

STETSON OIL AND GAS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of financial results and related data of Stetson Oil & Gas Ltd. ("Stetson" or the "Company") is reported in Canadian dollars and has been prepared in accordance with International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards", and with International Accounting Standard 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board. Previously, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("GAAP"). To the extent which may be appropriate, this MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010 and the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2011.

The commentary is as of August 26, 2011. The reader should be aware that historical results are not necessarily indicative of future performance.

In conformity with Canadian Securities Administrator's National Instrument ("NI") NI 51-101 "Standards of Disclosure for Oil and Gas Activities", natural gas volumes have been converted to equivalent barrels of oil ("boe") using a conversion ratio of six thousand cubic feet ("mcf") of natural gas to one boe. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that boe may be misleading, particularly if used in isolation.

Forward Looking Statements

This MD&A contains forward-looking statements. Management's assessment of future plans and operations, capital expenditures, methods of financing capital expenditures and the ability to fund financial liabilities, expected commodity prices and the impact on Stetson, future operating costs, future transportation costs, expected change in royalty rates, interest rates and the timing of and impact of adoption of IFRS and other accounting policies may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, the inability to fully realize the benefits of the acquisitions, delays resulting from or inability to obtain required regulatory approvals, ability to access sufficient capital from internal and external sources, and litigation risks. As a consequence, the Company's actual results may differ materially from those expressed in, or implied by, the forward looking statements. Forward looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although Stetson believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document and other documents filed by the Company, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which Stetson operates; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner; Stetson's ability to obtain financing on acceptable terms; field production rates and decline rates; the ability to reduce operating costs; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion; the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates; and Stetson's ability to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), or at the Company's website (www.stetsonoilandgas.com). Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Non-IFRS Measurements

The MD&A contains the term "cash flow from operations" ("cash flow"), which should not be considered an alternative to, or more meaningful than, "cash flow from operating activities" as determined in accordance with IFRS and previously Canadian GAAP as an indicator of the Company's financial performance. Stetson's determination of cash flow from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and cash flow from operations can be found in the statements of cash flows in the financial statements. The Company evaluates its performance based on net income and cash flow from operations. The Company considers cash flow from operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to repay debt and to fund future growth through capital investment. Cash flow from operations per share is calculated using the diluted weighted average number of shares for the period.

OVERVIEW

The Company is a TSX Venture Exchange issuer and is currently developing interests in the international oil and gas sector. The recoverability of its investments in oil and gas properties is dependent upon the existence and exploitation of economically recoverable reserves, securing and maintaining title and beneficial interest in the property, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production or proceeds from disposition of the properties.

North Dakota

In 2008, Stetson accumulated a significant land base in excess of 20,000 gross acres on the Fort Berthold Indian Reservation in North Dakota. In October 2008 the Company reached an agreement to partner with Red Willow Great Plains, LLC ("Red Willow"). The terms of the agreement provide for Stetson to maintain a 50% operated working interest in the Allottee, or freehold leases, and a 40% non-operated working interest in the Tribal Lands. In addition, Red Willow agreed to pay for Stetson's first USD\$3.5 million of drilling costs incurred on the lands.

In September 2009, Stetson completed the drilling of its first Bakken horizontal well in North Dakota. The well was placed on a flow back test in October. Initial results were disappointing, with no oil or gas being recovered during this operation. In November 2009, Stetson installed downhole pressure recorders and shut the well in for approximately two weeks to record pressure build up in the Bakken formation. Upon removing the pressure recorders from the hole, oil and gas was noted at surface and Stetson and its partners decided to equip the well with a pumpjack to produce the well. Gross production from the well in the first quarter 2010 averaged approximately 14 bopd (net 7 bopd). The Bakken zone has now been temporarily abandoned.

In order to further evaluate the lands and identify possible additional drilling locations, the Company and its partners have acquired approximately 220 miles of existing 2D seismic data. The interpretation of this seismic data was completed in July 2010 and Stetson has updated its geological model based on the new information. As a result, the Company has plans to re-complete the existing well in a shallower horizon to assess potential for hydrocarbons. There are no current plans for further horizontal drilling in the Bakken formation.

