



# Quarterly Report

*For the 3 Months Ended September 30, 2010 and 2009*

## President's Message

Dear Shareholders:

I am pleased to report the financial and operating results of Manitok Energy Inc ("Manitok" or the "Corporation") for the three months ended September 30, 2010 and to provide an update on our activities to date.

## Quarterly Highlights:

- Average production of 160 boe/d, compared to average production of 219 boe/d in the comparable three month period a year ago; approximately 37 boe/d of the decrease was due to downtime and a successful asset sale in the quarter. Given that there was no drilling over the last year, our production has held up with a relatively low decline rate.
- On July 8, 2010, Manitok Exploration Inc. ("MEX") amalgamated with Desco Resources Inc., a reporting issuer, pursuant to the Alberta Business Corporations Act to form a new company under the name Manitok Energy Inc. (the "Amalgamation").
- On July 8, 2010, immediately prior to the Amalgamation, MEX completed a private placement of 4,311,700 MEX Shares (equivalent to 3,233,775 Manitok Shares issued at a price of \$1.15 per MEX Share (equivalent to \$1.53 per Manitok Share) and 3,846,000 MEX Shares on a "flow-through" basis under the *Income Tax Act (Canada)* ("MEX Flow-through Shares") (equivalent to 2,884,500 Manitok Shares issued on a "flow-through" basis under the *Income Tax Act (Canada)* ("Manitok Flow-through Shares") issued at a price of \$1.30 per MEX Flow-through Share (equivalent to \$1.73 per Manitok Flow-through Share) for total net proceeds of \$9,064,582. Proceeds of the private placement were used to repay the outstanding bank debt and to fund the Corporation's drilling program in late 2010 and 2011.
- On August 4, 2010, Manitok completed a disposition of an oil & gas asset in the Garrington area of Alberta for approximately \$1,800,000; the property had production of approximately 11 boe/d.
- Manitok acquired 24,150 net acres, 100% working interest, of undeveloped land in both the Southern Alberta foothills and Swimming area of Alberta, through crown land sales.

## Production

A portion of the 27% decrease in average production in the current quarter as compared to the comparable three month period a year ago was due to normal production declines and the fact that the Corporation did not drill a single well over the last 12 months as a result of management's decision to focus capital on acquiring land and on going public. This quarter's production included an unusual amount of downtime in two areas and reflects the sale of assets in a third area. A plant turnaround and compressor startup issue in August and September in the Hairy Hill area resulted in a decrease of approximately 20 boe/d over the quarter. In Coleman, a plant turnaround that began in June and carried into July along with our production being shut-in for the majority of September, due to circumstances at the gas plant which were out of the Corporation's control, accounted for a drop in approximately 10 boe/d over the quarter. The disposition of a property in the Garrington area on August 4, 2010, represented approximately 7 boe/d over the quarter.

## Capital Expenditures

During the September 30, 2010 quarter, capital expenditures before dispositions amounted to \$3,476,710. The majority of the expenditures related to drilling five successful heavy oil wells and the acquisition of undeveloped land at Alberta crown land sales. Manitok's undeveloped land position in Alberta, at September 30, 2010 was comprised of 77,430 (74,870 net) acres, as compared to 53,280 (50,720 net) acres at June 30, 2010; an increase of 48% on a net basis. These expenditures were offset by the disposition of the Garrington property for approximately \$1,800,000 on August 4, 2010.

**Recent Developments and Outlook:**

Manitok drilled five successful heavy oil wells (100% working interest) in the Swimming area of Alberta. All of which were cased with multi-zone heavy oil potential in up to four zones. All five heavy oil wells were brought on production in November. While still very early in the production phase of these wells, management believes that the five wells will meet or exceed its target of 150 bbls/d in the coming months. With two new zones with production potential and additional lands to exploit in the area, we are very excited about the future growth of our heavy oil production.

Now that the Amalgamation is completed, and Manitok is a public entity, Manitok will be in a position to capitalize on the many drilling opportunities on its land base with the increased access to capital. The management team is very excited about the future prospects of the Corporation.

On behalf of our management team and directors I would like to thank all of our stakeholders for their continued support and our staff for their hard work and dedication. Should you have any questions please contact me directly at (403)984-1751 or by email at [mass@manitok.com](mailto:mass@manitok.com).

Sincerely,

**(signed) "Massimo M. Geremia"**

**Massimo M. Geremia**  
President and Chief Executive Officer  
November 24, 2010

## OPERATIONAL AND FINANCIAL HIGHLIGHTS

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
<b>OPERATING</b>		
Average daily production		
Natural gas (mcf/d)	533.5	824.0
Heavy oil (bbls/d)	67.1	72.5
Light oil (bbls/d)	0.3	1.7
NGLs (bbls/d)	3.2	7.3
Total (boe/d)	<b>159.5</b>	<b>218.8</b>
Average realized sales price (CAD\$)		
Natural gas (\$/mcf)	3.75	2.86
Heavy oil (\$/bbl)	56.75	58.07
Light oil (\$/bbl)	70.09	68.99
NGLs (\$/bbl)	26.83	23.52
Total (\$/boe)	<b>37.06</b>	<b>31.31</b>
Undeveloped Land (end of period)		
Gross (acres)	77,430	15,360
Net (acres)	74,870	10,602
<b>NETBACK</b>		
(\$ per boe)		
Petroleum and natural gas revenue	37.06	31.31
Royalties	(4.48)	(4.13)
Operating expense	(22.22)	(11.32)
Transportation and marketing expense	(1.93)	(1.86)
Operating netback	<b>8.43</b>	<b>14.00</b>
General and administrative expense	(35.24)	(15.85)
Interest expense	(0.05)	(0.26)
Interest and other income	1.01	0.01
Current income taxes expense	-	-
Cash flow netback	<b>(25.85)</b>	<b>(2.10)</b>
Depletion and depreciation expense	(27.01)	(27.24)
Accretion expense	(0.81)	(0.98)
Stock-based compensation expense	(6.03)	(0.75)
Future income taxes recovery (expense)	17.46	7.89
Net earnings (loss) netback	<b>(42.24)</b>	<b>(23.18)</b>
<b>FINANCIAL</b>		
Petroleum and natural gas revenue (\$)	543,805	630,219
Cash flow from operations (\$) <sup>(1)</sup>	<b>(379,336)</b>	<b>(42,505)</b>
Per share – basic and diluted (\$) <sup>(2)</sup>	(0.02)	(0.01)
Per share – basic and diluted (\$) <sup>(3)</sup>	(0.02)	(0.01)
Net earnings (loss) (\$)	<b>(619,843)</b>	<b>(466,962)</b>
Per share – basic and diluted (\$) <sup>(2)</sup>	(0.04)	(0.06)
Per share – basic and diluted (\$) <sup>(3)</sup>	(0.04)	(0.08)
Common shares outstanding <sup>(2)</sup>		
End of period – basic	16,730,460	8,176,826
End of period – diluted	18,318,960	9,146,826
Weighted average for the period – basic	16,267,784	8,176,826
Weighted average for the period – diluted	16,314,887	8,201,978
Common shares outstanding <sup>(3)</sup>		
End of period – basic	16,730,460	6,132,620
End of period – diluted	18,318,960	6,860,120
Weighted average for the period – basic	16,267,784	6,132,620
Weighted average for the period – diluted	16,314,887	6,151,484
Capital expenditures, net (\$)	1,673,908	120,323
Working capital deficiency (surplus) (\$)	(6,659,296)	(381,667)
Revolving credit facility (\$)	-	989,408
Total net debt (\$)	-	607,741

(1) Cash flow denoted with “( )”, is negative cash flow throughout this report.

(2) All per share and share balances prior to the September 30, 2010 period have not been adjusted to reflect the 75% conversion factor of shares, pursuant to the Amalgamation on July 8, 2010.

(3) All per share and share balances prior to the September 30, 2010 period have been adjusted to reflect the 75% conversion factor of shares, pursuant to the Amalgamation on July 8, 2010.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") in respect of the three month period ended September 30, 2010 (the "Reporting Period") as compared to the three month period ended September 30, 2009 (the "Comparable Prior Period") is dated November 24, 2010.

Manitok Energy Inc. ("Manitok" or the "Corporation") is a junior oil and gas exploration, development and production company based in Calgary, Alberta. The Corporation was formed as a result of an amalgamation between Manitok Exploration Inc. ("MEX") and Desco Resources Inc. ("Desco") pursuant to the Alberta Business Corporations Act on July 8, 2010 (the "Amalgamation") and is listed on the TSX Venture Exchange under the symbol "MEI" and began trading on July 29, 2010. Additional information relating to the Corporation is available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

The following MD&A has been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the unaudited financial statements and related notes of the Corporation for the Reporting Period and the audited financial statements and related notes of MEX as at and for the years ended June 30, 2010 and 2009. All financial information (other than non-GAAP measures relating to terms used in the petroleum and natural gas industry) has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and all dollar amounts are expressed in Canadian dollars unless otherwise stated.

### NON-GAAP MEASURES

*This MD&A makes references to terms commonly used in the petroleum and natural gas industry, such as cash flow, cash flow from operations, cash flow netback, cash flow per share, operating netback and net earnings (loss) netback.*

*Cash flow or cash flow from operations appears as a separate line on the Corporation's Statements of Cash Flows above "changes in non-cash working capital" and is reconciled to net earnings (loss) and comprehensive earnings (loss). In the Corporation's disclosure, operating netback denotes petroleum and natural gas revenue less royalties, operating expenses and transportation and marketing expenses. Cash flow netback as used herein denotes net earnings plus non-cash items including future income taxes expense (less any recovery), depletion, depreciation and accretion expense, and non-cash stock-based compensation expense.*

*These terms are not defined by GAAP and consequently, they are referred to as non-GAAP measures. The reader should be cautioned that these measures may not be directly comparable to measures by other companies where similar terminology is used.*

### BOE CONVERSIONS

*The oil and natural gas industry commonly expresses production volumes and reserves on a barrel of oil equivalent ("boe") basis whereby natural gas volumes are converted at the ratio of six thousand cubic feet to one barrel of oil. The intention is to sum oil and natural gas measurement units into one basis for improved measurement of results and comparisons with other industry participants. Manitok uses the 6:1 boe measure which is the approximate energy equivalency of the two commodities at the burner tip. However, boe's do not represent an economic value equivalency at the wellhead and therefore may be a misleading measure if used in isolation.*

## **FORWARD LOOKING STATEMENTS**

*This MD&A contains certain forward-looking statements and forward-looking information (hereinafter collectively referred to as “forward-looking statements”) within the meaning of applicable Canadian securities laws. These statements relate to future events or future performance and are based upon the Corporation’s current internal expectations, estimates, projections, assumptions and beliefs. All statements other than statements of historical fact are forward-looking statements. In some cases, words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “estimate”, “may”, “will”, “would”, “potential”, “proposed” and other similar words, or statements that certain events or conditions “may” or “will” occur, are intended to identify forward-looking statements.*

*Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions and known and unknown risks and uncertainties that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Corporation believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The Corporation cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by the Corporation that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements. Such forward-looking statements in this MD&A speak only as of the date of this MD&A.*

*In particular, this MD&A contains forward-looking statements pertaining to the following: (i) cash flow and capital expenditures, (ii) drilling, completion and production matters, (iii) results of operations, (iv) financial position, and (v) other risks and uncertainties described from time to time in the Corporation reports. With respect to such forward-looking statements the key assumptions on which the Corporation relies are; that future prices for crude oil and natural gas, future currency exchange rates, interest rates and future availability of debt and equity financing will be at levels and costs that allow the Corporation to manage, operate and finance its business and develop its properties and meet its future obligations; that the regulatory framework in respect of royalties, taxes and environmental matters applicable to the Corporation will not become so onerous as to preclude the Corporation from viably managing, operating and financing its business and the development of its properties; and that the Corporation will continue to be able to identify, attract and employ qualified staff and obtain the outside expertise and other equipment it requires to manage, operate and finance its business and develop its properties.*

*All such forward-looking statements necessarily involve risks associated with oil and gas exploration, production and marketing which may cause actual results to differ materially from those anticipated in the forward-looking statements. Some of those risks include; general economic conditions in Canada, the United States and globally; industry conditions, including fluctuations in the price of oil and natural gas; uncertainties in the estimates of reserves and in the projection of future rates of production and timing of development expenditures, changes in governmental regulation of the oil and gas industry; geological, technical, drilling and processing problems and other difficulties in producing reserves; unanticipated operating events which can damage facilities or reduce production or cause production to be shut in or delayed; failure to obtain regulatory approvals in a timely manner; adverse conditions in the debt and equity markets; and competition from others for scarce resources.*

*Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. The Corporation is not under any duty to update any of the forward-looking statements after the date of this MD&A to conform such information to actual results or to changes in the Corporation’s plans or expectations, except as otherwise required by applicable securities laws.*

## **ABBREVIATIONS**

### **Crude Oil and Natural Gas Liquids**

bbls	barrels
mbbls	thousands of barrels
bbls/d	barrels per day
NGLs	natural gas liquids

### **Natural Gas**

mcf	thousand cubic feet
mmcf	million cubic feet
mmbtu	million British thermal units
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day

### **Other**

boe	barrels of oil equivalent converting 6 mcf of natural gas to 1 barrel of oil
mboe	thousands of barrels of oil equivalent
boe/d	barrels of oil equivalent per day

## OVERALL PERFORMANCE

### Production

Production for the three month Reporting Period averaged 159.5 boe/d which is a 27% decrease from the average of 218.8 boe/d in the Comparable Prior Period. A portion of the decrease in production is due to normal production declines in the natural gas assets and the fact that the Corporation did not drill a single well over the last 12 months as a result of management's decision to focus capital on acquiring land and on going public. Also the Reporting Period included an unusual amount of downtime in two areas and reflects the sale of assets in a third area. A plant turnaround and compressor startup issue in August and September in the Hairy Hill area resulted in a decrease of approximately 20 boe/d over the quarter. In Coleman, a plant turnaround that began in June and carried into July along with production being shut-in for the majority of September, due to circumstances at the gas plant which were out of the Corporation's control, accounted for a drop of approximately 10 boe/d over the quarter. The disposition of a property on August 4, 2010 in the Garrington area represented approximately 7 boe/d over the quarter.

