

CANADA GAS CORP.
(An Exploration Stage Company)
MANAGEMENT DISCUSSION & ANALYSIS
For The Year Ended January 31, 2010

(May 26, 2010)

FORWARD LOOKING STATEMENTS

Certain statements contained in the report constitute forward-looking statements. When used in this document the words “anticipate”, “believe”, “estimate”, “expect”, “plan”, “future”, “intend”, “may”, “will”, “should”, “predicts”, “potential”, “continue”, and similar expressions, as they relate to Canada Gas Corp. or its management, are intended to identify forward-looking statements. Such statements reflect current views of Canada Gas Corp. with respect to future events and are subject to certain known and unknown risks, uncertainties and assumptions. These statements should not be relied upon. Many factors could cause the actual results, performance or achievements to be materially different for many future results, performance or achievements that may be expressed or implied by such forward-looking statements. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward looking statements prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. Canada Gas Corp. does not intend, and does not assume any obligation to update these forward looking statements.

DESCRIPTION OF BUSINESS

The Canada Gas Corp. (the “Company”) is engaged in the business of acquiring, exploring and, if warranted, developing natural gas resource properties. The Company currently has natural gas production in the following property:

1. Trutch Area - North Eastern British Columbia

The Company has the following non producing property:

1. Prophet River- Northeastern British Columbia

OIL AND GAS PROPERTIES

Trutch Area

Through Participation Agreements with Tenaka Drilling Consortium Ltd. (“Tenaka”), the Company has the following working interest:

- (a) a total of 28 sections with the Company’s working interest varying from 9% to 30% depending on the zone drilled;
- (b) four (4) producing wells with a 9% working interest;
- (c) one (1) shut in well with a 15% interest;
- (d) two (2) abandoned wells; and
- (e) 15% working interest in a 14 km, 6” gathering pipeline.

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OIL AND GAS PROPERTIES (Continued)

Trutch Area (Continued)

Working Interest	Lease Description/ Rights Held	Rights Held	Wells	Burdens
28 SECTIONS				
9%	NTS 94-G-15 BLK A UNIT 14, 15, 24, 25	All PNG to Base Artex-Halfway-Doig	200/C-25-A/94-G-15/00	5% GORR
9%	NTS 94-G-15- BLK A UNIT 16, 17, 26, 27	All PNG to Base Artex-Halfway-Doig		5% GORR
9%	NTS 94-G-15 BLK A UNIT 20, 30			
9%	NTS 94-G-15 BLK B UNIT 11, 21	All PNG to Base Atrex-Halfway-Doig		10% GORR 10% GORR
15% BPO, 9% APO	NTS 94-G-15 BLK A UNIT 36, 37, 46, 47	All PNG to Base Atrex-Halfway-Doig	200/C-36-A/94-G-15/00	20% GORR Payout Conver
9%	NTS 94-G-15 BLK A UNIT 38, 39,, 48, 49	All PNG to Base Atrex-Halfway-Doig	200/A-38-A/94-G-15/00	10% GORR
9%	NTS 94-G-15 BLK A UNIT 40, 50			
9%	NTS 94-G-15 BLK B UNIT 31, 41	All PNG to Base Atrex-Halfway-Doig		10% GORR
9%	NTS 94-G-15 BLK A UNIT 56, 57, 66, 67	All PNG to Base Atrex-Halfway-Doig	200/B-56-A/94-G-15/00	10% GORR
24%	NTS 94-G-15 BLK A UNIT 56-60, 66-70			
	NTS 94-G-15-BLK B UNIT 32-35, 42-45, 51-55, 61-65	All PNG below the base Atrex-Halfway-Doig to top of Slave Point		10% GORR
30%	NTS 94-G-15-BLK A UNIT 56-60, 66-70			
	NTS 94-G-15-BLK B UNIT 32-35, 42-45, 51-55, 61-65	All PNG below top Slave Point to base of Sulphur Point-Muskeg-Keg River- Pine Point	200/D-62-B/94-G-15/00	10% GORR
9%	NTS 94-G-15 BLK A UNIT 56-60, 66-70			
	NTS 94-G-15-BLK B UNIT 32-35, 42-45, 51-55, 61-65	All PNG to Base Atrex-Halfway-Doig		10% GORR
9%	NTS 94-G-15 BLK A UNIT 76-79, 86-89, 94-99			
	NTS 94-G-15 BLK B UNIT 14, 15, 24, 25		200/B-86-A/94-G-15/00	
9%	NTS 94-G-15 BLK H UNIT 4-9	All PNG to top of Slave Point	Canada Gas has 30% WI in the B-86-A wellbore	10% GORR
15%	NTS 94-G-15 BLK B UNIT 12, 13, 22, 23	All PNG to Base Atrex-Halfway-Doig	200/A-13-B/94-G-15/00	10% GORR
33.30%	NTS 94-G-15 BLK K UNIT 92, 93			
	NTS 94-G-15 BLK C UNIT 02, 03	All PNG to Basement		
PRODUCING WELLS				
9%			200/C-25-A/94-G-15/00	10% GORR
15% BPO				
9% APO			200/C-36-A/94-G-15/00	20% GORR
9%			200/A-38-A/94-G-15/00	10% GORR
9%			200/B-56-A/94-G-15/00	10% GORR
15%			200/A-13-B/94-G-15/00	10% GORR
SHUT IN WELL				
30%			200/B-86-A/94-G-15/00	
PIPELINE				
15%	14km- 6 inch pipeline			

