unaudited</b>	<b>Audited</b>	<b>Unaudited (Restated)</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	31,833	1,077	9,720	34,272
Net gain (loss) for the period	(3,628,075)	(822,743)	(654,184)	(108,315)
Net gain (loss) per share	(0.12)	(0.03)	(0.03)	(0.01)
<b>Number of shares outstanding</b>	<b>35,293,273</b>	<b>28,215,190</b>	<b>21,938,720</b>	<b>21,938,720</b>

## LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2008 PetroWorth had working capital of \$13,999,691 (2007 – \$8,268,780), excluding future income tax liability, as a result of the closing of 2 private placements in June grossing in excess of \$10 million. As of the date of this MD&A, the Company had approximately \$10 million in cash and has sufficient funds to carry out its exploration commitments on its various exploration licenses. PetroWorth is an exploration stage company and continued to rely on continuous equity offerings and possible joint ventures and farm-outs to fund its exploration activities. There is no guarantee that the Company's exploration projects will be successful. The availability of funds is subject to market conditions and there is no guarantee that funds will be available to fund its projects, commitments and plans.

In order to maintain the Company's oil and natural gas permits in good standing, the Company must pay a yearly rental and incur certain exploration costs. Minimum annual rentals on PetroWorth's property leases are as follows:

2008	\$ 123,473
2009	96,610
<u>Total</u>	<u>\$ 220,083</u>

PetroWorth has satisfied all exploration working commitment under its exploration licenses and agreements except for \$4,500,000 in Nova Scotia. Under the Exploration Agreements 04-07-15-01 and 04-07-15-03 in Nova Scotia, PetroWorth has to complete exploratory work commitment of a total of \$4,500,000 over a three year period of which \$1,500,000 must be completed prior to July 15, 2008. The Company has yet to fulfill the \$1,500,000 for 2008 and is currently re-negotiating for an extension.

The Company will conduct its operations in a manner consistent with environmental regulations as stipulated in applicable legislation. The Company is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and expense nature as a result of the increasingly stringent laws relating to the protection of the environment. The Company does not anticipate, however, that it will be subject to any increases in such expenditures which, as a percentage of cash flow, will be greater than those expected, on average, by other industry operators. The Company will maintain insurance coverage where available and financially desirable in light of risk versus cost factors. Unforeseen significant changes in such areas as markets, prices, royalties, interest rates and government regulations would have an impact on the Company's future operating results or financial condition.

The oil and gas industry has been subject to considerable price volatility, and while such risks can be hedged, a material decline in the price of oil or natural gas could result in a significant decrease in the Company's future anticipated revenues. The oil and gas industry has inherent business risks and there is no assurance that products can be produced at economical rates or that produced reserves will be replaced. Fluctuations in currency and exchange rates and changes in production volumes are daily risks in the oil and gas industry.

## OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2008 the Company has no off-balance sheet arrangements.

## **TRANSACTIONS WITH RELATED PARTIES**

- a) Included in travel and promotion and general and administration were \$78,003 (2007 - \$41,721) that was paid to directors and officers as disbursements for expenses incurred on behalf of the Company.
- b) Included in consulting fees was \$10,000 (2007 - \$51,800) that was paid to directors and management of the Company.
- c) Included in salaries and management fees were \$146,026 (2007 - \$433,017) that were paid to either a company that is owned by a director and officer of the Company or personally.

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

## **CRITICAL ACCOUNTING ESTIMATES**

PetroWorth has no critical accounting estimates other than the following:

1. Carrying value of deferred natural gas exploration expenditures, determination of reserves, depletion expenses, impairment test calculation and the estimated value of stock-based compensation.
2. Revenue from natural gas production, royalty and production expenses were estimated for the quarter based on that of Q1 2008 as the Company did not received production data in time for reporting.

### **Reserves**

All Petroworth's reserves are evaluated and reported by independent petroleum consultants in accordance with National Instrument 51-101. Sproule Associates Limited ("Sproule") evaluated and reported on PetroWorth's natural gas reserves in all seven farm-in wells in Alberta.

Reserve estimates have a material impact on depletion expenses and impairment test calculation, all of which could have a material impact on net earnings and deferred natural gas exploration expenditures.