For the three month period September 30, 2010, the Corporation's production consisted of approximately 56% natural gas and 44% crude oil and natural gas liquids.

### Commodity Prices

Average realized heavy oil prices in the Reporting Period were \$56.75 per barrel which is a 2% decrease from \$58.07 per barrel the Corporation averaged in the Comparable Prior Period. Average realized natural gas prices in the Reporting Period were \$3.75 per mcf which is a 31% increase from \$2.86 per mcf the Corporation averaged for the Comparable Prior Period. The prices received for Manito's petroleum and natural gas sales are impacted by world events that dictate the level of supply and demand for crude oil and natural gas. Manito currently does not have any commodity hedges in place and therefore is subject to fluctuations in commodity prices.

Canadian Lloydminster Hardisty oil prices averaged \$58.41 per barrel in the Reporting Period as compared to \$59.70 per barrel in the June 30, 2010 three month period and \$60.90 per barrel in the Comparable Prior Period. The AECO daily natural gas spot price averaged \$3.55 per mmbtu in the Reporting Period as compared to \$3.90 per mmbtu in the June 30, 2010 three month period and \$2.98 per mmbtu in the Comparable Prior Period.

### Cash Flow and Earnings<sup>1</sup>

Cash flow from operations decreased to (\$379,336) (\$0.02 per share) for the Reporting Period as compared to (\$42,505) (\$0.01 per share) for the Comparable Prior Period. The decrease in cash flow for the Reporting Period was due mainly to a 27% decrease in production volumes, a 43% increase in operating expenses from higher costs of services and a gas plant turnaround in the Coleman area of Alberta, and a 62% increase in general and administrative costs from increased personnel levels in anticipation of the Corporation's future activity and becoming a reporting issuer pursuant to the Amalgamation, offset somewhat by a 31% increase in average realized natural gas prices as compared to the Comparable Prior Period.

Manito had a net loss of \$619,843 (\$0.04 per share) for the Reporting Period as compared to a net loss of \$466,962 (\$0.06 per share) for the Comparable Prior Period. The increase in net loss for the Reporting Period was mainly attributable to lower cash flow and increased stock-based compensation expense offset by lower depletion and depreciation expense and higher future income tax recoveries recorded in the Reporting Period.

### Capital Expenditures

Capital expenditures before dispositions amounted to \$3,476,710 during the Reporting Period as compared to \$160,323 during the Comparable Prior Period. The increase in capital expenditures for the Reporting Period as compared to the Comparable Prior Period was due mainly to the commencement of a heavy oil

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<sup>1</sup> Cash flow denoted with a "( )", is negative cash flow throughout this MD&A

drilling program of five wells and approximately \$1,600,000 in undeveloped land acquisitions that management believes is at a time of relatively weak land values in the Corporation's core areas. The limited capital expenditures in the Comparable Prior Period were a direct result of the Corporation's response to low commodity prices in the latter part of 2008 and 2009. On August 4, 2010, the Corporation completed the sale of a minor property in the Garrington area of Alberta for approximately \$1,800,000 which partially offset the Corporation's capital program.

#### **MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS**

- On July 8, 2010, immediately prior to the Amalgamation, MEX completed a private placement of 4,311,700 Class "A" common shares of MEX ("**MEX Shares**") (equivalent to 3,233,775 common shares of Manitek ("**Manitek Shares**") issued at a price of \$1.15 per MEX Share (equivalent to \$1.53 per Manitek Share) and 3,846,000 MEX Shares on a "flow-through" basis under the *Income Tax Act (Canada)* ("**MEX Flow-through Shares**") (equivalent to 2,884,500 Manitek Shares issued on a "flow-through" basis under the *Income Tax Act (Canada)* ("**Manitek Flow-through Shares**") issued at a price of \$1.30 per MEX Flow-through Share (equivalent to \$1.73 per Manitek Flow-through Share) for total net proceeds of \$9,064,582. Proceeds of the private placement were used to repay the outstanding bank debt and will be used to fund the Corporation's drilling program in late 2010 and early 2011.
- On July 8, 2010, MEX amalgamated with Desco, a reporting issuer, pursuant to the Alberta Business Corporations Act to form a new company under the name Manitek Energy Inc. Pursuant to the Amalgamation, each Desco shareholder received 0.375 of a Manitek Share for every one Desco common share and each MEX shareholder received 0.75 of a Manitek Share for every one MEX Share.
- On July 8, 2010, 702,500 of MEX stock options and 267,500 of MEX performance warrants were terminated and cancelled for nominal consideration, pursuant to the terms of the Amalgamation.
- On August 4, 2010, the Corporation completed a disposition of a minor oil & gas asset in the Garrington area of Alberta for approximately \$1,800,000. The proceeds were used to partially fund the Corporation's capital program.
- On August 16, 2010 Manitek granted 1,588,500 stock options at a price of \$1.10 per share which vest over a three year period and expire on August 16, 2015.

#### **LIQUIDITY**

##### **Working Capital**

The Corporation's working capital surplus (current assets less current liabilities), which excludes any current portion of an amount drawn on the revolving credit facility, increased to \$6,659,296 at the end of the Reporting Period as compared to a \$202,985 working capital surplus at June 30, 2010. The increase in the working capital surplus at September 30, 2010 was due primarily to net cash proceeds of \$9,064,582 received from the equity issuances on July 8, 2010. Manitek has invested the excess cash in a short-term interest bearing account with its lender. The Corporation manages its working capital using its cash flow from operations, excess funds from its July 8, 2010 equity issuances and advances under its revolving credit facility. The Corporation did not have any liquidity issues with respect to the operation of its petroleum and natural gas business in the Reporting Period and the Comparable Prior Period.

##### **Bank Debt**

The Corporation's revolving credit facility was \$NIL as at September 30, 2010, with an aggregate limit of \$2,500,000 as compared to \$1,040,105 as at June 30, 2010. The outstanding bank debt was eliminated in the Reporting Period due to the net cash proceeds of 9,064,582 received from the equity issuances on July 8, 2010.

On October 20, 2010, the Corporation renewed the revolving credit facility with an authorized limit of \$2,500,000 with similar terms and conditions as the prior agreement. The Corporation's credit facilities are subject to the lender's redetermination of the borrowing base limit which is directly impacted by the value of the oil and natural gas reserves.

The Corporation is not permitted, without the prior written consent of the lender, to have a working capital ratio (current assets plus any undrawn portion of the facility divided by current liabilities excluding any current portion of an amount drawn on the credit facility) fall below 1:1. Manitok was compliant with the covenant under its revolving credit facility throughout the Reporting Period and the Comparable Prior Period.

### Contractual Obligations

The Corporation enters into contractual obligations in the course of conducting its day-to-day business. The following table identifies Manitok's estimated contractual obligations at September 30, 2010:

	< 1 Year	1-2 Years	3-5 Years	Thereafter
Accounts payable and accrued liabilities	2,621,520	-	-	-
Revolving credit facility	-	-	-	-
Office lease <sup>(1)</sup>	302,640	605,280	504,400	-
<b>Total estimated contractual obligations<sup>(2)</sup></b>	<b>2,924,160</b>	<b>605,280</b>	<b>504,400</b>	<b>-</b>

(1) The Corporation is committed under an operating lease relating to its office premises, beginning May 1, 2010 and expiring on June 30, 2015. Manitok does not presently utilize all of the leased premises and has sublet 5 offices to arms' length parties to recover a portion of the rental costs. The recovery of rental costs from the subleases is not reflected in the table.

(2) Contractual commitments that are routine in nature and form part of the normal course of operations for Manitok are not included in the above table.

### OUTSTANDING SHARE DATA

The MEX Shares were the only class of shares outstanding and immediately prior to the Amalgamation on July 8, 2010, there were 18,807,267 MEX Shares outstanding, stock options to purchase 702,500 MEX Shares and performance warrants to purchase 267,500 MEX Shares. Subsequent to the Amalgamation, the common shares of Manitok are the only class of shares outstanding and at November 24, 2010 there were 16,730,460 Manitok Shares outstanding and stock options to purchase 1,588,500 Manitok Shares. Manitok Shares began trading on the TSX Venture Exchange on July 29, 2010 under the symbol MEI. The following table summarizes the common shares issued and outstanding:

	Common Shares
<b>MEX balance at September 30, 2009</b>	<b>8,176,826</b>
Issue of MEX Shares on December 31, 2009 <sup>(1)</sup>	1,235,741
Issue of MEX Shares on February 12, 2010 <sup>(2)</sup>	1,237,000
Issue of MEX Shares on July 8, 2010 <sup>(3)</sup>	8,157,700
<b>MEX balance at July 8, 2010 (prior to the Amalgamation)</b>	<b>18,807,267</b>
Issue of Manitok Shares on the Amalgamation <sup>(4)</sup>	2,625,000
Conversion of MEX shareholders on the Amalgamation <sup>(5)</sup>	(4,701,807)
<b>Manitok balance at November 24, 2010</b>	<b>16,730,460</b>

(1) On December 31, 2009, MEX completed a private placement of 176,956 MEX Shares issued at a price of \$1.15 per MEX Share and 1,058,785 MEX Flow-through Shares issued at a price of \$1.30 per MEX Flow-through Share for total net proceeds of \$1,494,625. The proceeds of the equity issue were used primarily to pay the outstanding balance on the revolving credit facility.

(2) On February 12, 2010, MEX completed a private placement of 1,237,000 MEX Shares issued at a price of \$1.15 per MEX Share for total net proceeds of \$1,342,640. The proceeds of the equity issue were used primarily to acquire undeveloped land.

(3) On July 8, 2010, MEX completed a private placement of 4,311,700 MEX Shares issued at a price of \$1.15 per MEX Share and 3,846,000 MEX Flow-through Shares issued at a price of \$1.30 per MEX Flow-through Share for total net proceeds of \$9,064,582. Proceeds of the equity issue were used to pay the outstanding balance on the revolving credit facility and will be used to fund the Corporation's drilling program in late 2010 and early 2011.

(4) On the Amalgamation each Desco shareholder received 0.375 of a Manitok Share for every one Desco share held. As of the Amalgamation date, Desco had 7,000,000 common shares issued and outstanding.

(5) On the Amalgamation each MEX shareholder received 0.75 of a Manitok Share for every one MEX Share held. As of the Amalgamation date, MEX had 18,807,267 MEX Shares issued and outstanding.