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OIL AND GAS PROPERTIES (Continued)

Trutch Area (Continued)

To date, seven wells have been drilled on the Trutch Area property including four successfully producing Triassic Halfway wells including the C-36-A/94-G-15, B-56-A/94-G-15, C-25-A/94-G-15, and A-38-A/94-G-15. The shut-in on B-86-A/96-G-15 has been completed.

Production began in February 2007 for both the C-36-A/94-G-15, B-56-A/94-G-15 and C-25-A/94-G-15 wells and January 2008 for the A-38-A/94-G-15 well. For the period ended January 31, 2010, the Company's interest in total production for the four wells was 20,759 MCF, equivalent daily rate of 54.49 MCF/day for the year ended January 31, 2010 (2009-29,286 MCF, equivalent daily rate 84.64 MCF/day).

Prophet River

On January 31, 2008, the Company purchased 33.33% of the Prophet River property which included 19 square mile surface to basement and 2 square miles base of debolt to basement. This 33.33% working interest is subject to a non-convertible 2.5% overriding royalty to the 100% working interest.

The Company acquired 33.33% of the Prophet River 3-D seismic program, including data, related interpretation, and full trading rights for \$716,667 to date. The terms of the acquisition include a sublicense of the data without trading rights to the contract operator.

During the year ended January 31, 2009, the Company engaged Sproule Associates Ltd., Independent Qualified Reserves Evaluator in Calgary to perform an independent exploration and development review of the Prophet River property, specifically related to the seismic and D-60-E/94-G-15 well log interpretation. As a result of this analysis, the Company plans to conduct additional testing on the D-60-E/94-G-15 well in the future dependent upon economics and the Company's ability to finance.

Oil and Gas Properties Summary

Gross revenue of all four producing wells from Trutch property for the year ended January 31, 2010 was \$120,000 (2009- \$299,967). Net gain from production was \$16,108 (2009- loss \$85,950). Direct expenses included operating expense \$53,225 (2009- \$85,877), royalties \$25,192 (2009- \$35,114), and depletion and accretion expense \$25,475 (2009- \$264,926). Total production volume for the period was 20,759 MCF (2009- 29,286 MCF), equivalent to 54.49 MCF per day (2009- 84.64 MCF per day). The weighted average natural gas price received was \$3.65 per GJ (2009- \$7.64 per GJ).