### **Depletion**

Deferred natural gas exploration expenditures are depleted based on the proportion of estimated proved natural gas reserves produced during the year compared to total proved natural gas reserves produced during the year compared to total proved reserves. Changes in proved reserve estimates could materially impact depletion expense.

### **Impairment**

Impairment assessments are based on fair value assessments. Impairment exists if the undiscounted future net cash flows from proved reserves at future commodity prices plus the cost of unproved properties are less than the carrying value. If an impairment is identified a write-down to fair value is required. The fair value is calculated based on future net cash flows from proved plus probable reserves, discounted at a risk-free interest rate using future commodity prices, plus the cost of unproved properties. There is a significant uncertainty regarding future commodity prices and reserves. Impairment could result in a material loss for a particular period, however future depletion expense would also be reduced.

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

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ["CICA"] Handbook Sections 1535 Capital Disclosures, Section 3862 Financial Instruments Disclosures and Section 3863 Financial Instruments - Presentation. Sections 3862 and 3863 replace Section 3861 Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. The principal changes in the Company's financial statements due to the adoption of these accounting standards are described below.

### **a) Section 1535 Capital Disclosures**

This Section specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) summary quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied with such requirements, the consequences of such non-compliance.

### **b) Section 3862 Financial Instruments – Disclosures**

This Section places increased emphasis on disclosures that enable the user to evaluate: (i) the significance of financial instruments or the entity's financial position and performance and (ii) the nature and extent of risks arising from financial instruments the entity is exposed to during the period and at the balance sheet date, and how the entity manages those risks.

## **International Financial Reporting Standards**

Effective January 1, 2011, the accounting framework under which financial statements are prepared in Canada for all publicly accountable enterprises is scheduled to change to International Financial Reporting Standards ("IFRS"). Generally accepted accounting principles ("GAAP") in Canada will cease to apply and will be replaced by IFRS. The Accounting Standards Board plans to implement changes to Canadian generally accepted accounting principles between now and the implementation date to smooth the transition; however, it is expected that IFRS implementation will significantly impact current financial statement presentation and disclosure. An IFRS convergence strategy is planned for creation during fiscal 2008 with disclosure of a more detailed plan in 2009. Commencing in fiscal 2010, the Company will need to prepare accounts in accordance with Canadian GAAP and IFRS in order to have comparative financial statements on full implementation of IFRS in 2011. The impact of this transition on the Company's financial statements has not yet been determined.

## **OUTSTANDING SHARE DATA**

During the second quarter, PetroWorth issued a total of 6,653,375 shares for private placements, 50,000 shares for options exercised, 298,355 broker warrants for the brokered private placement and granted 370,000 options to directors, officers and consultants. The Company also returned 1,300,000 shares to treasury for cancellation as a result of the normal course issuer bid announced in February 2008.

As of June 30, 2008, PetroWorth had 4,134,074 stock options outstanding exercisable at prices ranging between \$0.50 and \$2.65 per share. The Company also has 1,548,355 warrants exercisable at prices ranging between \$1.00 and \$2.50.

As of June 30, 2008 and the date of this MD&A the Company had 43,667,181 common shares issued and outstanding and 49,349,610 shares on a fully-diluted basis.

## **CERTIFICATION – INTERNAL CONTROLS**

The Company has concluded that its disclosure controls and procedures for the period ended June 30, 2008 were adequate given the Company's small size. The President and Chief Financial Officer are responsible for certifying that they have designed, or caused to be designed under their supervision, internal controls to a standard which provides reasonable assurance on the reliability of financial reporting and the preparation of financial statements.

**Additional Information on the Company is available on the Company's website at [www.petroworth.com](http://www.petroworth.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).**

### **Forward Looking Statements**

*This discussion and analysis of the operating results and financial position of the Company may contain forward looking statements that involve a number of risks and uncertainties including statements regarding the outlook for the Company's business and operational results. By nature, these risks and uncertainties could cause actual results to differ materially from what has been indicated. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, the ability to commence and complete exploration programs on a timely and cost effective basis, the opportunity to acquire other exploration properties or valuable assets, competition for technical resources and equipment, capital and operating costs varying significantly from estimates, delays in or failure to obtain governmental, environmental or other project approvals and other factors including those risks and uncertainties identified above. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information as a result of new information, future results or other such factors which affect this information, except as required by law. The reader is cautioned not to place undue reliance on this forward-looking information.*