

# **SOFTROCK MINERALS LTD.**

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED

DECEMBER 31, 2010

(Dated APRIL 28, 2011)

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Management Discussion and Analysis  
For The Year ended December 31, 2010

Dated April 28, 2011

**The following discussion of the financial condition, changes in financial condition and results of operations of Softrock Minerals Ltd. (“Softrock” or the “Corporation”) for the year ended December 31, 2010 should be read in conjunction with the audited financial statements of the Corporation which have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied (unless noted otherwise).**

## **FORWARD-LOOKING INFORMATION**

This Management Discussion and Analysis contains “forward-looking information” relating to Softrock within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical fact included herein are forward-looking information. Generally forward-looking information may be identified by the use of forward-looking terminology such as “plans” “expects” or “does not expect”, “proposed”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “does not anticipate”, or “believes” or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events or results may, could, would or might occur or be achieved. This forward-looking information reflects Softrock’s current beliefs and it is based on information currently available to the Company and on assumptions the Company believes are reasonable.

Forward-looking information includes unknown risks and uncertainties and other factors that may cause the actual results, level of activity, performance or activities of the Company to be materially different from those expected or implied by such forward-looking information. Such risks and other factors may include but are not limited to: the development of Softrock; general business, economic, competitive, commodity prices, political and social uncertainties, lack of insurance; delay or failure to receive board or regulatory approvals; changes in legislation, including environmental legislation, affecting operations and exploration, timing and availability of external financing on acceptable terms, lack of qualified, skilled labour or loss of key individuals. Although Management has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. Accordingly readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information except in accordance with applicable securities laws.

## OVERVIEW

Softrock Minerals Ltd. is a public company incorporated under the Alberta Business Corporations Act with its shares traded on the TSX Venture Exchange.

Softrock Minerals Ltd. carries on the business of oil and gas exploration and development in Western Canada and Quebec. It is in initial stages of acquiring mineral claims in Alberta for the exploration and development of potash and lithium.

The general economic climate for small explorers such as Softrock is steadily improving. Although oil and gas prices have fallen from their astronomical highs of a couple of years ago, they appear to have recovered to a level where the industry can be quite profitable. In addition the slow down has reduced drilling and exploration costs. There are some signs that this optimistic scenario is starting to be reflected in the capital markets upon which Softrock depends for expansion.

In late 2008 the company expanded into the oil and gas sector of Eastern Canada by taking a 5,575 hectare (13,776 ac) Quebec oil and gas exploration license in the Sept Iles area of the St Lawrence River valley. Data collection is continuing and we have contacted some of the neighbours to see whether a unitized effort could be put together. Preliminary studies around our 100% owned oil and gas Permit indicate the area adjacent to our licence, which is under the river and non-permitted at present, is attractive so we began talks with the government on how to utilize slant drilling under the river from our licence. Negotiations did not bear fruit so the permit was dropped.

The Company, has once again, entered into mining exploration by having been granted three Alberta Government Metallic and Industrial Minerals Permits totalling 26,880 hectares (66,240 ac) in Northern Alberta for potash and lithium exploration. Initial sub surface geological studies of our 100% owned non-metallic permits indicate some basement anomalies that may be the requirement for lithium enhanced brines to occur. Analyses of the brines recovered in the many oil and gas exploration wells drilled and abandoned in the areas continues.

The three wells in the Grand Forks area of Southern Alberta in which the Company has a 3% gross overriding royalty produced a net \$28,847.05 during the year.

Beyond the scope of this MD&A, in early 2010, the company was successful in raising through private placement a net of \$129,000 by selling 2,380,000 shares at 5 cents and 125,000 flow through-shares at 8 cents plus issuing 2,616,500 warrants up to December 17, 2011 to buy another share of Softrock for 10 cents.

Softrock continues to pursue the acquisition of oil and gas exploration and development concessions in Canada, Africa, Asia and South America.

## **RESULTS OF OPERATIONS**

### **Minhik (West Central Alberta)**

Softrock has a 20% working interest in PFM Minhik 7-35-44-4W5 acquired through paying 20% of the drilling and completion costs from surface to the base of the Cretaceous (Manville). The interest in the 640 ac Crown lease is subject to its proportionate share of a 13% GORR. Also acquired in the same farm-in is the same interest in a suspended Edmonton formation gas well (coal bed methane - Horseshoe Canyon formation) which has been completed at 64 MCF per day in LSD 11 of the same section.