## RESULTS OF OPERATIONS

### Petroleum and Natural Gas Revenue

The following table details Manitok's petroleum and natural gas revenue ("P&NG"), production and sales prices by category for the Reporting Period and the Comparable Prior Period:

	Three months ended September 30, 2010				Three months ended September 30, 2009			
	Total Revenue (\$)	Average Daily Production	Average %	Average (\$/unit)	Total Revenue (\$)	Average Daily Production	Average %	Average (\$/unit)
Natural gas (mcf)	183,938	533.5	56	3.75	216,467	824.0	63	2.86
Heavy oil (bbls)	350,089	67.1	42	56.75	387,422	72.5	33	58.07
Light oil (bbls)	1,808	0.3	-	70.09	10,507	1.7	1	68.99
Natural gas liquids (bbls)	7,970	3.2	2	26.83	15,823	7.3	3	23.52
<b>Total P&amp;NG revenue (boe)</b>	<b>543,805</b>	<b>159.5</b>	<b>100</b>	<b>37.06</b>	<b>630,219</b>	<b>218.8</b>	<b>100</b>	<b>31.31</b>

The 14% decrease in petroleum and natural gas revenue for the Reporting Period as compared to the Comparable Prior Period was primarily attributable to a 27% decrease in the average production volumes in the Reporting Period, offset by a 31% increase in the average realized natural gas price in the Reporting Period.

### Commodity Prices

Manitok's heavy oil pricing is based on Lloydminster Blend at Hardisty less a quality adjustment, blending costs, terminal charges and loss allowance. The Corporation sells virtually all of its natural gas production for prices based on the AECO daily spot price. The following table details the average reference price for the Reporting Period and the Comparable Prior Period:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Change
Heavy oil - 12° API at Hardisty (\$/bbl)	58.41	60.90	(4.1%)
AECO – natural gas (\$/mmbtu)	3.55	2.98	19.1%
Edmonton par (\$/bbl)	74.76	71.72	4.2%

The price the Corporation receives for its commodity production depends on a number of factors, including AECO Canadian dollar spot market prices for natural gas, Canadian dollar Lloydminster Hardisty oil prices, U.S. dollar oil prices, the U.S. and Canadian dollar exchange rate, and transportation and product quality differentials. Manitok currently has no financial derivatives such as commodity price risk management in place during the Reporting Period and the Comparable Prior Period, but it regularly considers the market to determine if any are required. The Corporation has no current intention to enter into any such contracts at the date hereof.

### Royalties

Royalties are paid to the Alberta Government and other land and mineral rights owners. The following table illustrates the Corporation's royalty expense for the Reporting Period and the Comparable Prior Period:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Change
Oil & natural gas royalties (\$)	65,760	83,236	(21.0%)
Oil & natural gas royalties (\$/boe)	4.48	4.13	8.5%
Royalties as a percentage of sales	12.1%	13.2%	(8.3%)

The overall effective royalty rate in the Reporting Period was 12.1% as compared to 13.2% in the Comparable Prior Period. The decrease in the effective royalty rate in the Reporting Period is largely due to the lower production volumes in the Reporting Period and the effect these lower volumes have on the sliding scale royalty calculation.

## New Royalty and Drilling Incentives

On July 9, 2009, the Government of Alberta approved an incentive royalty rate of 5% for the first year of production from each new conventional oil or natural gas well brought on production after April 1, 2009 and before March 31, 2011 up to a maximum of 50,000 barrels of oil or 500 million cubic feet of natural gas per well.

On September 15, 2009, the Government of Alberta approved a Drilling Royalty Credit (“**DRC**”) incentive for new conventional oil and natural gas wells spud on or after April 1, 2009 and rig released before April 1, 2011. The Corporation will be entitled to a DRC of \$200 per metre drilled, up to a maximum of 50% of the aggregate Crown royalties paid by the Corporation during the incentive period. The recovery of DRC’s is dependent on future commodity prices and the effect these prices have on the aggregate royalties paid by Manitox during the incentive period. Due to the low natural gas price environment, the Corporation may not be able to recover in full all the DRC’s earned from its capital drilling program during the incentive period.

On March 11, 2010, the Alberta Government announced certain changes to the existing royalty framework based on the recommendations from the Investment Competitiveness Review. As a result of the competitiveness review, the existing Alberta Royalty Framework (“**ARF**”) will be adjusted to better reflect current industry conditions. The adjusted ARF will be effective for the January 2011 production month. Some of the highlights include:

- The current 5% front-end royalty rate on natural gas and conventional oil will become a permanent feature of the royalty system with the current time and volume limits as described above;
- The \$200 per meter DRC program will continue to remain in place as legislated until March 31, 2011. Credits not used prior to January 1, 2011 and credits established by drilling on or after that date until March 31, 2011 will be offset from net royalties calculated using adjusted ARF rates;
- The maximum royalty rate for conventional and unconventional natural gas will be reduced at higher price levels from 50% to 36%. For conventional oil, the maximum royalty will be reduced from 50% to 40%;
- The transitional royalty framework for oil and natural gas introduced in November, 2008 will continue until December 31, 2013. Effective January 1, 2011, the government will not allow any new wells to elect the transitional royalty rates, but it will allow an operator of wells for which transitional royalty rates have already been elected an option to switch to the new rates effective January 1, 2011.

On May 27, 2010 the Alberta government finalized the new royalty curves for oil and natural gas wells. A number of new incentive programs were also introduced for unconventional resource exploration and the use of high-cost technologies. Some of the highlights include:

- Wells defined as a “horizontal gas well” will receive a lower upfront maximum royalty rate of 5% to account for the high cost of horizontal drilling. This horizontal gas new well royalty rate will apply for 18 producing months up to a maximum of 500 million cubic feet of gas equivalent production per well, and is retroactive for wells that were spud on or after May 1, 2010;
- Wells defined as a “horizontal oil well” will receive a lower upfront maximum royalty rate of 5% at the start of production to facilitate the recovery of investment costs prior to imposing a higher royalty rate. This horizontal oil new well royalty rate will apply to all products, with varying volume and production month limits set according to the depth of the well, and is retroactive for wells that were spud on or after May 1, 2010; and
- The Natural Gas Deep Drilling Program (“**NGDDP**”) will become an ongoing feature of Alberta’s royalty regime. Vertical depth requirements under this program were adjusted from 2,500 meters to 2,000 meters and will be applied retroactively for wells that were spud on or after May 1, 2010. Wells that have producing intervals that exceed 2,000 meters of true vertical depth are eligible for a royalty credit adjustment. The royalty credit ranges from \$625 per metre to \$3,750 per meter drilled and depends on the type of well drilled and the depth ranges specified under the program.

The royalty incentive programs will create a lower cost structure for Manitek. Projects will have better economics under the new royalty framework as compared to the prior framework. The Corporation expects to benefit from the DRC incentive program in the quarter ended December 31, 2010, with respect to its heavy oil drilling program which commenced in the Reporting Period.

### Operating Expense

The following table compares operating expenses for the Reporting Period and the Comparable Prior Period:

	<b>Three months ended September 30, 2010</b>	Three months ended September 30, 2009	Change
Operating expenses (\$)	326,003	227,875	43.1%
Operating expenses (\$/boe)	22.22	11.32	96.3%

The \$10.90 per boe increase in total operating costs during the Reporting Period as compared to the Comparable Prior Period was due to costs being booked in the Reporting Period and not in the Comparable Prior Period such as property taxes, road & lease maintenance, repairs and maintenance, annual lease rental payments, and other similar costs. The difference accounted for \$5.34 per boe or 49% of the increase in operating costs. The remainder of the increase was due to two factors. One being that normal fixed operating charges in Coleman and Hairy Hill being applied over fewer boe of production in the Reporting Period due to above normal well downtime. For example, production was down 44% for the Reporting Period compared to the Comparable Prior Period at Coleman yet total costs were 117% higher. The result was operating costs of \$34.68 per boe for Coleman in the Reporting Period versus \$8.97 per boe in the Comparable Prior Period. At Hairy Hill, production was down 38% for the Reporting Period compared to the Comparable Prior Period yet total costs were 14% higher. The result was operating costs of \$20.46 per boe for Hairy Hill in the Reporting Period versus \$11.03 per boe in the Comparable Prior Period. The second being an increase in processing and operator costs at Coleman (\$1.78 per boe) as well as increased costs at Swimming due to the mature nature of the current production (2.23 per boe). Manitek will continue to monitor operating costs at all of its properties in an effort to reduce costs where possible.

### Transportation and Marketing Expense

The following table illustrates the Corporation's transportation and marketing expense for the Reporting Period and the Comparable Prior Period:

	<b>Three months ended September 30, 2010</b>	Three months ended September 30, 2009	Change
Transportation & marketing expenses (\$)	28,299	37,376	(24.3%)
Transportation & marketing expenses (\$/boe)	1.93	1.86	3.8%

These costs consist primarily of transportation costs and have remained relatively constant per boe in the Reporting Period as compared to the Comparable Prior Period.

### General and Administrative Expense

The components of general and administrative costs ("G&A") for the Reporting Period and the Comparable Prior Period are as follows:

	<b>Three months ended September 30, 2010</b>		Three months ended September 30, 2009		Change
	(\$)	%	(\$)	%	Amount
Salaries, benefits and consultants	305,766	59	146,195	46	109.1%
Other	211,304	41	173,382	54	21.9%
G & A expense, gross	517,070	100	319,577	100	61.8%
Overhead recoveries	-	-	(421)	0	-
Capitalized overhead	-	-	-	-	-
<b>G &amp; A expense, net</b>	<b>517,070</b>	<b>100</b>	<b>319,156</b>	<b>100</b>	<b>62.0%</b>
<b>G &amp; A expense, net per boe</b>	<b>35.24</b>		<b>15.85</b>		<b>122.3%</b>

The net G&A expenses have increased in the Reporting Period as compared to the Comparable Prior Period primarily due to costs associated with the anticipation of the Corporation's future growth. The costs include increased personnel levels to accommodate the increase in capital spending, an increase in office rent due to a larger space being required, and initiating the process to become a public entity, pursuant to the Amalgamation. Salaries and wages represent \$159,571 (\$13.58 per boe) or 81% of the total increase in G&A.

### Interest Expense

Interest expense for the Reporting Period was \$768 (\$0.05 per boe) as compared to \$5,286 (\$0.26 per boe) for the Comparable Prior Period. The aggregate interest expense from the Comparable Prior Period decreased mainly due to lower average outstanding bank debt during the Reporting Period. The Corporation's average outstanding amount owing on the revolving credit facility was approximately \$76,000 in the Reporting Period as compared to \$582,000 in the Comparable Prior Period, calculated as a simple average of the daily amounts.

The overall effective interest rate applicable to the prime-based loans was 4.0% in the Reporting Period as compared to 3.6% in the Comparable Prior Period.

### Deferred Financing Charges

During the Reporting Period the Corporation charged \$327,947 in fees to share capital, which related to costs incurred in the fourth quarter of the June 30, 2010 fiscal period end, for the issuance of MEX Shares and the Amalgamation completed on July 8, 2010.

### Depletion, Depreciation and Accretion Expenses

The components of depletion, depreciation and accretion ("DD&A") expenses for the Reporting Period and the Comparable Prior Period are as follows:

	Three months ended September 30, 2010		Three months ended September 30, 2009		Change	
	(\$)	\$/boe	(\$)	\$/boe	Amount	per boe
Depletion & depreciation	396,235	27.01	548,363	27.24	(27.7%)	(0.8%)
Accretion for asset retirement obligations	11,940	0.81	19,780	0.98	(39.6%)	(17.3%)
<b>Total DD&amp;A</b>	<b>408,175</b>	<b>27.82</b>	<b>568,143</b>	<b>28.22</b>	<b>(28.2%)</b>	<b>(1.4%)</b>

DD&A expenses decreased on an aggregate and per boe basis mainly due to decreased production volumes in the Reporting Period. DD&A is a function of the estimated proved reserve additions, the associated future development capital required to recover those proved reserves, the cost of petroleum and natural gas properties in the full cost pool attributable to those proved reserves and production in the period. As at September 30, 2010, the Corporation excluded from its full cost pool \$4,472,638 (September 30, 2009 - \$1,065,357) for undeveloped land acquired by Manitoak and \$1,769,186 (September 30, 2009 - \$NIL) for the heavy oil drilling program which commenced in the Reporting Period and have not been assigned any proven reserves.

### Petroleum and Natural Gas Properties Impairment Test

The Corporation follows the full cost method of accounting which requires periodic review of capitalized costs to ensure that they do not exceed the recoverable value of the petroleum and natural gas properties and the fair value of the Corporation's assets.

Manitok performed an impairment review at September 30, 2010 on its petroleum and natural gas assets and based on this review, the Corporation determined there was no impairment of its petroleum and natural gas assets.

## Stock-Based Compensation Expense

Manitok accounts for its stock-based compensation awards, which are stock options, using the fair value method. Under this method, the Corporation records stock-based compensation expense related to the stock option program in the income statement over the vesting period.