Colombia

In May 2011, the Company signed a Hydrocarbon Exploration and Production Contract (E&P Contract) with the Agencia Nacional de Hidrocarburos of Colombia (ANH) for LLA-11 (Llanos Block). The Llanos Block in the Llanos Basin was successfully won by the Company during a bid round held on June 22, 2010, in Cartagena, Colombia (the "Bid"). The Company has granted a 90% private interest in the Block to a wholly-owned subsidiary of Sagres Energy Inc. ("Sagres") in consideration for the Company retaining a 10% carried interest during the first exploration phase (the "Carried Interest"), which consists of a minimum expenditure of USD\$9,500,000 over a 36 month period (see Commitments and Contingencies section).

Discontinued Operations

In February 2010, the board of directors determined that, in order to fund potential activities on its North Dakota property and begin to pursue other international activities, Stetson would sell all of its Canadian assets. Sayer Energy Advisors was engaged by the Company to assist in the process. In January 2011, the Company entered into a definitive agreement to sell all of its active Canadian oil and gas properties, including oil and gas assets in Alberta and Saskatchewan, along with resource tax pools related thereto, to an arms-length party. The sale closed March 9, 2011. As such the results of operations from the Canadian production are shown as discontinued operations in both 2009 and 2010 (see discontinued operations section).

RESULTS OF OPERATIONS

(\$, except boe/d)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Production				
Oil and liquids	-	-	-	3
Boe/d (6:1)	-	-	-	3
Petroleum and natural gas sales	-	1,237	-	39,739
Royalties	-	(402)	-	(12,921)
Operating	(94)	(29,132)	(94)	(55,947)
Operating netback	(94)	(28,297)	(94)	(29,129)
Cash items				
Other income	4,919	404	6,394	492
Gain on farm-out	48,864	-	48,864	-
Gain on disposition of assets	11,123	-	11,123	-
General and administrative	(434,206)	(476,091)	(800,735)	(870,209)
Foreign exchange gain/(loss) - realized	23,554	(13,990)	17,099	(20,694)
Finance costs	(4,684)	(7,954)	(8,709)	(25,467)
Settlement of decommissioning obligations and change in estimates	(936)	-	3,096	-
Cash flow from operations	(351,460)	(525,928)	(722,962)	(945,007)
Non-cash items				
Gain on disposition of assets				
Finance costs	(1,092)	(1,121)	(2,185)	(2,207)
Stock-based compensation	-	(900)	(15,960)	(1,800)
Bad debt expense	(3,329)	-	(3,329)	-
Foreign exchange gain/(loss) - unrealized	(76,225)	14,342	(82,907)	20,711
Depreciation	-	-	-	(2,543)
Settlement of decommissioning obligations and change in estimates	936	-	(3,096)	-
Loss before discontinued operations	(431,170)	(513,607)	(830,439)	(930,846)
(Loss)/income from discontinued operations	(33,740)	343,560	324,730	836,927
Net loss	(464,910)	(170,047)	(505,709)	(93,919)
Other comprehensive (loss)/income	(43,491)	345,902	(256,150)	60,538

Revenue, Royalties and Operating Costs

During 2010, a test well was drilled in the North Dakota which earned \$1,237 and \$39,739 of revenue for the three and six months ended June 30, 2010. This production incurred royalty expense of \$12,921 and \$55,947 of operating expenses for the six months ended June 30, 2010. The well was deemed uneconomic to produce and was shut-in May 2010 and the well has remained shut-in. An application to temporarily abandon the well was submitted.

Other Income

Other income totaled \$4,919 and \$6,394, respectively, for the three and six months ended June 30, 2011 as compared to \$404 and \$492 for the corresponding periods in 2010. The increase is mainly attributed to increased cash balances as a result of the closing of the asset disposition in March 2011.

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General and Administrative

During the three and six months ended June 30, 2011, the Company incurred \$434,206 and \$800,735 in general and administrative expenses compared to \$476,091 and \$870,209 respectively in the same periods of 2010. General and administrative expenses are slightly lower than the prior year and are expected to remain lower as a result of the asset disposition.