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CORPORATE INTERNAL CONTROLS

The Company practices strict internal controls through proper segregation of responsibilities and internal reporting of its personnel. Agreements and commitments that involve cash and/or share capital distribution such as private placements, stock option grant, property, service, and consulting agreements require Board of Directors approval through Directors' Resolution. The Company's drilling and exploration programs and budgets are planned and approved by the Company's President & CEO, Directors and senior Officers. All cash distribution requires the Company's President & CEO, and CFO approval to ensure that all expenses are accurate and aligned with the Company's budget. Approved share capital distribution is executed through Treasury Orders that requires final approval from the Company's President & CEO, and CFO. These internal control procedures are established and strictly practiced to ensure the Company's goals and best interest are effectively carried out.

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at January 31, 2010 and has concluded, based on its evaluation, that these controls and procedures provide reasonable assurance that material information relating to the Company is made known to management and reported as required.

Management is also responsible for the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management believes the design to be sufficient and appropriate to provide such reasonable assurance.

OPERATING RESULTS, FINANCIAL CONDITION, LIQUIDITY AND SOLVENCY

Current Economic Conditions:

The Company has taken considerable efforts to reduce all operating and overhead costs to match revenues from natural gas production. Revenues from the Company's producing wells were not sufficient to match the Company's operating cost. As a result, the Company's net cash flow from production does not accommodate the Company's administrative and overhead expenses, resulting in net operating loss of \$205,904 (2009- \$1,570,644) for the year ended January 31, 2010. The Company will require external financing to continue its operation, realize its assets and discharge its liabilities.

As at January 31, 2010, the Company has working capital deficit of \$347,703 (2009- deficit \$467,583) and current liabilities valued at \$381,145 (2009- \$536,573), of which \$248,563 (2009- \$200,956) were owed to related parties. During the year, the Company have reduced \$163,329 (2009- \$nil) of liabilities owing in related parties through shares for debt and debt assignment arrangements.

Due to insufficient working capital, the Company entered into a Loan Agreement with a Director of the Company for an amount of \$100,000 on April 30, 2010. The loan will be due and repayable on October 31, 2010 and shall bear an interest of 5% per annum on the outstanding principal balance after the maturity date. As consideration for the loan, the Company will pay the Lender a bonus of 20% of the principal, payable in common shares at a deemed price of \$0.05 per share. At Maturity Date, the Lender may wish to convert any portion of the outstanding principal amount into units of the Company. Each unit will have a deemed price \$0.05 per unit, consisting of one common share and one common share purchase warrant at an exercise price of \$0.10 per share for a period of three years from the date of issuance. The proceeds from the loan were used to pay crucial outstanding liabilities to allow the Company to continue to meet its listing obligations.

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OPERATING RESULTS, FINANCIAL CONDITION, LIQUIDITY AND SOLVENCY (Continued)

Current Economic Conditions (Continued):

On April 28, 2010, the Company entered into an agreement to sell its interests in the Trutch Area natural gas projects to Hemisphere Energy Corporation for total consideration of \$300,000 in cash and \$50,000 in common shares. The closing of this transaction is anticipated to occur on or before July 15, 2010 and is subject to shareholder and regulatory approvals. The Company has scheduled an Annual and Special Meeting of the Shareholders on June 16, 2010 to approve this transaction. Management is also continuously prospecting other opportunities that will add value to the Company. Management is confident that successful completion of the private placement, monetizing its assets, and acquiring new value added projects will provide the Company with the opportunity to continue its normal course of business, realize its assets and discharge its liabilities.

Year Ended Summary

For the year ended January 31, 2010, the Company reported \$94,808 (2009- \$264,853) in net revenue (gross revenue net of royalties), \$53,225 (2009- \$85,877) in operating expenses, and \$25,475 (2009- \$264,926) in depletion and accretion expenses resulting in net revenues of \$16,108 (2009- loss \$85,950) from four producing Trutch wells. The Company incurred \$346,730 (2009- \$1,151,898) in general and administrative expenses predominately made up of management fees \$106,000 (2009- \$131,000), professional fees \$85,534 (2009- \$187,242), filing fees \$24,313 (2009- \$43,101), office expenses \$22,146 (2009- \$37,315), and rent \$18,058 (2009- \$17,686). The Company made major reductions to general and administrative expenses during the period due to less corporate activities compared to the same period last year. Stock based compensation expenses during the period was \$nil compared to \$280,476 in 2009 due to the issuance of 2,300,000 stock based compensation options. Stock based compensation options were not issued during the period. Total loss before other items was \$251,922 (2009- \$887,045).