The Corporation recorded a non-cash stock-based compensation expense of \$88,540 (\$6.03 per boe) for the Reporting Period as compared to \$15,194 (\$0.75 per boe) for the Comparable Prior Period. The increase in stock-based compensation expense from the Comparable Prior Period was due to the grant of 1,588,500 stock options to directors, officers, employees and key consultants of Manitok at an exercise price of \$1.10 per Manitok Share on August 16, 2010.

## Taxes

Manitok recorded a future income tax recovery of \$256,208 (\$17.46 per boe) for the Reporting Period, as compared to a recovery of \$158,880 (\$7.89 per boe) for the Comparable Prior Period. These recoveries were attributed to the net losses recorded during the Reporting Period and Comparable Prior Period. Manitok incurred \$2,678 Part XII.6 taxes in the Reporting Period as compared to nil in the Comparable Prior Period.

## CAPITAL EXPENDITURES AND CAPITAL RESOURCES

### Capital Expenditures

The following table sets forth a summary of the Corporation's capital expenditures incurred during the Reporting Period and the Comparable Prior Period:

Three months ended September 30, (\$)	2010	2009
Land	1,654,298	82,575
Seismic	108,817	5,649
Workovers and recompletions	11,645	36,231
Drilling and completions <sup>(1)</sup>	1,605,693	42,087
Well equipment and facilities	89,767	(6,219)
<b>Total finding and development costs (F&amp;D)</b>	<b>3,470,220</b>	<b>160,323</b>
Acquisitions (dispositions), net <sup>(2)</sup>	(1,802,802)	(40,000)
<b>Total finding, development and acquisition costs (FD&amp;A)</b>	<b>1,667,418</b>	<b>120,323</b>
Administrative assets	6,490	-
<b>Total capital expenditures</b>	<b>1,673,908</b>	<b>120,323</b>

(1) Does not include a recovery related to the Alberta Drilling Royalty Credit Program .

(2) On August 4, 2010, the Corporation sold a minor property in the Garrington area of Alberta for about \$1.8 million.

### Capital Resources

The following table sets forth a summary of the Corporation's capital resources for the Reporting Period and the Comparable Prior Period:

Three months ended September 30, (\$)	2010	2009
Cash flow from operations <sup>(1)</sup>	(379,336)	(42,505)
Changes in non-cash working capital from operations	189,707	4,190
Proceeds from share issuances, net	9,221,714	-
Increase (decrease) in revolving credit facility	(1,040,105)	373,639
Deferred financing charges	327,947	-
Changes in non-cash working capital from investing	1,833,079	(215,019)
<b>Total capital resources</b>	<b>10,153,006</b>	<b>120,305</b>
Expenditures on petroleum and natural gas assets, net	(3,476,710)	(160,323)
Property acquisitions and dispositions	1,802,802	40,000
<b>Net Change in Cash</b>	<b>8,479,098</b>	<b>(18)</b>

(1) Cash flow denoted with “( )”, is negative cash flow throughout this MD&A.

## SUMMARY OF QUARTERLY INFORMATION

Quarters Ended	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
<b>OPERATING</b>				
Average daily production				
Natural gas (mcf/d)	533.5	610.3	730.6	789.8
Heavy oil (bbls/d)	67.1	79.9	73.7	66.8
Light oil (bbls/d)	0.3	0.7	0.6	1.3
NGLs (bbls/d)	3.2	5.6	5.1	4.4
Total (boe/d)	159.5	188.0	201.2	204.1
Average realized sales price (CAD\$)				
Natural gas (\$/mcf)	3.75	3.95	5.08	4.78
Heavy oil (\$/bbls)	56.75	51.50	64.22	69.68
Light oil (\$/bbls)	70.09	69.97	76.01	74.48
NGLs (\$/bbls)	26.83	34.21	33.38	27.92
Total (\$/boe)	37.06	36.01	43.07	42.37
<b>OPERATING NETBACK (\$ per boe)</b>				
Petroleum and natural gas revenue	37.06	36.01	43.07	42.37
Royalties	(4.48)	(4.72)	(8.27)	(6.08)
Operating expense	(22.22)	(13.73)	(15.89)	(16.13)
Transportation and marketing expense	(1.93)	(1.72)	(1.97)	(1.52)
Operating netback	8.43	15.84	16.94	18.64
<b>FINANCIAL</b>				
Petroleum and natural gas revenue (\$)	543,805	615,877	779,933	795,693
Royalties (\$)	(65,760)	(80,745)	(149,725)	(114,205)
Interest and other revenue (\$)	14,759	(392)	539	203
Total revenues, net (\$)	492,804	534,740	630,747	681,691
Net earnings (loss) (\$)	(619,843)	(356,161)	(546,038)	(411,841)
Per share - basic and diluted (\$) <sup>(1)</sup>	(0.04)	(0.03)	(0.05)	(0.05)
Per share - basic and diluted (\$) <sup>(2)</sup>	(0.04)	(0.04)	(0.07)	(0.07)
Cash flow from operations (\$) <sup>(3)</sup>	(379,336)	(39,066)	(112,793)	52,495
Per share - basic and diluted (\$) <sup>(1)</sup>	(0.02)	(0.00)	(0.01)	0.01
Per share - basic and diluted (\$) <sup>(2)</sup>	(0.02)	(0.00)	(0.01)	0.01
Capital expenditures, net (\$)	1,673,908	432,385	1,704,100	502,849
Book value of total assets (\$)	26,996,311	17,591,508	17,100,015	16,410,692
Working capital deficiency (surplus) (\$)	(6,659,296)	(202,985)	(301,237)	(436,530)
Revolving credit facility (\$)	-	1,040,105	338,261	-
Total net debt (\$)	-	837,120	37,024	-
Shareholders' equity (\$)	23,059,697	14,089,990	14,469,651	13,981,458
Common shares outstanding <sup>(1)</sup>				
End of period - basic	16,730,460	10,649,567	10,649,567	9,412,567
End of period - diluted	18,318,960	11,619,567	11,619,567	10,382,567
Weighted average for the period - basic	16,267,784	10,649,567	10,072,300	8,190,258
Weighted average for the period - diluted	16,314,887	10,649,567	10,072,300	8,190,258
Common shares outstanding <sup>(2)</sup>				
End of period - basic	16,730,460	7,987,175	7,987,175	7,059,425
End of period - diluted	18,318,960	8,714,675	8,714,675	7,786,925
Weighted average for the period - basic	16,267,784	7,987,175	7,554,225	6,142,694
Weighted average for the period - diluted	16,314,887	7,987,175	7,554,225	6,142,694

(1) All per share and share balances prior to the September 30, 2010 period have not been adjusted to reflect the 75% conversion factor of shares, pursuant to the Amalgamation.

(2) All per share and share balances prior to the September 30, 2010 period have been adjusted to reflect the 75% conversion factor of shares, pursuant to the Amalgamation.

(3) Cash flow denoted with "( )", is negative cash flow throughout this MD&A.

## SUMMARY OF QUARTERLY INFORMATION

Quarters Ended	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
<b>OPERATING</b>				
Average daily production				
Natural gas (mcf/d)	824.0	862.6	879.3	892.6
Heavy oil (bbls/d)	72.5	49.0	52.5	49.3
Light oil (bbls/d)	1.7	1.9	3.1	5.1
NGLs (bbls/d)	7.3	7.1	6.1	8.6
Total (boe/d)	218.8	201.8	208.3	211.7
Average realized sales price (CAD\$)				
Natural gas (\$/mcf)	2.86	3.55	5.00	6.97
Heavy oil (\$/bbls)	58.07	53.59	36.96	41.41
Light oil (\$/bbls)	68.99	63.91	51.78	61.37
NGLs (\$/bbls)	23.52	20.56	25.42	33.03
Total (\$/boe)	31.31	29.52	31.96	41.83
<b>OPERATING NETBACK (\$ per boe)</b>				
Petroleum and natural gas revenue	31.31	29.52	31.96	41.83
Royalties	(4.13)	(3.00)	(4.51)	(8.23)
Operating expense	(11.32)	(11.27)	(13.46)	(14.17)
Transportation and marketing expense	(1.86)	(1.32)	(1.51)	(1.56)
Operating netback	14.00	13.93	12.48	17.87
<b>FINANCIAL</b>				
Petroleum and natural gas revenue (\$)	630,219	542,184	599,274	814,688
Royalties (\$)	(83,236)	(55,027)	(84,571)	(160,348)
Interest and other revenue (\$)	206	945	9,650	36,461
Total revenues, net (\$)	547,189	488,102	524,353	690,801
Net earnings (loss) (\$)	(466,962)	(415,770)	(451,785)	(325,592)
Per share - basic and diluted (\$) <sup>(1)</sup>	(0.06)	(0.05)	(0.06)	(0.04)
Per share - basic and diluted (\$) <sup>(2)</sup>	(0.08)	(0.07)	(0.07)	(0.05)
Cash flow from operations (\$) <sup>(3)</sup>	(42,505)	14,539	14,821	184,025
Per share - basic and diluted (\$) <sup>(1)</sup>	(0.01)	0.00	0.00	0.02
Per share - basic and diluted (\$) <sup>(2)</sup>	(0.01)	0.00	0.00	0.03
Capital expenditures, net (\$)	120,323	328,313	825,484	2,562,001
Book value of total assets (\$)	16,200,041	16,559,077	17,505,864	19,331,639
Working capital deficiency (surplus) (\$)	(381,667)	(170,856)	131,140	(679,524)
Revolving credit facility (\$)	989,408	615,769	-	-
Total net debt (\$)	607,741	444,913	131,140	-
Shareholders' equity (\$)	12,845,404	13,297,172	13,680,455	14,817,206
Common shares outstanding <sup>(1)</sup>				
End of period - basic	8,176,826	8,176,826	8,176,826	8,176,826
End of period - diluted	9,146,826	9,146,826	9,294,326	9,294,326
Weighted average for the period - basic	8,176,826	8,176,826	8,176,826	7,908,474
Weighted average for the period - diluted	8,201,978	8,226,800	8,253,894	8,074,120
Common shares outstanding <sup>(2)</sup>				
End of period - basic	6,132,620	6,132,620	6,132,620	6,132,620
End of period - diluted	6,860,120	6,860,120	6,970,745	6,970,745
Weighted average for the period - basic	6,132,620	6,132,620	6,132,620	5,931,356
Weighted average for the period - diluted	6,151,484	6,170,100	6,190,421	6,055,590

(1) All per share and share balances prior to the September 30, 2010 period have not been adjusted to reflect the 75% conversion factor of shares, pursuant to the Amalgamation.

(2) All per share and share balances prior to the September 30, 2010 period have been adjusted to reflect the 75% conversion factor of shares, pursuant to the Amalgamation.

(3) Cash flow denoted with "( )", is negative cash flow throughout this MD&A

## Discussion of Quarterly Results

Manitok's average quarterly production in the quarter ended September 30, 2010 was 159.5 boe/d, which is a 15% decrease from 188.0 boe/d in the quarter ended June 30, 2010 and a 27% decrease from 218.8 boe/d in the quarter ended September 30, 2009. A portion of the decrease in production is due to normal production declines in the natural gas assets and the fact that the Corporation did not drill a single well over the last 12 months as a result of management's decision to focus capital on acquiring land and on going public. Also the Reporting Period included an unusual amount of downtime in two areas and reflects the sale of assets in a third area. A plant turnaround and compressor startup issue in August and September in the Hairy Hill area resulted in a decrease of approximately 20 boe/d over the quarter. In Coleman, a plant turnaround that began in June and carried into July along with production being shut-in for the majority of September, due to circumstances at the gas plant which were out of the Corporation's control, accounted for a drop of approximately 10 boe/d over the quarter. The disposition of a property on August 4, 2010 in the Garrington area represented approximately 7 boe/d over the quarter.

Average realized natural gas prices have decreased significantly since the quarter ended December 31, 2008, from \$6.97 per mcf to \$3.75 per mcf, which is a 46% decrease. The reduction in natural gas prices has significantly reduced cash flow from operations.

Total capital expenditures before dispositions were \$3,476,710 for the current quarter as compared to \$432,385 for the quarter ended June 30, 2010 and \$160,323 during the quarter ended September 30, 2009. The increase in capital expenditures in the current quarter was due mainly to the commencement of a heavy oil drilling program of five wells and about \$1,600,000 in undeveloped land acquisitions, at a time when management believes land values to be relatively weak in the Corporation's core areas. The Corporation also completed an asset disposition on August 4, 2010 of its Garrington property for approximately \$1,800,000 which partially offset the Corporation's capital program in the current quarter.