Production casing was set on the 7-35 and perforation and swab tests indicate it is an Ostracod B (Lower Manville) oil well in the 30 BOPD range. Logs also indicate more oil pay in the Ostracod A and a number of gas zones in the Glauconitic, Colorado and Belly River, as well as horizontal drilling oil/gas possibilities in the Viking and Cardium zones. We are negotiating with the operator who has the other 80%, as to future drilling and development.

### **Manitou Lake (West Central Saskatchewan)**

The Company has a thirty percent interest in two wells in western Saskatchewan that have been drilled, completed with approximately three meters of oil pay in the Cretaceous Sparky zone in each well. The wells are currently suspended. The two wells are in Lsd 9, Sec. 31, Twp 44, Rge 27 W3M and Lsd 4, Sec 5, Twp 45, Rge 27 W3M, one-half mile away, both off-setting Sparky heavy oil production.

The company has negotiated a farmout of their interest in 9-31 whereby a group is spending Softrock's 30 % share of new pumps and equipment to receive a 15 % interest in the well (one – half of Softrock's share). The farmout appears to have been successful as the well is now pumping 150 BOPD (22.5 BOPD Softrock's 15% share) plus approximately 2,400 barrels of salt water which is disposed in some injection wells nearby. The well suddenly returned to 100% water giving reason to believe that one of the water injection wells nearby had broken through to ours. Test will be tried in the future to see whether this is indeed true and if anything can be done to remedy it.

## **SUMMARY OF QUARTERLY FINANCIAL RESULTS**

The following table sets forth, for each quarter ended on the date indicated, information relating to the Company's revenue, net loss and loss per common share as prepared under Canadian generally accepted accounting principles. As can be seen, results are stable giving your directors time and stability to examine the number of opportunities that are coming to the fore.

	Revenue	Net Income (loss)	Loss/Share
March 31, 2009	6,440	(2,593)	0.00
June 30, 2009	10,378	(3,592)	0.00
September 30, 2009	11,424	(7,384)	0.00
December 31, 2009 (audited)	7,899	(48,512)	0.00
March 31, 2010	8,497	(3,629)	0.00
June 30, 2010	7,930	(5,698)	0.00
September 30, 2010	7,651	(4,544)	0.00
December 31, 2010 (audited)	4,769	(93,498)	0.00

For further financial information, please refer to the Company's audited financial statements that have been filed on SEDAR and our website [www.softrockminerals.com](http://www.softrockminerals.com).

## **LIQUIDITY**

The Company has incurred recurring operating losses and had working capital of \$13,263 as at December 31, 2010. The Company's ability to continue as a going concern and to recover the recorded costs for property and equipment is dependent upon the ability to raise sufficient capital either through debt or equity issues, through the sale of marketable securities, to achieve profitable operations or to find a joint venture partner. The outcome of these matters cannot be predicted at this time.

The timing and ability to fulfill these objectives will depend on the liquidity of the financial markets as well as the acceptance of investors to finance resource based junior companies, in addition to the results of the Company's development and exploration programs and the acquisition of additional projects.

## **CAPITAL RESOURCES**

The Company estimates that it requires approximately \$10,000 per quarter for administration.

## **OFF-BALANCE SHEET ARRANGEMENTS**

As of the date of this filing, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

## **RISKS AND UNCERTAINTIES**

The success of the Company is dependent, among other things, on obtaining sufficient funding to enable the Company to explore and develop its properties. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its projects with the possible loss of such properties. The Company will require new capital to continue to operate its business and to continue with exploration on its petroleum and mineral properties. There is no assurance that capital will be available when needed, if at all. It is expected that such additional capital would be raised through the issuance of additional equity that will result in dilution to the Company's shareholders.

Oil and gas exploration involves a high degree of risk which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that commercial quantities of oil and natural gas will be discovered by the Company. Hazards such as fire, explosions, blowouts, cratering and spills could result in considerable damage to property, people and/or the environment. Although the Company will maintain liability insurance which it considers adequate, the nature of the risks is such that incurred costs could have a materially adverse effect upon the Company's financial condition.

The operations of the Company may require licenses and permits from various local, provincial and federal governmental authorities, as the case may be. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, and development operations at its projects.

