

CANADA GAS CORP.
(An Exploration Stage Company)
MANAGEMENT DISCUSSION & ANALYSIS
For The Nine Month Period Ended October 31, 2010

(December 21, 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 have the following non producing natural gas property:

1. Prophet River- Northeastern British Columbia

OIL AND GAS PROPERTIES

Trutch Area

Through Participation Agreements with Tenaka Drilling Consortium Ltd. (“Tenaka”), the Company had 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)

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.

The Company received shareholder approval at its Annual and Special Meeting of the Shareholders on June 16, 2010 and TSX Venture Exchange approval on July 26, 2010 and closed the sale of its Trutch Area property and pipelines to Hemisphere Energy Corporation ("Hemisphere"). The June 21, 2010 Purchase and Sale Agreement (the "Agreement") between the Company and Hemisphere entitled Hemisphere to 100% title and interest in the Company's ownership in various Trutch Area assets effective June 1, 2010. As consideration, Hemisphere paid the Company an aggregate of \$350,000 comprised of \$300,000 cash and 214,225 common shares of Hemisphere with a deemed value of \$50,000. As at October 31, 2010, these common shares from Hemisphere have a fair market value of \$55,698 (2009- \$nil). The Company recorded a gain of \$134,398 as a result of this disposition.

Prophet River

On January 31, 2008, the Company purchased 33.33% of the Prophet River property which included 19 square miles surface to basement and 2 square miles base of debolt to basement. The Company currently has 33.33% working interest in 10 square mile surface to base of Keg River and 2 square miles base of debolt to basement. This 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

The disposition of the Trutch Area property was effective June 1, 2010, revenues of all four producing wells ended May 31, 2010. Net revenue up to May 31, 2010 was \$29,358 (2009- \$61,634), direct expenses included operating expense \$26,939 (2009- \$34,861), and depletion and accretion expense \$9,091 (2009- \$11,743) resulting in a net loss of \$6,672 (2009- net gain \$8,818). Total production volume for the period was 6,187 MCF (2009- 15,571 MCF), equivalent to 51.56 MCF per day (2009- 58.98 MCF per day). The weighted average natural gas price received was \$3.97 per GJ (2009- \$3.40 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 October 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 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. For the period ended October 31, 2010, the Company reported net operating loss before extraordinary items of \$133,901 (2009- \$157,923). The Company will require external financing to continue its operation, realize its assets and discharge its liabilities.

On April 30, 2010, the Company entered into a Short Term Loan Agreement (the "Loan Agreement") with a Director (the "Lender") of the Company. The short term loan matures on October 31, 2010 ("Maturity Date"). As consideration, the Company issued 133,333 common shares with a deemed value of \$20,000 to the Lender. The short term loan bears zero interest unless the loan remains outstanding after the Maturity Date. If the principal balance is not paid in full by Maturity Date, the Company is obligated to pay interest of 5.0% pa to the Lender calculated from Maturity Date. Anytime after the Maturity Date, the Lender has the option to convert the outstanding principal to Units at \$0.15 per Unit. Each Unit is comprised of one common share and one common share purchase warrant of the Company exercisable at \$0.30 per share for a period three years from conversion date. The proceeds from the loan were used to pay crucial outstanding liabilities to allow the Company to continue to meet its listing obligations including legal and audit fees. The Company received TSX-V approval for the Loan Agreement on June 7, 2010. As at October 31, 2010, the outstanding balance of this loan is \$100,000.

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

Current Conditions (Continued):

The Company received shareholder approval at its Annual and Special Meeting of the Shareholders on June 16, 2010 and TSX Venture Exchange approval on July 26, 2010 and closed the sale of its Trutch Area property and pipelines to Hemisphere. Hemisphere paid the Company an aggregate of \$350,000 comprised of \$300,000 cash and 214,225 common shares of Hemisphere with a deemed value of \$50,000. Proceeds from the disposition were used to reduce accounts payable. As at October 31, 2010, these common shares from Hemisphere have a fair market value of \$55,698 (2009- \$nil). The Company recorded a gain of \$134,398 as a result of this disposition.

On July 22, 2010, the Company received TSX Venture Exchange approval and closed shares for debt arrangements with directors, officers and a company controlled by directors and officers and reduced outstanding accounts payable by \$164,115 by issuing 1,094,101 common shares with a deemed value of \$0.15 per share. In addition to the shares for debt arrangements, directors and officers of the Company have forgiven \$60,192 of outstanding accounts payable owed by the Company for past management fees.

As a result of these activities, management has reduced a large portion of current liabilities owed to related parties and other vendors. As at October 31, 2010, the Company has working capital of \$61,152 (2009- deficit \$376,387) with a current liabilities balance of \$118,160 (2009- \$447,802), of which \$100,000 (2009- \$218,200) were owed to related parties.

Nine Month Summary:

For the nine month period ended October 31, 2010, the Company reported \$29,358 (2009- \$61,634) in net revenue (gross revenue net of royalties), \$26,939 (2009- \$34,861) in operating expenses, and \$9,091 (2009- \$17,955) in depletion and accretion expenses resulting in net loss from production of \$6,672 (2009- net gain \$8,818) from four producing Trutch wells. Revenues and related costs included production during the period were accounted for up to May 31, 2010 as the disposition of the Trutch Area Property was effective on June 1, 2010.

During the period, the Company incurred \$127,230 (2009- \$166,741) in general and administrative expenses predominately made up of consulting fees \$47,431 (2009- recovered \$16,667), professional fees \$41,726 (2009- \$44,012), filing fees \$25,425 (2009- \$15,946), and interest fees related to a short term loan agreement \$20,000 (2009- \$9,289). During the period, the Company recovered net \$23,692 (2009- expensed \$83,250) in management fees due to a \$60,192 recovery of past outstanding management fees owed to directors and officers. The Company recorded a net gain of \$134,398 from the disposition of the Trutch Area property resulting in a net gain of \$497 (2009- loss \$157,923). Total deficit as at October 31, 2010 was \$24,700,039 (2009- \$24,653,058).