Cash flow from operations generated by the Corporation in the quarter ended September 30, 2010 was (\$379,336), which is a significant decrease from (\$39,066) in the quarter ended June 30, 2010 and (\$42,505) in the quarter ended September 30, 2009. The decrease in cash flow is due mainly to reduced production volumes, increase in operating expenses from higher service costs and a gas plant turnaround in the Coleman area of Alberta, and a significant increase in personnel levels in the current quarter, in anticipation of its future activity and becoming a reporting issuer, pursuant to the Amalgamation.

On July 8, 2010, MEX completed a private placement of 4,311,700 MEX Shares (equivalent to 3,233,775 Manitok Shares) issued at a price of \$1.15 per MEX Share (equivalent to \$1.53 per Manitok Share) and 3,846,000 MEX Flow-through Shares (equivalent to 2,884,500 Manitok Flow-through Shares) issued at a price of \$1.30 per MEX Flow-through Share (equivalent to \$1.73 per Manitok Flow-through Share) for total net proceeds of \$9,064,582. Proceeds of the private placement were used to pay the outstanding bank debt and fund the Corporation's heavy oil drilling program in September and October 2010 and will be used to fund future drilling in late 2010 and early 2011.

## MERGERS AND ACQUISITIONS

The Corporation continues to review potential property acquisitions and dispositions, joint venture opportunities and corporate mergers and acquisitions with the intention of completing such a transaction if acceptable terms can be negotiated. As a result, Manitok may at any time be involved in negotiations with other parties in respect of property acquisitions and dispositions, joint venture opportunities and corporate merger acquisition opportunities.

## DISCLOSURE CONTROLS AND PROCEDURES

The Corporation has established and maintains disclosure controls and procedures that have been designed by, or under the supervision of, the Corporation's Chief Executive Officer and the Chief Financial Officer ("**Certifying Officers**") to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and to ensure that information required to be disclosed by an issuer in its annual filings,

interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Corporation's management, including its Certifying Officers, as appropriate to allow timely decisions regarding required disclosure. Such disclosure controls and procedures are referred to as the **"Disclosure Controls and Procedures"**.

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's Disclosure Controls and Procedures as at September 30, 2010 and have concluded that such Disclosure Controls and Procedures were effective as at that date to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized, and reported within the time periods specified in the securities legislation and that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Corporation's management, including the Certifying Officers, as appropriate to allow timely decisions regarding required disclosure.

While the Certifying Officers believe that the Corporation's Disclosure Controls and Procedures are effective to provide a reasonable level of assurance, they do not expect that the Disclosure Controls and Procedures will provide an absolute level of assurance or prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are achieved.

#### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Corporation has established and maintains internal controls over financial reporting that have been designed by, or under the supervision of, the Corporation's Certifying Officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP applicable to the Corporation and reasonable assurance that all assets are safeguarded and transactions are appropriately authorized and recorded to facilitate the preparation of relevant, reliable and timely information. Such internal controls over financial reporting are herein referred to as **"ICFR"**. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR as required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. Based on that evaluation, the Certifying Officers concluded that the Corporation's ICFR was effective at September 30, 2010 for the purposes described above. It should be noted that a control system, including the Corporation's, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the ICFR will prevent all errors and fraud.

#### **CHANGE IN ACCOUNTING POLICIES**

##### **Transition to International Financial Reporting Standards ("IFRS")**

In February 2008, Canada's Accounting Standards Board ("**AcSB**") confirmed that International Financial Reporting Standards ("**IFRS**") will replace Canadian GAAP for profit-oriented Canadian publicly accountable enterprises, beginning January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Manitoak for the twelve months ended June 30, 2010 and the six months ended December 31, 2010, including the opening balance sheet as at July 1, 2009.

The Corporation has developed a plan to complete the transition to IFRS by January 1, 2011, including the preparation of 2010 required comparative information. Manitoak expects to be fully compliant in a timely manner.

## IFRS Transition Plan

Manitok's transition plan includes training and development throughout the organization, and three key phases:

- *Scoping and diagnostic phase*  
This phase involves performing a high level diagnostic analysis to identify areas that may be affected by the transition to IFRS. The results of this analysis are priority ranked according to complexity and the amount of time required to assess the impact of changes in transitioning to IFRS.
- *Impact analysis and evaluation phase*  
During this phase, items identified in the diagnostic phase are addressed according to the priority levels assigned to them. This phase involves analysis of policy choices allowed under IFRS and their impact on the financial statements. In addition, certain potential differences are further investigated to assess whether there may be a broader impact to Manitok's debt agreements, business processes or management reporting systems. The conclusion of the impact analysis and evaluation phase will require the Audit Committee of the Board of Directors to review and approve all accounting policy choices as proposed by management.
- *Implementation phase*  
This phase involves implementation of all changes approved in the impact analysis phase and will include changes to information systems, business processes, modification of agreements and training of all staff who are impacted by the conversion.

During 2010, Manitok made significant progress on its transition plan. The Corporation conducted preliminary analysis of accounting policy alternatives and preliminarily drafted several of its IFRS accounting policies. Broader business process and systems impacts have been considered for significant areas of impact, with internal control requirements taken into account.

Process and system changes will be implemented in late 2010 to ensure IFRS comparative data is captured. As management has not yet finalized its chosen IFRS accounting policies, it is unable to quantify the impact of these policies on the July 1, 2009 opening balance sheet. Management expects to make recommendations of the chosen accounting policies to the Audit Committee of the Board of Directors for their review and final approval in early 2011. Communication of impacts to external stakeholders is expected to occur in the first quarter of 2011.

Manitok will continue to update its IFRS transition plan to reflect new and amended accounting standards issued by the International Accounting Standards Board ("IASB").

## IFRS Accounting Policies and Significant Impact

Manitok has determined the areas that will be most significantly affected by the adoption of IFRS. The areas identified as being significant have the greatest potential impact to the Corporation's financial statements or the greatest risk in terms of complexity to implement. The most significant areas continue to include:

- Property, Plant and Equipment ("**PP&E**"), including;
  - Transition on date of adoption of IFRS
  - Pre-exploration costs
  - Exploration and Evaluation ("**E&E**") costs
  - Depletion, depreciation and amortization ("**DD&A**")
- Cash-generating units and impairment testing
- Decommissioning liabilities (known as "asset retirement obligations" under GAAP)
- Stock-based compensation
- Income taxes

Each of these significant impact areas is discussed in more detail below. All chosen IFRS accounting policies are subject to review and final approval by the Audit Committee of the Board of Directors. Manitok's analysis of the chosen IFRS accounting policies specifically considers the current IFRS standards that are in effect. As a result, any new or amended accounting standards that are issued by the IASB in future periods may impact

the Corporation's current assessment of the chosen IFRS accounting policies and the expected financial impact on transition to IFRS.

### ***Property, Plant & Equipment***

PP&E is the most significant area impacted by the adoption of IFRS. Under Canadian GAAP, ManitoK follows the CICA's guideline on full cost accounting, while IFRS has no equivalent guideline. In order to facilitate the transition to IFRS by full cost accounting companies, the IASB released additional exemptions for first-time adopters of IFRS in July 2009. Included in the amendments is an exemption which permits full cost accounting companies to allocate their existing PP&E net book value (full cost pool) using either reserve volumes or reserve values to the unit of account level upon transition to IFRS. Without this exemption, the Corporation would have been required to retrospectively determine the carrying amount of oil and gas assets at the date of transition, or use the fair value or revaluation amount as the new deemed cost under IFRS. By using the exemption, the net book value of ManitoK's PP&E at the date of transition to IFRS will be the same as it was under Canadian GAAP, subject to any potential IFRS impairments that are recognized at the date of transition. ManitoK expects to adopt this exemption on transition and is currently evaluating whether to allocate based on reserve volumes or values using either proved or proved plus probable reserves.

In moving to IFRS, ManitoK will be required to adopt different accounting policies for pre-exploration activities, E&E costs, DD&A and the accounting for gains and losses on property dispositions, significant components of PP&E and other material non-monetary transactions.

Pre-exploration costs are costs incurred before the Corporation obtains the legal right to explore an area. Under Canadian GAAP, these costs are capitalized, while under IFRS, these costs must be expensed. At this time, ManitoK does not anticipate that this accounting policy difference will have a significant impact on the IFRS financial statements.

During the E&E phase, ManitoK capitalizes costs incurred for these projects under Canadian GAAP. Under IFRS, the Corporation has the alternative to either continue capitalizing these E&E costs until technical feasibility and commercial viability of the project is determined, or to expense these costs as incurred. Once technical feasibility and commercial viability of an E&E project is determined, the related costs are transferred to the Developed and Producing ("D&P") phase. If ManitoK's policy choice is to continue capitalizing E&E project costs under IFRS, the Corporation has the alternative to either begin depleting the related costs when in the E&E phase or to deplete the costs once the project is in the D&P phase. At this time, the Corporation has not finalized its policy in this regard, and therefore the impact of this difference in accounting policy is not reasonably determinable.

Under Canadian GAAP, ManitoK calculates its DD&A rate at the country cost centre level. Under IFRS, this rate will be calculated at a lower unit of account level. At this time, the Corporation has not finalized its policy in this regard, and therefore the impact of this difference in accounting policy is not reasonably determinable.

Full cost accounting under Canadian GAAP requires that gains or losses on divestitures of properties are only recognized when the disposal would affect the DD&A rate by 20 percent or more. Under IFRS, there is no such exemption, and therefore ManitoK will be required to recognize all gains and losses on property divestitures and derecognition of significant components of PP&E. At this time, the impact of this difference in accounting policy is not reasonably determinable.

As a result of the additional exemptions released by the IASB in July 2009, the Corporation anticipates that all changes to its PP&E accounting policies will be adopted prospectively.

### ***Impairment Testing***

Pursuant to Canadian GAAP, the recoverable amount of ManitoK's oil and natural gas assets under the first step of the impairment test is determined using undiscounted future cash flow from proved reserves. Under IFRS, the recoverable amount is calculated using discounted future cash flow from proved or proved plus probable reserves. In addition, impairment testing under Canadian GAAP is performed at the country cost centre level, while under IFRS, it will be performed at a lower level, referred to as a cash-generating unit. Canadian GAAP prohibits reversal of impairment losses. Under IFRS, if the conditions giving rise to

impairment have reversed, impairment losses previously recorded would be partially or fully reversed to eliminate write-downs recorded. Manitok expects to adopt these changes in accounting policy prospectively. At this time, the impact of accounting policy differences related to impairment testing is not reasonably determinable.

### ***Decommissioning Liabilities***

Under Canadian GAAP, the Corporation recognizes a liability for the estimated fair value of the future retirement obligations associated with PP&E. The fair value is capitalized and amortized over the same period as the underlying asset. Manitok estimates the liability based on the estimated costs to abandon and reclaim its net ownership interest in wells and facilities, including an estimate for the timing of the costs to be incurred in future periods. These cash outflows are discounted using a credit-adjusted risk free rate. Changes in the net present value of the future retirement obligation are expensed through accretion as part of DD&A. Under IFRS, these liabilities are known as “decommissioning liabilities” and are included in the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Decommissioning liabilities are calculated at each reporting period by estimating the risk-adjusted future cash outflows, which are discounted using a risk-free rate. Changes in the net present value of the future retirement obligation are expensed through accretion as part of DD&A. Due to the change in the discount rate from a credit-adjusted risk free rate to a risk-free rate, Manitok expects there will be an increase in the value of the decommissioning liability under IFRS as compared to Canadian GAAP. At this time, the impact of this difference in accounting policy is not reasonably determinable.

### ***Stock-based Compensation***

IFRS 2 *Share-Based Payments* requires the expense related to share-based payments to be recognized as the options vest. For options with different vesting periods, each vesting tranche must be treated as a separate option grant which accelerates the expense recognition, in comparison to Canadian GAAP which allows the expense to be recognized on a straight-line basis over the period the options vest. Manitok must also apply an estimated forfeiture rate at the initial grant date for each option tranche. The forfeiture rate is taken into account by adjusting the number of stock options expected to vest under each tranche and subsequently revising this estimate throughout the vesting period, as necessary. Going forward under IFRS, Manitok anticipates stock-based compensation expense to be higher than under Canadian GAAP because the graded vesting requirements of IFRS result in accelerated expense recognition. At this time, the impact of this difference in accounting policy is not reasonably determinable.