On November 23, 2009, the Company entered into a Debt Assignment Agreement with Award Ventures Ltd. "AVL", formerly Wyn Metals Inc., a director of the Company, and an arms length third party Lender. In accordance with the terms of the Debt Assignment Agreement, the Company assigned \$22,829 of outstanding accounts payable owed to the director of the Company to AVL. The Company also assigned to AVL \$85,000 in outstanding short term loan payable to an arms length third party for the outstanding principal of the March 9, 2007 short term loan. As a result of this Debt Assignment Agreement, the Company reduced its amounts due to a related party and short term loan by \$107,829 and recorded a net recovery of \$106,065 for the year ended January 31, 2010. This recovery was related to legal, accounting and audit, filing and administrative fees directly related to the Wyn Metals Inc. spin off on June 10, 2008. This receivable was initially recorded as a receivable from Wyn Metals Inc., and subsequently written off due to the unlikelihood of collecting this receivable.

As a result of the \$106,065 recovery and impairment on oil and gas interest of \$60,047 (2009- \$683,599), the Company's net loss during the period was \$205,904 (2009- \$1,570,644) resulting in \$24,701,039 (2009- \$24,495,135) of total deficit to date.

As at January 31, 2010, the Company reported current assets of \$33,442 (2009- \$68,990) and current liabilities of \$381,145 (2009- \$536,573) resulting in working capital deficit of \$347,703 (2009- \$467,583). Current liabilities include \$248,563 (2009- \$200,956) that were owed to related parties. During the year, the Company have reduced \$163,329 (2009- \$nil) of liabilities owing in related parties through the October 7, 2009 shares for debt settlements and the November 23, 2009 debt assignment arrangements with AVL. On October 7, 2009, the Company received regulatory approval and completed shares for debt agreements to settle \$255,000 of short term loans and accounts payable including \$140,500 owed to related parties and \$114,500 owed to short term loan lenders. The Company issued 5,100,000 common shares with a deemed value of \$0.05 per share and are subject to a four month hold period. The shares for debt agreements have significantly reduced the Company's current liabilities.

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OPERATING RESULTS, FINANCIAL CONDITION, LIQUIDITY AND SOLVENCY (Continued)

During the year, the Company capitalized \$36,742 (2009- \$114,994) in deferred exploration cost for its Trutch properties. The Company also recovered \$12,905 (2009- \$nil) for past drilling expenses. These amounts were not included in the calculation of depletion expenses during the period. Per the January 31, 2010 Reserve Report, the Company realized an impairment \$60,047 (2009- \$683,599) on its oil and gas interests. At January 31, 2010, the value of the Company's fixed assets was \$300,310 (2009- \$371,094). This does not include the fair value of the Company's non reserve oil and gas properties based on recent assessments.

Three Month Period Ended Summary

For the three months ended January 31, 2010, the Company received gross revenue of \$38,585 (2009- \$45,020) from natural gas production from four wells located in the Trutch property. The total production cost including royalties, operating, depletion and accretion costs were \$31,296 (2009- \$225,330)), resulting in a net revenue of \$7,290 (2009- loss \$180,330) from production.

Total general and administrative expense for the period was \$101,306 (2009- \$140,743) generally made up of professional fees \$41,522 (2009- recovery \$22,073), management fees \$22,750 (2009- \$83,000), office expense \$11,084 (2009- \$17,507), filing fees \$8,367 (2009- recovery \$5,099), and rent expense \$5,956 (2009- \$4,427). Due to the lack of corporate activities, the Company reduced expenses in most categories compared to the same period last year.

During the period, the Company entered into a Debt Assignment Agreement with AVL, a director of the Company, and an arms length third party Lender. In accordance with the terms of the Debt Assignment Agreement, the Company assigned \$107,829 of outstanding accounts payable and loans payable owed to a director of the Company and an arms length third party to AVL. As a result of this Debt Assignment Agreement, the Company reduced its amounts due to a related party and short term loan by \$107,829 and recorded a net recovery of \$106,065. This recovery was related to legal, accounting and audit, filing and administrative fees directly related to the Wyn Metals Inc. spin off on June 10, 2008. This receivable was initially recorded as a receivable from Wyn Metals Inc., and subsequently written off due to the unlikelihood of collecting this receivable.