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Salaries, wages, benefits and employee expenses	\$ 69,189	\$ 35,206	\$ 106,974	\$ 49,146
Office rent and supplies	80,182	117,264	120,538	240,162
Outside services / consulting	265,070	303,643	526,001	563,816
Website, advertising, investor relations	2,261	3,541	2,926	4,364
Other	17,504	16,437	44,296	12,721
Total	\$ 434,206	\$ 476,091	\$ 800,735	\$ 870,209

Finance Costs

Finance costs were \$5,776 and \$10,894 for the three and six months ended June 30, 2011 compared to \$9,075 and \$27,674 respectively in the comparative periods of 2010. The overall decrease in finance costs is due to the utilization of the Company's former bank line in 2010 which did not occur in 2011.

The Company had a \$1,500,000 revolving demand loan facility available with a Canadian chartered bank during the 2010 year. The interest rate on outstanding debt was set at the bank's prime lending rate plus 2.25%. The facility was secured by a floating charge over all of Stetson's assets. As a result of the disposition of Stetson's active Canadian properties, the facility was cancelled in March 2011.

Stock-Based Compensation

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Stock-based compensation	\$ -	\$ 900	\$ 15,960	\$ 1,800

Stock-based compensation for the three and six months ended June 30, 2011 was \$nil and \$15,960 respectively, as compared to \$900 and \$1,800 for the same periods in 2010. The increase in 2011 is the result of 200,000 options issued in the first quarter 2011. There were no new options issued in 2010.

Stock-based compensation represents a non-cash charge resulting from applying the fair value method on stock options issued. Under this method, compensation expense related to these programs is recorded in the statement of operations over their respective vesting periods.

Depreciation

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Depreciation	\$ -	\$ -	\$ -	\$ 2,543

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The Company's corporate assets were fully depreciated as at December 31, 2010 and as such, there was no depreciation expense for the six months ended June 30, 2011 as compared to \$2,543 for the same period in 2010.

The entire balance of the North Dakota (both land and drilling expenditures) has been excluded from the depletion calculation due to insufficient data to determine technical feasibility and commercial viability. As at June 30, 2011 the Company is waiting for pending completion of additional testing of up-hole zones in the existing well in order to assess whether the property is technically feasible and commercially viable at which point impairment assessment will be completed.

There were no other indicators of impairment of unproved property as at June 30, 2011 therefore no write-downs to the carrying value have been recorded.

Foreign Exchange Gain/Loss

The Company recorded net foreign exchange losses of \$52,671 and \$65,808 for the three and six months ended June 30, 2011 compared to net gains of \$352 and \$17 for the corresponding periods in 2010. The foreign exchange gains and losses arise mainly from the fluctuation of the US to Canadian dollar which impacts the translation of the Company's holdings in US dollars and working capital items denominated in US dollars.

Other Comprehensive Loss

For the three and six months ended June 30, 2011, the Company recorded \$43,491 and \$256,150, respectively, of other comprehensive loss as compared to \$345,902 and \$60,538 of other comprehensive income for the corresponding periods of 2010. Amounts reported as other comprehensive loss relate to foreign currency translation gains and losses of US functional currency subsidiaries, which primarily relate to the conversion of all assets and liabilities to Canadian dollars at the balance sheet date.

Discontinued Operations

In February 2010, the board of directors determined that, in order to fund potential activities on its North Dakota property and to begin pursuit of other international activities, Stetson would consider selling all of its Canadian assets and hired Sayer Energy Advisors to assist in the process. In January 2011, the Company entered into a definitive agreement to sell all of its active Canadian oil and gas properties, including oil and gas assets in Alberta and Saskatchewan, along with resource tax pools related thereto, to an arms-length party.

The purchase and sale agreement was based on an effective date of December 1, 2010 and included consideration payable by the Purchaser of \$5,000,000, subject to closing adjustments. The sale was closed on March 9, 2011, with net proceeds of \$4,395,947. The final statement of adjustments was completed on June 7, 2011 with an additional \$58,718 payable to Stetson.

Sale price	\$ 5,000,000
Interim statement of adjustments	(457,588)
Final statement of adjustments	58,718
	4,601,130
Estimated disposition costs	146,465
Net proceeds	\$ 4,454,665
	6,715,418
Assets disposed	6,715,418
Liabilities disposed	(2,271,876)
Gain on disposition	\$ 11,123

Operating results related to these assets and liabilities have been included in Discontinued Operations on the Consolidated Balance Sheets, the Consolidated Statements of Comprehensive Loss and the Consolidated Statements of Cash Flows.