### ***Income Tax***

In transitioning to IFRS, the carrying amount of Manitok’s deferred tax balances will be directly impacted by the tax effects resulting from changes required by the above IFRS accounting policy differences. Manitok is still determining the impact of the revised standard on its IFRS transition. Therefore, at this time the income tax impacts of the differences are not reasonably determinable.

### ***Changes to IFRS Accounting Standards***

Manitok’s analysis of accounting policy differences specifically considers the current IFRS standards that are in effect. The Corporation will continue to monitor any new or amended accounting standards that are issued by the IASB in future periods.

### ***Internal Controls over Financial Reporting***

Manitok does not anticipate that the transition to IFRS will have a significant impact on its internal controls over financial reporting. The review of internal controls over financial reporting will be an ongoing process throughout 2010 to ensure that all changes in accounting policies include the appropriate additional business controls and procedures for future IFRS reporting requirements.

**Disclosure Controls and Procedures**

Manitok does not anticipate that the transition to IFRS will have a significant impact on its disclosure controls and procedures. Throughout the transition, Manitok will assess stakeholders' information requirements and will ensure that adequate and timely information is provided so that all stakeholders remain apprised.

**Information Systems**

Manitok has evaluated its information systems required to support IFRS reporting on adoption. Manitok anticipates system updates to be minimal, however, they are critical in order to allow for reporting of both Canadian GAAP and IFRS statements in 2010 as well as the updates required to track E&E and PP&E expenditures at a more granular level of detail for IFRS reporting in 2011 and thereafter. Manitok expects to complete most of the accounting system updates in November and December of 2010.

**Impacts to our Business**

Manitok does not expect that the adoption of IFRS in 2011 will have a significant impact or influence on its business activities, operations or strategies going forward.

**MANITOK ENERGY INC.**  
**BALANCE SHEETS**  
(Unaudited) (\$)

As at	September 30, 2010	June 30, 2010
		(audited)
<b>ASSETS</b>		
CURRENT		
Cash and cash equivalents	8,549,746	70,648
Accounts receivable	359,449	575,820
Prepaid and deposits	371,621	335,631
	9,280,816	982,099
Deferred financing charges (note 4)	-	327,947
Petroleum and natural gas properties and equipment (note 5)	17,715,495	16,281,462
	26,996,311	17,591,508
<b>LIABILITIES</b>		
CURRENT		
Accounts payable and accrued liabilities	2,621,520	779,114
Revolving credit facility (note 6)	-	1,040,105
	2,621,520	1,819,219
Asset retirement obligations (note 9)	959,080	790,780
Future income taxes	356,014	891,519
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 10)	26,455,850	16,954,840
Contributed surplus (note 11)	602,930	514,390
Retained earnings (deficit)	(3,999,083)	(3,379,240)
	23,059,697	14,089,990
Commitments and contingent liabilities (note 13)		
Subsequent events (note 15)		
	26,996,311	17,591,508

*See accompanying notes to the financial statements*

**APPROVED BY THE BOARD**

(signed) "Bruno P. Geremia"  
**Bruno P. Geremia CA, Director**

(signed) "Massimo M. Geremia"  
**Massimo M. Geremia, Director**

**MANITOK ENERGY INC.**
**STATEMENTS OF NET EARNINGS (LOSS), COMPREHENSIVE EARNINGS (LOSS) AND RETAINED EARNINGS (DEFICIT)**
**(Unaudited) (\$, except share amounts)**

	Three months ended September 30	
	2010	2009
<b>REVENUE</b>		
Petroleum and natural gas	543,805	630,219
Royalties	(65,760)	(83,236)
Interest and other	14,759	205
	<b>492,804</b>	<b>547,188</b>
<b>EXPENSES</b>		
Operating	326,003	227,875
Transportation and marketing	28,299	37,376
General and administrative, net	517,070	319,156
Interest	768	5,286
Stock-based compensation (note 11)	88,540	15,194
Depletion, depreciation and accretion	408,175	568,143
	<b>1,368,855</b>	<b>1,173,030</b>
<b>EARNINGS (LOSS) BEFORE INCOME TAXES</b>	<b>(876,051)</b>	<b>(625,842)</b>
<b>INCOME TAXES</b>		
Current income taxes expense	-	-
Future income taxes expense (recovery)	(256,208)	(158,880)
	<b>(256,208)</b>	<b>(158,880)</b>
<b>NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)</b>	<b>(619,843)</b>	<b>(466,962)</b>
<b>RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD</b>	<b>(3,379,240)</b>	<b>(1,598,239)</b>
<b>RETAINED EARNINGS (DEFICIT), END OF PERIOD</b>	<b>(3,999,083)</b>	<b>(2,065,201)</b>
Net earnings (loss) per common share		
Basic	(0.04)	(0.08)
Diluted	(0.04)	(0.08)
Weighted average common shares (note 12)		
Basic	16,267,784	6,132,619
Diluted	16,267,784	6,132,619

*See accompanying notes to the financial statements*

**MANITOK ENERGY INC.**  
**STATEMENTS OF CASH FLOWS**  
**(Unaudited) (\$)**

	Three months ended September 30	
	2010	2009
<b>OPERATING ACTIVITIES</b>		
Net earnings (loss)	(619,843)	(466,962)
Adjustments for items not affecting cash:		
Depletion, depreciation and accretion expense	408,175	568,143
Stock-based compensation expense	88,540	15,194
Future income taxes expense (recovery)	(256,208)	(158,880)
	(379,336)	(42,505)
Changes in non-cash working capital (note 14)	189,707	4,190
	(189,629)	(38,315)
<b>FINANCING ACTIVITIES</b>		
Increase (decrease) in revolving credit facility (note 6)	(1,040,105)	373,639
Proceeds from share issuances, net (note 10)	9,221,714	-
Deferred financing charges (note 4)	327,947	-
	8,509,556	373,639
<b>INVESTING ACTIVITIES</b>		
Expenditures on petroleum and natural gas assets	(3,476,710)	(160,323)
Proceeds from disposition of petroleum and natural gas assets	1,802,802	40,000
Changes in non-cash investing working capital (note 14)	1,833,079	(215,019)
	159,171	(335,342)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>8,479,098</b>	<b>(18)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>70,648</b>	<b>70,765</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>8,549,746</b>	<b>70,747</b>
Cash interest paid	768	5,286
Cash taxes paid	-	-

*See accompanying notes to the financial statements*

**MANITOK ENERGY INC.**  
**Notes to the Financial Statements**  
**For the Three Months Ended September 30, 2010 and 2009**  
**(Unaudited)**

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**1. NATURE OF OPERATIONS**

Manitok Energy Inc. (“**Manitok**” or the “**Corporation**”) was formed as a result of an amalgamation between Manitok Exploration Inc. (“**MEX**”) and Desco Resources Inc. (“**Desco**”) pursuant to the Alberta Business Corporations Act on July 8, 2010 (the “**Amalgamation**”) and is listed on the TSX Venture Exchange under the symbol “**MEI**” and began trading on July 29, 2010. MEX was a private entity, incorporated under the Alberta Business Corporations Act on April 20, 2005 and Desco was a reporting issuer, incorporated under the Alberta Business Corporations Act on July 8, 2009. The Corporation is engaged in the exploration for, and the development, production and acquisition of, petroleum and natural gas reserves in Western Canada. Manitok’s financial year end has been changed from June 30 to December 31.

**2. BASIS OF PRESENTATION**

The interim financial statements of Manitok have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (“**GAAP**”) and are unaudited. The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements of MEX for the year ended June 30, 2010. The disclosures which follow do not include all disclosures required for the annual financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements and related notes of MEX for the year ended June 30, 2010. All dollar amounts are presented in Canadian dollars unless otherwise stated.

As a result of the Amalgamation, control of Desco passed to the MEX shareholders. Accordingly, the share exchange is accounted for as a reverse takeover of Desco by MEX, pursuant to which MEX is deemed to be the acquirer and the continuing entity. The application of reverse takeover accounting results in the following:

- The unaudited interim financial statements are a continuation of MEX and are issued under the name of Manitok;
- As MEX is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the unaudited interim balance sheet at historical carrying values; and
- The deemed consideration for the acquisition of Desco has been measured as the fair value of Desco’s net assets. The net identifiable assets of Desco acquired with the reverse takeover as at July 8, 2010 are as follows:

(\$)	
Cash	434,571
Accounts receivable	20,582
<b>Total net identifiable assets</b>	<b>455,153</b>

**3. CHANGES IN ACCOUNTING POLICIES**

**Future Accounting Policy Changes**

*Section 1582, Business Combinations.* In January 2009, the CICA issued Handbook Section 1582, *Business Combinations* that replaces Section 1581 of the same name. Under the new standard, the purchase price used in a business combination is based on the fair value of shares exchanged at the market price at acquisition date. Under the current standard, the purchase price used is based on the market price of shares for a reasonable period before and after the date the acquisition is agreed upon and announced. In addition, the new standard generally requires all acquisition costs to be expensed while current standards allow for the capitalization of these costs as part of the purchase price. This new standard also addresses contingent liabilities, which will be required to be recognized at fair value on acquisition, and subsequently remeasured at each reporting period until

**MANITOK ENERGY INC.**  
**Notes to the Financial Statements**  
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settled. The current standards require only contingent liabilities that are due to be recognized. The new standard requires any negative goodwill to be recognized as a charge to earnings rather than the current standard which reduces the fair value of non-current assets in the purchase price allocation. The new standard applies prospectively to business combinations on or after January 1, 2011 with earlier application permitted. The Corporation does not intend to early adopt the new standard.

**Convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”)**

In 2006, the Accounting Standards Board (“AcSB”) ratified a strategic plan to converge Canadian GAAP with IFRS by 2011 for public reporting entities. On February 13, 2008, the AcSB confirmed that IFRS will replace Canadian GAAP beginning January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Manitok for the twelve months ended June 30, 2010 and the six months ended December 31, 2010, including the opening balance sheet as at July 1, 2009.

**4. DEFERRED FINANCING CHARGES**

The charges incurred with respect to the issuance of common shares by MEX and the Amalgamation, before the transactions were completed had been deferred. The costs were charged to share capital upon completion of the issuance of shares and the Amalgamation on July 8, 2010.

At September 30, 2010, the balance of deferred financing charges was \$NIL (June 30, 2010 – \$327,947).

**5. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT**

(\$)	September 30, 2010		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas assets	24,686,465	(7,027,392)	17,659,073
Office furniture and equipment	126,696	(70,274)	56,422
	<b>24,813,161</b>	<b>(7,097,666)</b>	<b>17,715,495</b>

  

(\$)	June 30, 2010		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas assets	22,862,687	(6,638,552)	16,224,135
Office furniture and equipment	120,206	(62,879)	57,327
	<b>22,982,893</b>	<b>(6,701,431)</b>	<b>16,281,462</b>

As at September 30, 2010, the cost of petroleum and natural gas properties includes \$6,241,824 (June 30, 2010 – \$3,354,945) relating to unproved properties which have been excluded from costs subject to depletion and depreciation. Estimated future development costs of \$2,184,000 (June 30, 2010 - \$2,184,000) associated with the development of the corporation’s proved reserves were added to the Corporation’s net book value in the depletion and depreciation calculation. Capitalized general and administrative costs at September 30, 2010 were \$NIL (June 30, 2010 - \$NIL).

On August 4, 2010, the Corporation completed and closed the sale of a minor property in the Garrington area of Alberta for \$1.8 million. The proceeds from the disposition were used to reduce the cost of petroleum and natural gas assets at September 30, 2010. No gain or loss was recorded on the sale.

**MANITOK ENERGY INC.**  
**Notes to the Financial Statements**  
**For the Three Months Ended September 30, 2010 and 2009**  
**(Unaudited)**

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The Corporation performed an impairment test at September 30, 2010 to ensure the carrying value of its petroleum and natural gas properties and equipment is recoverable and does not exceed fair value. Manitok concluded that its petroleum and natural gas properties and equipment were not impaired at September 30, 2010.

**6. REVOLVING CREDIT FACILITY**

On February 22, 2010, the Corporation amended its agreement with a major Canadian lender which decreased its demand revolving credit facility from \$3,100,000 to \$2,500,000. The revolving credit facility allows for prime-based loans in Canadian dollars which bear interest at the prime lending rate plus 1.5%.

The facility is subject to the lender's redetermination of the borrowing base upon receipt of the Corporation's reserve report and any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall must be eliminated by the Corporation. The revolving credit facility is secured by a general security agreement encompassing all of the Corporation's assets.