As a result of the January 31, 2010 Reserve Report, the Company recognized an impairment of \$60,047 (2009- \$683,599) on its oil and gas interests. The Company reports a net loss of \$47,981 (2009- \$1,319,802) for the three months period ended January 31, 2010.

Table 1. General and Administrative Expenses Summary

	Three Month Ended January 31, 2010	Three Month Ended January 31, 2009
Professional fees	\$ 41,522	\$ (22,073)
Management fees	22,750	83,000
Office expense	11,084	17,507
Filing and transfer agent fees	8,367	(5,099)
Rent expense	5,956	4,427
Investor communications	2,420	(35,845)
Interest and bank charges	109	11,765
Consulting fees	-	19,941
Bad debt expense	-	2,624
Depreciation expense	9,098	5,622
Stock based compensation cost	-	58,874
Total Administrative Expenses	\$ 101,306	\$ 140,743

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CORPORATE ACTIVITIES

The Board of Directors and Officers of the Company include – Chad McMillan, President and C.E.O., David McMillan, Robert Krause, and Marc Tran.

Chad McMillan was appointed President & CEO effective January 19, 2009.

The officers and directors as at the date of this report are as follows:

Chad McMillan*	President, CEO, Audit Committee Member
David McMillan*	Chairman of the Board, Audit Committee Member
Robert Krause*	Audit Committee Member
Marc Tran*	CFO

*Director

RELATED PARTY TRANSACTION

Related party transactions for the year ended January 31, 2010 are as follows:

- (a) Included in management fees is \$106,000 (2009 – \$131,000) paid to companies controlled by directors/officers for management services. At January 31, 2010, the Company has an outstanding balance of \$107,025 (2009 – \$38,194) payable to these directors/officers;
- (b) During the year, the Company expensed entertainment, travel and promotion expenses of \$5,408 (2009 – \$2,089) payable to a director/officer of the Company. At January 31, 2010, an outstanding balance of \$5,408 (2009 – \$nil) is payable to this director/officer;
- (c) The Company expensed \$50,830 (2009 – \$40,166) for rent, office expense and investor relations and accounting fees to a company controlled by directors/officers of the Company for use of shared office space. A balance of \$113,565 (2009 – \$162,762) was outstanding at January 31, 2010;
- (d) During the year, the Company expensed \$39,000 (2009 – \$39,000) for accounting fees payable to a company controlled by an officer of the Company. At January 31, 2010 \$22,565(2009 – \$nil) is payable to this officer;

All of the above transactions and balances are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

- (e) During the year, the Company entered into shares for debt agreements to settle \$140,500 of accounts payable due to related parties by issuing 2,810,000 common shares at a deemed value of \$0.05 per share. The transaction received regulatory approval on October 7, 2009. These common shares were issued and subject to a four month hold period; and
- (f) On November 23, 2009, the Company entered into a debt assignment agreement with AVL, an arms length third party, and a director of the Company. The Company assigned \$22,829 of outstanding accounts payable owed to this director to AVL. As a result of the debt assignment, the Company reduced its liabilities and recorded a recovery of \$22,829 (see note 7).

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INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

The Accounting Standards Board of Canada (“AcSB”) plans to converge Canadian GAAP for publicly accountable enterprises with IFRS over a transition period that will end January 1, 2011 with the adoption of IFRS. The AcSB announced on February 13, 2008 that IFRS will be required in 2011 for publicly accountable profits oriented enterprises. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will present its first set of IFRS compliant financial statements for the year ending January 31, 2011. The Company is currently working on its IFRS conversion project which consists of four phases: diagnosis, design and planning, solution development and implementation. The plan addresses the impact of IFRS on accounting policies and implementation decisions, business activities and control activities. The Company plans to complete in a near future the first phase of its IFRS conversion, consisting in a preliminary study of the existing financial information and identifying the main areas where IFRS might have an impact. The IFRS conversion is a major initiative for the Company and all the necessary resources are being allocated to ensure the project’s smooth transition. Throughout the 2010 fiscal year, the Company will be reporting on the progress of its IFRS implementation plan in its MD&A.