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The following table depicts the revenues generated and expenses incurred from the discontinued operations:

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Revenue				
Petroleum and natural gas sales	\$ 337	\$ 716,579	\$ 774,102	\$ 1,630,248
Royalties	(2,791)	(141,794)	(118,044)	(303,439)
	(2,454)	574,785	656,058	1,326,809
Expenses				
Operating	31,003	225,209	323,018	480,692
Transportation	283	6,016	8,310	9,190
	31,286	231,225	331,328	489,882
(Loss)/income from discontinued operations	\$ (33,740)	\$ 343,560	\$ 324,730	\$ 836,927

Cash and Funds from Operations and Net Loss

As a result of the sale of the Canadian oil and gas assets the Company will continue to generate negative cash flow from operations as a result of its focus on exploration activities on the North Dakota exploration project and international projects.

For the three and six months ending June 30, 2011, Stetson had a loss from continuing operations of \$431,170 and \$830,439 respectively (\$0.00 and \$0.01 per share) as compared to \$513,607 and \$930,846 (\$0.00 and \$0.01 per share) in the same periods of 2010. The decrease in net loss from continuing operations in 2011 resulted primarily from reductions in general and administrative costs from the comparable period of 2010.

LIQUIDITY AND CAPITAL RESOURCES

The Company's share of costs associated with the re-completion of the North Dakota well and, if such re-completion is unsuccessful, the ultimate abandonment and reclamation thereof will be carried by its partner. The Company's sale of the Canadian assets will provide the Company with sufficient capital resources in the near term while management assesses and continues its operations in North Dakota and evaluates other international activities.

Working Capital

At June 30, 2011, the Company had a positive working capital position of \$3,635,534 (December 31, 2010 – \$4,235,666). The decrease in working capital is attributed to regular G&A expenditures, costs associated with investigating new international activities and settlement of trade payables outstanding at year end.

There are no off-balance sheet financing arrangements.

Share Capital

As at the date of this report, 108,902,260 common shares of Stetson are outstanding.

No common shares were issued for cash in 2011 or 2010.

RELATED PARTY TRANSACTIONS AND MANAGEMENT AND BOARD COMPENSATION

The Company paid \$48,000 to directors or companies controlled by directors, for professional and consulting fees during the period ended June 30, 2011 (2010 - \$61,702).

In addition, compensation to other officers not included above during the six months ended June 30, 2011 was \$17,000 (2010 - \$63,344).

Stetson shares its office premises with other companies that have common directors and/or officers. The Company reimburses the related companies for its proportional share of the expenses and charges the related companies for expenses incurred on their behalf. During the period ended June 30, 2011, the Company incurred \$109,657 (2010 - \$92,512) of expenses on behalf of those companies while they incurred \$211,618 (2010 - \$184,247) on Stetson's behalf. As at June 30, 2011, net accounts payable to these companies was \$84,566 (2010 - \$347,189).

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

Also refer to Note 16 for discussion of related party transactions between the Company and Sagres.

COMMITMENTS

Colombia

In May 2011, the Company signed a Hydrocarbon Exploration and Production Contract (E&P Contract) with the Agencia Nacional de Hidrocarburos of Colombia (ANH) for LLA-11 (Llanos Block). The Llanos Block in the Llanos Basin was successfully won by the Company during a bid round held on June 22, 2010, in Cartagena, Colombia. The Company has granted a 90% private interest in the Block to a wholly-owned subsidiary of Sagres Energy Inc. in consideration for the Company retaining a 10% carried interest during the first exploration phase, which consists of a minimum expenditure of USD\$9,500,000 over a 36 month period.

The Llanos Block carries an additional royalty of 1% payable to the Government of Colombia in addition to the basic royalty scheme established under Colombia Law, being 8% for up to 5,000 bopd of production and increasing to 25% for a 600,000 bopd field. All other terms of the contract are standard to the model E&P Contract. Sagres will have an option to acquire the Company's Carried Interest in the Block over the next twelve months at a mutually agreed price.