At September 30, 2010, the Corporation had drawn \$NIL (June 30, 2010 – \$1,040,105) on the credit facility and the overall effective interest rate applicable to the prime-based loans in the credit facility was 4.0% during the three months ended September 30, 2010 (September 30, 2009 – 3.6%).

**7. CAPITAL MANAGEMENT**

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations; to maintain a capital structure that allows Manitok the ability to finance its growth strategy using internally-generated cash flow and its available debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders.

Manitok strives to properly exploit its current asset base and to acquire top quality assets. As such, the Corporation is not averse to maintaining a higher ratio of debt to total capital if management determines the assets it is acquiring or the projects it is drilling are of high quality. However, the Corporation manages its capital structure and makes adjustments considering changes in economic conditions and the risk characteristics of the assets. In order to maintain or adjust the capital structure, Manitok may issue new shares or debt, increase the credit facility limits, or adjust its capital spending to manage current and projected debt levels. Management expects to be able to continue to raise equity and obtain debt financing sufficient to meet both its short-term and long-term growth requirements in the current environment.

**MANITOK ENERGY INC.**  
**Notes to the Financial Statements**  
**For the Three Months Ended September 30, 2010 and 2009**  
**(Unaudited)**

There were no changes in the Corporation's approach to capital management during the September 30, 2010 fiscal period. The capital structure of the Corporation is as follows:

(\$)	September 30, 2010	June 30, 2010	Change %
Total shareholders' equity <sup>(1)</sup>	23,059,697	14,089,990	64%
Total shareholders' equity as a % of total capital	100%	94%	
Working capital deficiency (surplus) <sup>(2)</sup>	(6,659,296)	(202,985)	
Revolving credit facility	-	1,040,105	
Total net debt <sup>(3)</sup>	-	837,120	-
Total net debt as a % of total capital	0%	6%	
<b>Total Capital</b>	<b>23,059,697</b>	<b>14,927,110</b>	<b>54%</b>

(1) Shareholders' equity is defined as share capital plus contributed surplus plus retained earnings (deficit).

(2) Working capital deficiency (surplus) is defined as current assets less current liabilities excluding the current portion of the amount drawn on the revolving credit facility.

(3) Working capital (surplus) is only included if the company is in a net debt position.

During the three month period ended September 30, 2010, total shareholders' equity increased mainly due to the issuance of common shares (notes 10(h) and 10(i)); recording of stock-based compensation expense (note 11); and offset by the net loss reported in the period.

Total net debt decreased during the three month period ended September 30, 2010 due to the net equity proceeds of \$9,064,582 (notes 10(h) and note 10(i)) which were used to repay the outstanding amount of the Corporation's revolving credit facility.

The Corporation's lender requires quarterly compliance that the "working capital ratio" (as defined by the lender) is not less than the required ratio of 1:1. Manitok was in compliance with the financial covenant as at September 30, 2010 and June 30, 2010.

**8. FINANCIAL INSTRUMENTS & RISK MANAGEMENT**

Manitok is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews risk management activities and all outstanding positions, if any. Management identifies, analyzes and monitors risks faced by the Corporation, market conditions and the Corporation's activities.

**Credit Risk**

Cash and cash equivalents consist of bank balances and short term investments. Counter-parties for the short term investments are selected based on credit ratings and management will monitor all investments to ensure a stable return, and complex investment vehicles with higher risk will be avoided. The Corporation's exposure to cash and cash equivalent credit risk at the balance sheet date is very low.

Credit risk is the risk of financial loss to the Corporation if a customer fails to meet its contractual obligations. A substantial portion of the Corporation's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects management's assessment of the maximum credit risk associated with these customers. Of the Corporation's significant individual accounts receivable at September 30, 2010, about 52% were due from two marketers (June 30, 2010 – 39%, two marketers). Of the Corporation's revenues during the year ended September 30, 2010 approximately 98% was received from two marketers as compared to 96% for the comparable prior period.

**MANITOK ENERGY INC.**  
**Notes to the Financial Statements**  
**For the Three Months Ended September 30, 2010 and 2009**  
**(Unaudited)**

The following table illustrates the Corporation's maximum exposure for receivables:

(\$)	September 30, 2010	June 30, 2010
Marketers	204,835	230,943
Joint venture partners	37,564	76,876
Other	117,050	268,001
<b>Total Receivables</b>	<b>359,449</b>	<b>575,820</b>

Receivables from marketers are normally collected on the 25<sup>th</sup> day of the month following production. Manitok mitigates the credit risk associated with these balances by establishing marketing relationships with credit worthy purchasers. The Corporation historically has not experienced any material collection issues with its marketers. Manitok attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the commencement of the joint venture project. However, joint venture receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risks exist with joint venture partners as disagreements arise that increase the potential for non-collection. The Corporation's accounts receivables are aged as follows:

(\$)	September 30, 2010	June 30, 2010
Current (less than 30 days)	299,475	445,422
30 to 60 days	1,104	5,766
61 to 90 days	1,667	3,771
Over 90 days	57,203	120,861
<b>Total Receivables</b>	<b>359,449</b>	<b>575,820</b>

At September 30, 2010, about 16% of Manitok's total accounts receivable are aged over 90 days and considered past due. Approximately 61% of the total accounts receivable aged over 90 days is due from a joint venture partner and the Corporation is currently in the process of resolving the outstanding balance.

Should Manitok determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Corporation subsequently determines an account is uncollectible, the account is written off with a corresponding charge to allowance for doubtful accounts. At September 30, 2010, Manitok's allowance for doubtful accounts balance was \$NIL (June 30, 2010 – \$NIL).

**Liquidity Risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. Manitok's approach to managing liquidity risk is to ensure, as much as possible, that it will have sufficient liquidity to meet its short-term and long-term financial obligations when due, under both normal and unusual conditions without incurring unacceptable losses or risking harm to the Corporation's reputation.

All of the Corporation's contractual financial liabilities at September 30, 2010 and June 30, 2010 are to be settled in cash. Manitok utilizes prudent cash and debt management to mitigate the likelihood of encountering difficulties in meeting its financial obligations. The Corporation also attempts to match its payment cycle with collection of petroleum and natural gas revenue on the 25<sup>th</sup> of each month.

Typically, the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations. To achieve this objective, the

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Corporation prepares annual capital expenditure budgets, which are approved by the Board of Directors and are reviewed and updated as considered necessary. Petroleum and natural gas production is monitored regularly and used to provide monthly current cash flow estimates. Also, Manitok utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

To facilitate the capital expenditure program, the Corporation has a reserve-based revolving credit facility, as disclosed in note 6, which is reviewed at least annually by the lender. At September 30, 2010, \$2,500,000 (June 30, 2010 – \$1,459,895) in unused credit was available to fund future obligations.

The following table lists the contractual obligations of the Corporation's financial liabilities as at June 30, 2010:

(\$)	< 1 Year	1 – 2 Years	2 – 5 Years	Thereafter
Accounts payable and accrued liabilities	2,621,520	-	-	-
Revolving credit facility <sup>(1)</sup>	-	-	-	-
<b>Total Financial Liabilities</b>	<b>2,621,520</b>	-	-	-

(1) The revolving credit facility bears interest at a floating rate.

**Market Risk**

Market risk is the risk that changes in market conditions, such as commodity prices, exchange rates and interest rates, will affect the debt level of the Corporation, as well as its net earnings and cash flow from operations. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. These risks are consistent with prior years.

All risk management transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

*Commodity Price Risk*

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in market commodity prices. A significant change in commodity prices can materially impact the Corporation's borrowing base under its revolving credit facility and may reduce the Corporation's ability to raise capital. Commodity prices for crude oil and natural gas are not only impacted by the Canadian and U.S. dollar, but also by world economic events that dictate the levels of supply and demand.

From time to time, The Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. Manitok did not have any price risk management contracts in place as at or during the periods ended September 30, 2010 and June 30, 2010.

*Foreign Currency Risk*

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Crude oil and to a certain extent natural gas prices are based upon reference prices denominated in U.S. dollars, while the majority of the Corporation's expenses are denominated in Canadian dollars. The exchange rate effect cannot be quantified but generally an increase in the value of the Canadian dollar as compared to the U.S. dollar will reduce the prices received by Manitok for its petroleum and natural gas sales.

The average exchange rate during the September 30, 2010 fiscal period was one \$U.S. equals \$1.0391 Canadian dollars (September 30, 2009 – one \$U.S. equals \$1.0979 Canadian dollars) and the

**MANITOK ENERGY INC.**  
**Notes to the Financial Statements**  
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exchange rate at September 30, 2010 was one \$U.S. equals \$1.0298 Canadian dollars (September 30, 2009 – one \$U.S. equals \$1.0722 Canadian dollars).

When appropriate, Manitok may enter into agreements to fix the exchange rate of Canadian dollars to U.S. dollars to manage the risk. The Corporation did not have any forward exchange rate contracts in place as at or during the periods ended September 30, 2010 and June 30, 2010.

*Interest Rate Risk*

Interest rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk on its revolving credit facility which bears a floating rate of interest based on prime lending rates. The remainder of Manitok's financial assets and liabilities are not exposed to interest rate risk.

A 1% change in the Canadian prime interest rate in the September 30, 2010 fiscal period would have increased (decreased) net earnings (loss) and comprehensive earnings (loss) by approximately \$200 (September 30, 2010 – \$1,500), assuming that all other variables remain constant. A sensitivity of 1% is considered reasonable given the current level of the bank prime rate and market expectations for future movements. The Corporation considers this risk to be limited and thus does not hedge its interest rate risk.

Manitok did not have any interest rate swaps or financial contracts in place as at or during the periods ended September 30, 2010 and June 30, 2010.

**Fair Value of Financial Instruments**

Manitok's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and the revolving credit facility. All of Manitok's financial instruments are transacted in active markets. Financial instruments carried at fair value are assessed using the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

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The carrying value and fair value of these financial instruments at September 30, 2010 is disclosed below by financial instrument category, as well as any related loss or interest expense for the period:

(\$)	Carrying Value <sup>(1)</sup>	Fair Value <sup>(1)</sup>	Loss	Interest Expense
<b>Assets Held for Trading</b>				
Cash and cash equivalents <sup>(1)</sup>	8,549,746	8,549,746	-	-
<b>Loans and Receivables</b>				
Accounts receivable <sup>(2)</sup>	359,449	359,449	-	-
<b>Other Liabilities</b>				
Accounts payable and accrued liabilities <sup>(2)</sup>	2,621,520	2,621,520	-	-
Drawn revolving credit facility <sup>(3)</sup>	-	-	-	768

(1) Cash and cash equivalents are reported at fair value, based on a Level 1 designation.

(2) Trade and other receivables and accounts payable and accrued liabilities are reported at amortized cost. Due to the short term nature of trade and other receivables and accounts payable and accrued liabilities, their carrying values approximate their fair values.

(3) The revolving credit facility bears interest at a floating rate and accordingly the fair market value approximates the carrying value.