SELECTED ANNUAL FINANCIAL INFORMATION

The Company’s year end is January 31. Please refer to Notes to the Financial Statements for accounting policies. Unless otherwise indicated all dollar amounts refer to Canadian dollars.

	Year ended January 31, 2010	Year ended January 31, 2009	Year ended January 31, 2008
Revenues	94,808	264,853	392,870
G&A Expenses	346,730	1,151,898	766,982
Net Loss(Gain)	205,904	1,570,644	10,363,386
-per share basic & diluted	0.01	0.08	0.13
Working Capital (Deficiency)	(347,703)	(467,583)	(691,213)
Total Assets	333,752	440,084	2,226,208
Deferred Mineral and Oil and Gas Property Expenditures	291,020	352,705	1,200,015
Liabilities(L.T.)	-	-	-
Cash Dividends	-	-	-

SELECTED QUARTERLY FINANCIAL INFORMATION

	4 th Quarter Ended January 31, 2010	3 rd Quarter Ended October 31, 2009	2 nd Quarter Ended July 31, 2009	1 st Quarter Ended April 30, 2009
(a) Revenue	38,358	26,780	22,646	31,989
(b) Loss (Gain) for period	47,981	61,281	55,602	41,040
(c) Loss (Gain) per share	0.002	0.002	0.003	0.002
(d) Natural gas production (MCF)	5,189	5,387	5,379	4,805
	4 th Quarter Ended January 31, 2009	3 rd Quarter Ended October 31, 2008	2 nd Quarter Ended July 31, 2008	1 st Quarter Ended April 30, 2008
(a) Revenue	45,040	65,575	94,760	94,592
(b) Loss for period	1,319,802	(93,626)	184,369	160,099
(c) Loss per share	0.06	(0.005)	\$0.01	\$0.01
(d) Natural gas production (MCF)	2,196	8,287	9,004	10,339
	4 th Quarter Ended January 31, 2008	3 rd Quarter Ended October 31, 2007	2 nd Quarter Ended July 31, 2007	1 st Quarter Ended April 30, 2007
(a) Revenue	72,832	76,017	142,327	101,694
(b) Loss for period	9,492,276	25,025	722,189	123,896
(c) Loss per share	0.1220	0.0003	0.0100	0.0020
(d) Natural gas production (MCF)	8,125	9,276	12,379	19,166

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SUBSEQUENT EVENTS

- (a) On April 30, 2010, the Company entered into a Loan Agreement with a Director (the "Lender") of the Company for an amount of \$100,000 (the "Loan"). The Loan will be due and repayable on October 31, 2010 (the "Maturity Date"). The Loan shall bear an interest of 5% per annum on the outstanding principal balance after the Maturity Date. As consideration for the Loan, the Company will pay the Lender a bonus of 20% of the principal, payable in common shares at a deemed price of \$0.05 per share. At Maturity Date, the Lender may wish to convert any portion of the outstanding principal amount into units of the Company. Each unit will have a deemed price \$0.05 per unit, consisting of one common share and one common share purchase warrant at an exercise price of \$0.10 per share for a period of three years from the date of issuance.

The Loan Agreement is subject to TSX-V approval.

- (b) On April 28, 2010, the Company entered into an agreement to sell its interests in the Trutch natural gas project. The acquisition includes a range of 9-30% working interest in various assets throughout the property. Total consideration for the acquisition is \$300,000 in cash and \$50,000 in shares of the Purchaser. The closing of this transaction is anticipated to occur on or before July 15, 2010.
- (c) On May 14, 2010, Harold Forzley, President and CEO of Pacific Cascade Minerals Inc., and Director of Grande Portage Ltd., was appointed Director of the Company.

Chad McMillan
CEO
Canada Gas Corp.
May 26, 2010