During the period, the Company received \$100,000 from a related party as part of a short term loan agreement the Company entered into on April 30, 2010. The Company also received \$300,000 from the Hemisphere for the disposition of its Trutch Area property. The proceeds from these activities were used to reduce outstanding liabilities and enhance working capital. As at October 31, 2010, the Company reported current assets of \$179,312 (2009- \$71,415) and current liabilities of \$118,160 (2009- \$447,802) resulting in working capital of \$61,152 (2009- deficit \$376,387). Current liabilities include \$100,000 (2009- \$218,200) owed to related parties.

As consideration for the April 30, 2010 short term loan agreement, the Company issued 133,333 common shares to a related party with a deemed value of \$20,000. The Company also issued 1,094,101 common shares to related parties with a deemed value of \$0.15 per share in relation to shares for debt arrangements to reduce \$164,115 of outstanding accounts payable owed to related parties. As at October 31, 2010, all common share incentive options and purchase warrants have expired.

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

Nine Month Summary (Continued):

On August 31, 2010, the Company initiated the share consolidation on the basis of three (3) old common shares for one (1) new common share resulting in 9,671,275 common shares outstanding after the consolidation. This resolution was approved by Shareholders at the Company's June 16, 2010 Annual and Special Meeting of the Shareholders.

Three Month Summary:

For the three month ended period October 31, 2010, the Company incurred \$34,650 (2009- \$59,095) in administrative expenses generally made up of consulting fees \$8,663 (2009- recovered \$6,667), management fees \$7,500 (2009- \$27,750), professional fees \$3,829 (2009- \$25,507), filing fees \$6,444 (2009- \$4,329), and travel and entertainment \$5,725 (2009- \$nil). Due to the disposition of the Trutch Property on July 26, 2010, the Company did not report revenue and related costs from gas production during the three month period ended (2009- net revenue \$22,903, operating cost \$18,878, and depletion \$6,212). Total loss for the three month period was \$34,650 (2009- \$61,281). The discrepancy was due to lower management and professional fees compared to the same period last year.

During the period, the Company initiated the share consolidation on the basis of three (3) old common shares for one (1) new common share resulting in 9,671,275 common shares outstanding after the consolidation. This resolution was approved by Shareholders at the Company's June 16, 2010 Annual and Special Meeting of the Shareholders.

Table 1. General and Administrative Expenses Summary

	Three Month Ended October 31, 2010	Three Month Ended October 31, 2009
Consulting fees, net	\$ 8,663	\$ (6,667)
Accounting, audit and legal fees	3,829	25,507
Transfer agent, listing and filing fees	6,444	4,329
Bank charges and interest, net	1,675	1,365
Office	474	3,179
Travel and entertainment	5,725	-
Communications	340	606
Rent	-	3,026
Management fees	7,500	27,750
Total Administrative Expenses	\$ 34,650	\$ 59,095

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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 Harold Forzley.

Harold Forzley was appointed Director of the Company effective June 16, 2010.

Marc Tran resigned as Director and CFO effective July 31, 2010 but continues accounting services for the Company.

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
Hardy Forzley *	
Robert Krause*	Audit Committee Member

*Director

RELATED PARTY TRANSACTION

The following amounts were incurred by the Company during the period ended October 31, 2010:

- (a) On July 22, 2010, the Company received TSX Venture Exchange approval and closed shares for debt arrangements with directors, officers and a company controlled by directors and officers and reduced outstanding accounts payable by \$164,115 by issuing 1,094,101 common shares with a deemed value of \$0.15 per share.
- (b) During the period, the Company recovered a net balance of \$23,692 (2009- expensed \$83,250) in management fees. In addition to the July 22, 2010 shares for debt settlement, directors and officers have forgiven \$60,192 of outstanding accounts payable owed by the Company for past management fees. During the period, the Company expensed \$39,500 (2009- \$55,000) in management fees. As at October 31, 2010, the Company has an outstanding balance of \$nil (2009 – \$111,374) payable to these directors/officers.
- (c) The Company expensed \$18,883 (2009 – \$31,762) for rent, office expense and investor relations fees to a company controlled by directors/officers of the Company for use of shared office space. A balance of \$15,683 (2009 – \$15,684) was outstanding at October 31, 2010; and
- (d) The Company expensed \$17,250 (2009 – \$29,250) for accounting fees payable to a company controlled by an officer of the Company. At October 31, 2010 \$nil (2009 – \$12,300) 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 period ended October 31, 2010, the Company received \$100,000 (2009- \$nil) from a related party per a Short Term Loan Agreement the Company entered into on May 14, 2010. The Company received TSX Venture Exchange approval on the loan agreement on June 7, 2010.

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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. To date, the Company has identified that IFRS impact on accounting policies, implementation, business activities and control activities will be minimal due to minimal balance sheet activities during the past and current year. This is due to the lack of asset acquisitions during the past few years and the disposition of its Trutch Area Property during the period ended.

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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, 2011	3 rd Quarter Ended October 31, 2010	2 nd Quarter Ended July 31, 2010	1 st Quarter Ended April 30, 2010
(a) Revenue		-	7,425	21,933
(b) Loss (Gain) for period		34,650	(93,499)	58,353
(c) Loss (Gain) per share		0.003	(0.004)	0.002
(d) Natural gas production (MCF)		-	1,552	4,635
	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

Chad McMillan
CEO
Canada Gas Corp.
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