**9. ASSET RETIREMENT OBLIGATIONS**

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas properties and equipment including well sites, gathering systems, processing facilities and pipelines. Manitok estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations as at September, 2010 to be approximately \$1,788,660 (June 30, 2010 – \$1,476,080) which will be incurred at the end of the operating lives of the underlying petroleum and natural gas assets, estimated to be over the next 20 years, with the majority of costs estimated to be incurred between 2018 and 2030. A credit-adjusted risk-free interest rate of 8% (June 30, 2010 – 8%) and an inflation rate of 2% (June 30, 2010 – 2%) were used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

(\$)	September 30, 2010	June 30, 2010
Opening Balance	790,780	1,010,190
Obligations incurred	171,070	-
Obligations acquired (disposed), net	(14,710)	(32,490)
Changes in estimates	-	(261,920)
Accretion expense	11,940	75,000
<b>Ending Balance</b>	<b>959,080</b>	<b>790,780</b>

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**10. SHARE CAPITAL**

- (a) Authorized:
- Unlimited number of voting common shares
  - Unlimited number of preferred shares issuable in series, with rights and privileges to be designated by the board of directors at the time of issuance
- (b) Issued and outstanding:

	Number of common shares	\$
<b>MEX balance, June 30, 2009</b>	<b>8,176,826</b>	<b>14,436,550</b>
Issued, net of costs (note 10c)	176,956	191,289
Issued, net of costs (note 10d)	1,058,785	1,303,336
Issued, net of costs (note 10e)	1,237,000	1,342,640
Tax effect of share issue costs (note 10f)	-	22,450
Tax effect of share issue costs (note 10g)	-	20,849
Tax effect of flow-through shares (Note 10d)	-	(362,274)
<b>MEX balance, June 30, 2010</b>	<b>10,649,567</b>	<b>16,954,840</b>
Issued, net of costs (note 10h)	4,311,700	4,513,474
Issued, net of costs (note 10i)	3,846,000	4,551,108
Tax effect of share issue costs (note 10j)	-	223,418
<b>MEX balance, July 8, 2010 (prior to the Amalgamation)</b>	<b>18,807,267</b>	<b>26,242,840</b>
Issuance on the Amalgamation, net of costs (note 10k)	2,625,000	157,131
Tax effect of costs of the Amalgamation (note 10l)	-	55,879
Conversion of MEX shareholders on the Amalgamation (note 10m)	(4,701,807)	-
<b>Manitok balance, September 30, 2010</b>	<b>16,730,460</b>	<b>26,455,850</b>

- (c) On December 31, 2009, MEX issued a private placement of 176,956 Class "A" common shares of MEX ("MEX Shares") (equivalent to 132,717 common shares of Manitok ("Manitok Shares")) at a price of \$1.15 per MEX Share (equivalent to \$1.53 per Manitok Share) for total net proceeds of \$191,289.
- (d) On December 31, 2009, MEX issued a private placement of 1,058,785 MEX Shares on a "flow-through" basis under the *Income Tax Act (Canada)* ("MEX Flow-through Shares") (equivalent to 794,089 Manitok Shares issued on a "flow-through" basis under the *Income Tax Act (Canada)* ("Manitok Flow-through Shares")) at a price of \$1.30 per MEX Flow-through Share (equivalent to \$1.73 per Manitok Flow-through Share) for total net proceeds of \$1,303,336. The Corporation has until December 31, 2010 to incur the \$1,376,421 in renounced exploration expenditures.
- (e) On February 12, 2010, MEX issued a private placement of 1,237,000 MEX Shares (equivalent to 927,750 Manitok Shares) at a price of \$1.15 per MEX Share (equivalent to \$1.53 per Manitok Share) for total net proceeds of \$1,342,640.
- (f) MEX recognized a future income tax benefit of \$22,450 in respect of share issue costs of \$85,295 incurred with respect to the issuance of 176,956 MEX Shares and 1,058,785 MEX Flow-through Shares on December 31, 2009.
- (g) MEX recognized a future income tax benefit of \$20,849 in respect of share issue costs of \$79,212 incurred with respect to the issuance of 1,237,000 MEX shares on February 12, 2010.
- (h) On July 8, 2010, immediately prior to the Amalgamation, MEX issued a private placement of 4,311,700 MEX Shares (equivalent to 3,233,775 Manitok Shares) at a price of \$1.15 per MEX Share (equivalent to \$1.53 per Manitok Share) for total net proceeds of \$4,513,474.

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- (i) On July 8, 2010, immediately prior to the Amalgamation, MEX issued a private placement of 3,846,000 MEX Flow-through Shares (equivalent to 2,884,500 Manitok Flow-through Shares) at a price of \$1.30 per MEX Flow-through Share (equivalent to \$1.73 per Manitok Flow-through Share) for total net proceeds of \$4,551,108. The Corporation has until December 31, 2011 to incur the \$4,999,800 in exploration expenditures to be renounced in the 2010 calendar period.
- (j) MEX recognized a future income tax benefit of \$223,418 in respect of share issue costs of \$893,673 incurred with respect to the issuance of 4,311,700 MEX Shares and 3,846,000 MEX Flow-through Shares on July 8, 2010.
- (k) On the Amalgamation each Desco shareholder received 0.375 of a Manitok Share for every one Desco share held on July 8, 2010. As of the Amalgamation date, Desco had 7,000,000 common shares issued and outstanding with \$157,131 in total net identifiable assets distributed to Manitok, net of costs incurred with respect to the Amalgamation.
- (l) Manitok recognized a future income tax benefit of \$55,879 in respect of \$298,022 in costs incurred with respect to the Amalgamation.
- (m) On the Amalgamation each MEX shareholder received 0.75 of a Manitok Share for every one MEX share held on July 8, 2010. As of the Amalgamation date, MEX had 18,807,267 MEX Shares issued and outstanding.

**11. STOCK-BASED COMPENSATION**

**Stock Options**

On June 25, 2010, Manitok shareholders approved an Incentive Stock Option Plan (the “Plan”) whereby officers, employees, directors and key consultants may be granted options to purchase Manitok Shares at a fixed price not less than the fair market value of the stock at the time of grant, subject to certain conditions being met. Stock options granted under this Plan vest over a three year period at the rate of one-third on each anniversary date of the stock option grant. All stock options granted are for a five year term.

A summary of the Corporation’s outstanding stock options as at September 30, 2010 is presented below:

	Number	Weighted Average Exercise Price (\$)
<b>MEX balance, June 30, 2009</b>	<b>702,500</b>	<b>2.09</b>
Granted	-	-
Cancelled or forfeited	-	-
<b>MEX balance, June 30, 2010</b>	<b>702,500</b>	<b>2.09</b>
Granted <sup>(1)</sup>	1,588,500	1.10
Cancelled or forfeited <sup>(2)</sup>	(702,500)	(2.09)
<b>Manitok balance, September 30, 2010</b>	<b>1,588,500</b>	<b>1.10</b>

(1) Pursuant to the Plan, Manitok granted 1,588,500 stock options at a price of \$1.10 per Manitok Share on August 16, 2010.

(2) Pursuant to the Amalgamation, 702,500 of MEX’s unexercised stock options have been terminated and cancelled for nominal consideration on July 8, 2010.

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The range of exercise prices for stock options outstanding and exercisable under the Plan at September 30, 2010 is as follows:

Exercise Prices		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
\$1.00	\$1.99	1,588,500	4.9	\$1.10	-	-	-
		<b>1,588,500</b>	<b>4.9</b>	<b>\$1.10</b>	-	-	-

**Performance Warrants**

On July 1, 2006, MEX issued performance warrants (“**MEX Warrants**”) with an exercise price of \$2.00 that vest upon certain performance criteria and have an expiration date of July 1, 2011. The performance criteria would be met when the market price of the common shares equals or exceeds \$4.00 per common share and it is combined with a liquidity event. The liquidity event can be either an outright sale or merger of the Corporation or any event which causes the Corporation to become a public entity.

Pursuant to the Amalgamation on July 8, 2010, 267,500 of the MEX Warrants have been terminated and cancelled for nominal consideration. At September 30, 2010 there were no MEX Warrants outstanding (June 30, 2010 – 267,500).

**Stock-Based Compensation Expense**

In order to calculate the compensation expense, the fair value of the stock options are estimated using the Black-Scholes option-pricing model that takes into account, as of the grant date: exercise price, expected life, current price, expected volatility, expected dividends, and risk-free interest rates.

For the period ended September 30, 2010, the Corporation recorded \$88,540 (September 30, 2009 – \$15,194) of non-cash stock-based compensation expense and a corresponding increase to contributed surplus.

The fair value of each option granted in the period is estimated using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	September 30, 2010	September 30, 2009
Weighted average fair value of options granted	\$0.75	-
Risk-free interest rate	2.05%	-
Expected life (years)	4.5	-
Expected volatility	90.3%	-
Expected dividends	0.0%	-

**Contributed Surplus Continuity**

The following table presents the reconciliation of contributed surplus with respect to stock-based compensation:

(\$)	September 30, 2010	June 30, 2010
Opening Balance	514,390	458,861
Stock-based compensation expense	88,540	55,529
<b>Ending Balance</b>	<b>602,930</b>	<b>514,390</b>

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**12. PER SHARE INFORMATION**

	September 30, 2010	September 30, 2009
MEX weighted average shares outstanding	18,186,573	8,176,826
Issuance on the Amalgamation, net of costs (note 10k)	2,425,272	-
Conversion factor of MEX Shares on the Amalgamation (note 10m)	(4,344,061)	(2,044,206)
Manitok weighted average shares outstanding	16,267,784	6,132,620

Because the Corporation reported a loss for the three months ended September 30, 2010 and 2009, the basic and diluted weighted average shares outstanding are the same for that period.

**13. COMMITMENTS AND CONTINGENT LIABILITIES**

The Corporation is committed to incur exploration expenditures of \$1,376,421 related to the MEX Flow-through Share issuance completed on December 31, 2009, as indicated in note 10(d). Manitok will be subject to Part XII.6 tax based on the prescribed rate on the balance of exploration expenditures not yet incurred at the end of each month subsequent to January 31, 2010. As at September 30, 2010, the costs incurred were approximately \$400,000.

The Corporation is committed to incur exploration expenditures of \$4,999,800 related to the MEX Flow-through Share issuance completed on July 8, 2010, as indicated in note 10(i). Manitok will be subject to Part XII.6 tax based on the prescribed rate on the balance of exploration expenditures not yet incurred at the end of each month subsequent to January 31, 2011. As at September 30, 2010, the costs incurred were nil.

On February 17, 2010, Manitok committed to an operating lease relating to its office premises beginning May 1, 2010 which expires on June 30, 2015. Under this commitment the Corporation will pay a monthly rate of approximately \$25,220, excluding occupancy costs, until the lease expires. The Corporation is committed to the following aggregate minimum lease payments:

Year	\$
2010	75,660
2011	302,640
2012	302,640
2013	302,640
2014	302,640
Thereafter	126,100

The Company was issued a statement of claim from a previous employee claiming wrongful dismissal. The Company has filed a statement of defense and a counterclaim and management intends to vigorously defend the claim. The Company believes the employee's claim is without merit.

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**14. SUPPLEMENTARY CASH FLOW INFORMATION**

The following table details the components of non-cash working capital:

(\$)	September 30, 2010	September 30, 2009
Provided by (used in)		
Accounts receivable	216,370	(43,845)
Prepaid and deposits	(35,990)	-
Accounts payable and accrued liabilities	1,842,406	(166,984)
	<b>2,022,786</b>	<b>(210,829)</b>
Provided by (used in)		
Operating	189,707	4,190
Investing	1,833,079	(215,019)
	<b>2,022,786</b>	<b>(210,829)</b>

**15. SUBSEQUENT EVENTS**

**Revolving Credit Facility**

On October 20, 2010, the Corporation amended its agreement with a major Canadian lender for a demand revolving credit facility of \$2,500,000 with similar terms and conditions as the prior agreement. The facility is subject to a review by the lender at any time in its sole discretion, and at least annually. The next annual review date has been set for May 31, 2011, but may be set at an earlier or later date at the sole discretion of the lender.

**16. RECLASSIFICATION**

Certain amounts disclosed for prior periods have been reclassified to conform to the current period's presentation.

**OFFICERS**

Massimo M. Geremia  
President and Chief Executive Officer

Tim de Freitas, M.Sc., Ph.D.  
Vice President, Exploration and  
Chief Operating Officer

Robert G. Dion, C.A.  
Vice President, Finance and Chief  
Financial Officer

Dorothy Else  
Vice President, Land

Gregory E. Peterson  
Corporate Secretary

**DIRECTORS**

Bruno P. Geremia, C.A. <sup>(1) (2) (3)</sup>  
Chairman of the Board  
Calgary, Alberta

Robert J. Dales <sup>(1) (2) (4)</sup>  
Calgary, Alberta

Wilfred A. Gobert <sup>(2) (3)</sup>  
Calgary, Alberta

Gregory E. Peterson <sup>(3)</sup>  
Calgary, Alberta

Tom Spoletini <sup>(2) (3)</sup>  
Calgary, Alberta

Cameron G. Vouri, P. Eng. <sup>(1)</sup>  
Calgary, Alberta

Massimo M. Geremia <sup>(1) (2)</sup>  
Calgary, Alberta

**SOLICITORS**

Gowling Lafleur Henderson LLP  
Calgary, Alberta

**AUDITORS**

Kenway Mack Slusarchuk Stewart LLP  
Chartered Accountants  
Calgary, Alberta

**INDEPENDENT RESERVE EVALUATORS**

Sproule Associates Limited  
Petroleum Consultants  
Calgary, Alberta

**BANKERS**

Alberta Treasury Branch  
Calgary, Alberta

**TRANSFER AGENT**

Valiant Trust Company  
Calgary, Alberta

**STOCK EXCHANGE LISTING**

TSX Venture Exchange  
Symbol: MEI

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<sup>(1)</sup> Reserve Committee Member

<sup>(2)</sup> Audit Committee Member

<sup>(3)</sup> Compensation Committee Member

<sup>(4)</sup> added as director on July 8, 2010