Stetson entered into a Letter of Intent ("LOI") with a private Ontario company ("Ontario Co.") for Ontario Co. to acquire a 90% private interest in the Block in consideration for paying to Stetson a fee of USD\$50,000, agreeing to reimburse Stetson for all expenses of the Bid and to allow Stetson to retain the Carried Interest. Subsequent to the Bid, Ontario Co. was acquired by Sagres. The transaction closed in May 2011.

The transaction may be considered a Non-Arm's Length Transaction for the purposes of the TSX Venture Exchange as Stetson and Ontario Co. had a common officer at the time the terms of the LOI were negotiated.

As at June 30, 2011, Stetson has outstanding Standby Letters of Credit totaling USD\$3,660,000 relating to the Llanos Block, with maturities up to 36 months. The Letters of Credit were secured by cash which has been classified as Restricted Cash on the Interim Condensed Consolidated Balance Sheet. The secured cash for these Letters of Credit were advanced to the Company by Sagres and, accordingly, were reported on the Interim Condensed Consolidated Balance Sheet at June 30, 2011 as a long-term payable to joint venture partner.

North Dakota

Pursuant to an agreement entered into with the Tribal Council of the Three Affiliated Tribes of the Fort Berthold Reservation in North Dakota to lease certain oil and gas mineral rights, the Company and its joint venture partner completed the initial commitment well and an additional two wells are to be drilled prior to August 28, 2012. Pursuant to the terms of the agreement, Stetson is carried on all costs through the re-completion of the existing well and abandonment thereof if required. Stetson has approximately a 40% working interest on the tribal acreage and a 50% working interest on the allottee acreage.

The Company also has an Irrevocable Letter of Credit in the amount of USD \$75,000 relating to its oil and gas mining leases on tribally or individual-owned Indian land including the Fort Berthold Reservation in the State of North Dakota, as required by the Bureau of Indian Affairs. As at June 30, 2011, the Letter of Credit was secured by cash holdings, which have been classified as restricted cash on the Consolidated Balance Sheet.

Statement of Claim

On October 29, 2008, the Company filed a statement of claim against Thomas Weisel Partners Canada Inc. seeking to recover damages incurred by the Company as a result of the incomplete bought deal financing of July 2008. The Company has filed a copy of the Statement of Claim under its profile on SEDAR.

Other Contingencies and Commitments

The Company has guarantees and other commitments in the normal course of business that would not have a material adverse effect on the Company's liquidity, financial condition or results of operations.

OUTLOOK

The outlook for Stetson has shifted to focus on pursuit of international opportunities. In North Dakota, the Company will pursue the recompletion of the existing well in an attempt to establish production from shallow potential horizons. Initial results from this operation were lower than expected and the company and its partners have initiated further evaluation through review of available trade seismic and analysis of the results of offsetting third party operations which could lead to further drilling on Company lands.

Canadian properties have been sold effective December 1, 2010 and closed March 9, 2011.

ADDITIONAL DISCLOSURES

Risk Assessment

There are a number of risks facing participants in the oil and gas industry. Some risks are common to all businesses while others are specific to the Company. The following are a number of identifiable business risks faced by Stetson which will evolve and additional risks will emerge periodically. The risks shown are those identified by management at the date of completion of this report and may not describe all of the risks faced by the Company.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility in commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward. Commodity prices are expected to remain volatile for the near future as a result of market uncertainties concerning the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

Substantial Capital Requirements

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As the Company's revenues may decline as a result of decreased commodity pricing, it may be required to reduce capital expenditures. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes the Company to additional financing risks. There can be no assurance that debt or equity financing, or funds generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business financial condition, results of operations and prospects.

Third Party Credit Risk

The Company may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner.