Even if the Company's exploration programs are successful, factors beyond the control of the Company may affect the marketability of any products discovered. The prices of oil and gas have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors cannot accurately be predicted.

The oil and gas industries are intensely competitive. The Company competes with many companies possessing greater financial and technical resources than itself for the acquisition, development and exploration of oil and gas properties and mineral interests as well as for the recruitment and retention of qualified employees, contractors and consultants.

The Company's operations are subject to environmental regulations promulgated by local, provincial and federal government agencies from time to time. Environmental legislation provides for restrictions and prohibitions of spills, releases or emissions of various substances produced in association with certain oil and gas industry operations, such as seepage from tailing disposal areas, or sulphur and non-potable water emissions which could result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require submissions to and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards and enforcement, and fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. The Company intends to fully comply with all environmental regulations.

Certain directors of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

The Company does not have a long track record or production or operating history upon which investors may rely. Consequently, investors will have to rely on the expertise of the Company's management. The Company's history of earnings and return on investment is erratic, and there is no assurance that it will produce revenue, operate profitably or provide a return on investment in the future.

### **ON GOING TRANSACTIONS**

The company intends on proceeding with initial geological and geophysical studies on its Alberta Potash Permits at an estimated cost of about \$50,000.

### **ENVIRONMENTAL REGULATIONS**

The Company's activities are subject to various government laws and regulations relating to the protection of the environment. These environmental regulations are continually changing in Canada and generally are becoming more restrictive. The Company believes its operations comply in all material respects with all applicable laws and regulations.

## **CHANGES IN ACCOUNTING POLICIES**

There was no change in the Company's accounting policies during the year.

### **Future Accounting Standards Not Yet Adopted**

#### **Business combinations**

In January 2009, the CICA issued Section 1582, "Business Combinations". This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Company. Early adoption is permitted. This section replaces Section 1581, "Business Combinations" and harmonizes the Canadian standards with IFRS.

#### **Consolidated financial statements and non-controlling interests**

In January 2009, the AcSB issued Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests", which together replace Section 1600, "Consolidated Financial Statements", and harmonize the Canadian standards with IFRS. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective for the first reporting period beginning on or after January 1, 2011. Early adoption is permitted.

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

The CICA Accounting Standards Board ("AcSB") has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. Companies will be required to provide IFRS comparative information for the previous fiscal year.

The Company has commenced its IFRS conversion project in 2009. The Company's IFRS project consists of three phases – scoping, evaluation and design, and implementation and review. The Company has commenced the scoping phase of the project, which consists of project initiation and awareness, identification of high-level differences between Canadian GAAP and IFRS and project planning and resourcing. The Company has completed a high level scoping exercise and has prepared a preliminary comparison of financial statement areas that will be impacted by the conversion.

A detailed assessment of the impact of adopting IFRS on the Company's financial statements, accounting policies, information technology and data systems, internal controls over financial reporting, disclosure controls and procedures, and the various covenants and capital requirements and business activities has not been completed. The impact on such elements will depend on the particular circumstances prevailing at the adoption date and the IFRS accounting



policy choices made by the Company. The Company has not completed its quantification of the effects of adopting IFRS. The financial performance and financial position as disclosed in our Canadian GAAP financial statements may not be significantly different when presented in accordance with IFRS.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities. Unless otherwise noted the fair value of these financial instruments approximates their carrying values.

Cash and cash equivalents and marketable securities are classified as financial assets held for trading and accounted for at fair value. Any changes in the fair value at the end of the fiscal period are classified as unrealized gains or losses on the income statement.

Accounts receivable, accounts payable and accrued liabilities are classified as loans and receivables and other financial liabilities and are measured at amortized cost, using the effective interest rate method.

The classification of financial instruments occurred upon adoption of the standard, and is irrevocable.

Transaction costs associated with the Company's financial instruments are shown net of the related financial instrument and accreted using the effective interest rate method.

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk, market risk, liquidity risk and currency risk.

### **Credit risk**

The Company is exposed to credit risk by holding cash and cash equivalents. This risk is minimized by holding the funds in large Canadian financial institutions or with Canadian governments. A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. The balance of accounts receivable is represented by refundable credits due from Canadian government. The carrying value of accounts receivable reflects management's assessment of the credit risk associated with these customers.

### **Interest rate risk**

The Company is not exposed to interest rate risk because of fluctuating interest rates. Fluctuations in market rates do not have a significant impact on the Company's operations as the Company does not maintain any cash equivalents or debt subject to interest.

## Market risk

The Company is exposed to market risk because of the fluctuating values of its publicly traded marketable securities. The Company has no control over these fluctuations and does not hedge its investments. Based on the December 31, 2009 portfolio values every 10% increase or decrease in the share price of the company held in marketable securities, would have impacted operations, up or down, by approximately \$6,000 before taxes.

## Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources.

## Currency risk

The Company is not exposed to any currency risk.

## RELATED PARTY TRANSACTIONS

During the year, the Company entered into the following transactions with related parties not otherwise disclosed in these financial statements:

- (a) The Company paid to its directors and officers, either directly, or indirectly, the following amounts:

	<b>2010</b>	2009
<b>For accounting services</b>	<b>\$ 5,488</b>	\$ 8,520

The above transactions were in the normal course of operations and were recorded at the exchange value which was the amount of consideration established and agreed to by the related parties.

- (b) At the end of the year, the amounts due to related parties included in accounts payable and accrued liabilities were as follows:

	<b>2010</b>	2009
<b>Due to a company controlled by a director</b>	<b>1,500</b>	2,500

The amounts due to directors of the Company are unsecured and without interest. The amounts will be paid in the normal course of operations.

## OTHER MD&A REQUIREMENTS

Additional information relating to the Company, including its audited annual financial statements, its unaudited quarterly financial statements and related management's discussion and analysis for each period is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## COMMON STOCK, STOCK OPTIONS AND WARRANTS

As of the date of this filing, the Company has 20,934,446 common shares issued and outstanding, 1,800,000 Options issued and exercisable and 2,616,500 Warrants issued and exercisable:

### Authorized

Unlimited number of:  
Common shares without nominal or par value  
First and second preferred shares issuable in series

### Common shares

Balance at beginning of year	20,934,446	\$2,536,734
Balance end of period	20,934,446	\$2,536,234

### Stock options

Under the Company's stock option plan, the Company may grant options to employees, officers and directors up to 10% of its issued and outstanding common stock. In addition, the aggregate number of shares so reserved for issuance to any one person shall not exceed 5% of the issued and outstanding shares. Under the plan, options are exercisable upon issuance and an option's maximum term is five years.

Stock options outstanding and exercisable at December 31, 2010: 1,800,000 with a weighted average contractual life of 3.42 years.

### Warrants

A summary of the status of the common share purchase warrants as of December 31, 2010, and changes during the year is presented as follows:

Date	Number of warrants	Exercise price \$	Expiry date
December 17, 2009	2,380,000	0.10	December 17, 2011
Broker Warrants Dec. 17, 2009	<u>236,500</u>	0.05	December 17, 2011
Exercisable, end of year	2,616,500		

## **RISK MANAGEMENT AND CAPITAL MANAGEMENT**

The Company's risk management is coordinated by the officers of the Company, in close cooperation with the members of the board of directors. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company's overall strategy remains unchanged from 2009.

The Company manages its liquidity needs by carefully monitoring cash outflows due on day-to-day business. Liquidity needs are monitored in various time bands, including 30-day projections and 180-day and 360-day lookout periods. Due to the nature of the activities of the Company, funding for long term liquidity needs are dependent on the company's ability to obtain additional financing through various means, including equity financing.

The Company's capital management objectives are to ensure it maintains its ability to continue as a going concern and provide an adequate return to its shareholders. The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, contributed surplus and deficit.

The Company is not subject to any externally imposed capital requirements.

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Company evaluated the effectiveness and design of its disclosure controls and procedures for the year ended December 31, 2010, and based on this evaluation, Management and the Audit Committee members have determined these controls to be effective. The Company's financial reporting procedures and practices have enabled the certification of the Company's interim filings in compliance with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings".

Management and directors are aware that given the few number of consultants involved in the design of internal controls over financial reporting that in-house expertise to deal with complex taxation, accounting and reporting issues may not always be sufficient. The Company strives to obtain outside assistance and advice on new accounting pronouncements and complex reporting issues, which is common with Company's of a similar size.

There have been no changes to the Company's internal control over financial reporting during the most recent period that would have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Respectfully Submitted

*Nick Taylor*

The Honourable Nick Taylor,  
President and Chief Executive Officer