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Quarterly Results

The quarterly results are as follows:

(\$, except per share amounts)	IFRS						Canadian GAAP	
	Jun-11	Mar-11	Dec-10	Sep-10	Jun-10	Mar-10	Dec-09	Sep-09
Petroleum and natural gas sales	-	-	8,853	-	1,237	38,502	-	-
Funds (used in) / provided by continuing operations	(325,358)	(992,621)	(509,569)	232,366	97,046	(1,149,066)	(3,823,200)	3,377,346
Funds (used in) / provided by discontinued operations	(33,740)	358,470	561,993	351,681	343,560	493,367	743,321	356,332
Net loss - continuing operations	(431,170)	(399,269)	(383,832)	(315,451)	(513,607)	(417,239)	(664,962)	(363,343)
Per share - basic and diluted	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)
Net income (loss) - discontinued operations	(33,740)	358,470	(1,044,975)	351,681	343,560	493,367	120,938	106,185
Per share - basic and diluted	(0.00)	0.00	(0.01)	0.00	0.00	0.00	0.01	(0.01)
Other comprehensive income	(43,491)	(212,659)	(314,688)	(213,211)	345,902	(285,364)	-	-
Total assets	16,120,323	13,305,362	16,436,902	18,298,946	19,103,545	18,873,776	25,506,876	25,506,876

As a result of Stetson's disposition of its Canadian producing assets in 2011, the Company has and will continue to report negative cash flow and earnings from operations, until the Company's exploration program finds and develops producing assets. The Company will continue to utilize proceeds from financing and equity issuance to fund its exploration program and general and administrative operating costs in an effort to explore and develop its current holdings in North Dakota and other international areas.

Changes in Accounting Policies

The Company has undergone significant accounting policy changes due to its transition from Canadian GAAP to IFRS. Refer to discussion included in the March 31, 2011 MD&A as well as Note 19 in the March 31, 2011 Interim Condensed Consolidated Financial Statements.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Stetson's significant accounting policies are disclosed in Note 3 to the March 31, 2011 consolidated financial statements.

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These accounting policies are discussed below and are included to aid the reader in assessing the critical accounting policies and practices of the Company and the likelihood of materially different results being reported. Stetson's management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimate amounts that differ materially from current estimates.

The following assessment of significant accounting policies and associated estimates is not meant to be exhaustive. The Company might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

Exploration and Evaluation and Impairment Evaluation

Fair value of E&E assets is determined based on market value to an arm's length buyer as described in property and equipment above. As E&E assets are not proven assets, they have uncertainties that make it difficult to assess future cash flows; as such market

conditions and assessment by management are used to determine fair value.

Exploration and evaluation assets are assessed for impairment if:

- (i) sufficient data exists to determine technical feasibility and commercial viability, and
- (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units.

The technical feasibility and commercial viability of extracting an oil and gas resource is considered to be determinable when proven reserves are determined to exist. Upon determination of proven reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within tangible assets referred to as oil and natural gas development and production assets.

Decommissioning Obligations

The Company is required to provide for future removal and site restoration costs. The Company must estimate these costs in accordance with existing laws, contracts or other policies. These estimated costs are charged to the property and equipment and the appropriate liability account over the expected service life of the asset. The estimate of future removal and site restoration costs involves a number of estimates related to timing of abandonment, determination of economic life of the asset, costs associated with abandonment and site restoration, review of potential abandonment methods and salvage/usage of tangible equipment.

Income Tax Accounting

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment subsequent to the financial statement reporting period. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Stock-based Compensation

Stetson accounts for its stock based compensation program, which includes stock options using the fair value method. The determination of the fair value of options requires management to make assumptions about risk-free interest rates, expected volatility, dividend yield, forfeiture rate and expected life. Such assumptions may change from time to time and the estimated fair value of options calculated at the grant date may differ on subsequent dates. The fair value of stock options being amortized to compensation expense is not revised for any changes to the grant date.

New standards and interpretations not yet adopted

On November 12, 2009, the IASB issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement. As at January 1, 2013, Stetson will be required to adopt IFRS 9. IFRS 9 introduces a new classification and measurement regime for financial assets within its scope. Stetson does not expect the adoption of this standard to impact the Company significantly.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: amended Disclosures – Transfers of Financial Assets (IFRS 7), Consolidated Financial Statements (IFRS 10), Joint Arrangements (IFRS 11), Disclosure of Interests in Other Entities (IFRS 12), amended IAS 12 Deferred Tax: Recovery of Underlying Assets, Separate Financial Statements (IAS 27), Fair Value Measurement (IFRS 13) and amended IAS 28 Investments in Associates and Joint Ventures. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.