

## **BIRD RIVER RESOURCES INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE INTERIM PERIOD ENDING OCTOBER 31, 2015**

#### **INTRODUCTION**

The following Management Discussion and Analysis (“MD&A”) of Bird River Resources Inc. (“BDR” or the “Company”) is dated December 30, 2015 and provides an analysis of the Company’s performance and financial condition for the year ended July 31, 2015 as well as an analysis of future prospects. The Board of Directors carries out its responsibility for review of this disclosure principally through its audit committee, comprised of independent directors. The audit committee reviews this disclosure and recommends its approval by the Board of Directors.

This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the audited consolidated financial statements of the Company for the years ended July 31, 2015 and 2014 together with the notes thereto. All amounts are in Canadian dollars unless otherwise specified. The financial statements, along with Certifications of Annual Filings, news releases and other information, are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (ii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

#### **FORWARD-LOOKING STATEMENTS**

This MD&A may contain forward-looking statements that are based on the Company’s expectations, estimates and projections regarding its business and the economic environment in which it operates. These statements speak only as of the date on which they are made, are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Examples of some of the specific risks associated with the operations of the Company are set out below under “Risks and Uncertainties”. Actual outcomes and results may differ materially from those expressed in these forward-looking statements and readers should not place undue reliance on such statements.

#### **GENERAL OVERVIEW**

The Company is a junior natural resource exploration company in Canada and is a reporting issuer in the provinces of Ontario and Manitoba with its common shares listed for trading on the Canadian Securities Exchange (CSE) under the trading symbol "BDR". The Company's Registered and Head offices are located at 1059 Selkirk Avenue, Winnipeg, Manitoba, R2X 0C2. The Company’s constating documents do not differ from Canadian corporate legislation with respect to corporate governance principles.

The Company has been engaged in the acquisition, exploration and development of mineral properties since its incorporation in 1958. The Company formerly held an exploration property, known as the Ore Fault Property, located in

the Bird River Sill area of Manitoba approximately 125 km northeast of Winnipeg. This property was prospective for base and platinum group metals. In 2008, the Company sold its working interest in this property for cash and now retains a 1% net smelter return royalty on this property.

The Company also holds a Quarry Lease near Miami, Manitoba which is approximately 85 km southwest of Winnipeg. The 8-hectare lease hosts a narrow bed of bentonite.

The Company is currently pursuing opportunities in oil and gas business in southwestern Manitoba, mainly through joint ventures with experienced oil and gas exploration operators. In March 2009, the Company entered into an agreement with Antler River Resources to participate in a five percent interest in the drilling of a three oil well drilling program in southwestern Manitoba. The Company has participated in the drilling of 15 oil well joint ventures (JV) with Antler River Resources near the towns of Sinclair, Pierson and Waskada. The company has a joint operation with Antler River Resources and other parties relating to twelve oil wells of which 10 wells are producing. The wells were drilled into the Bakken., Mission Canyon and Spearfish formations. These oil formations are part of the Williston Basin which includes; Saskatchewan, southwestern Manitoba, North Dakota and Montana. The latest wells were drilled into the Bakken formation and are producing light sweet crude.

BDR also holds eight oil leases in southwestern Manitoba with interests ranging from 25% to 100%. The Company's most recent lease acquisition was acquired in August 2012 and comprised 100% interest in a half section at 2-3-26WPM northwest of the Waskada oil field. The Company intends to joint venture drilling on these eight leases in the future.

The Company's environmental division distributes various industrial minerals which includes diatomaceous earth and bentonite. These industrial minerals are also used in the division's abandoned water well sealing operation. The well sealing service can generally be conducted from the early spring through to the early winter. Additionally, the Company also is a distributor of various other absorbent products that are sold to industry and agricultural businesses for animal bedding, odor control and animal waste management.

## **NARRATIVE DESCRIPTION OF THE BUSINESS**

### **Oil and Gas Activities**

In July 2007, the Company entered into an agreement with Antler River Resources Ltd. ("Antler") to earn a 2 ½ % interest in the drilling of two oil wells in southwestern Manitoba. Under the agreement the company was required to pay \$30,000 representing the company's share of expenses incurred to date. An individual that is a director and shareholder of the Company advanced the Company \$30,000. During September 2007, the Board determined that it was inappropriate to proceed with the transaction with Antler due to cash restraints and to remain focused on its core business of mineral exploration. Consequently, the Company entered into an agreement with the related party who had advanced the \$30,000 to sell the Company's interest in the oil well project in exchange for the forgiveness of the amount advanced by him.

On March 6, 2009, the Company entered into a new joint venture agreement with Antler to invest \$35,000 for a 5% gross interest (4% net) in a three well oil drilling program. The wells are located near the towns of Sinclair and Pierson in southwestern Manitoba. All three wells are now producing. In December 2009 the Company participated in the drilling of a vertical well north east of Sinclair, Manitoba. The well was on pump in January 2010 and all four wells are still in production.

On March 24, 2011, the Company reported the test production results for its fifth horizontal oil well, located at 11-26-1-28W near Pierson. The operator of the well is Atikwa Resources (ATK-TSX-V) ("Atikwa") and the initial production over the first ten days for the well averaged 150 barrels per day. The Company has a 5% gross and 4% net participation in the well. This well is still in production; however the rate of production has declined.

On August 17, 2011, the Company reported that after inclement weather, its wells were now back on pump. The weather and water issues delayed the drilling program for nearly five months. The first well of the planned six well drilling program started one month later. This horizontal well is located on the north half of 15-8-28W1 and completed with a one mile leg. The operator for the well is Antler and the Company has a 5% participation. This well is still in production. 2014. The second well is also horizontal and was drilled on the north east quarter of 30-1-27 W1. This well was drilled into the Spearfish formation and initially pumped 200 barrels of fluid a day with an initial 20% oil cut which is expected to increase. The operator of these two wells is Atikwa with a 50% interest. Antler and the Company each have a 25% interest in the lease. Well 15-30-1-27 continues to be in production.

On September 29, 2011, the Company reported its participation in the drilling of a new horizontal oil well located at 12-15-8-28W1 east of Sinclair, Manitoba. This is the first well of a planned six well drilling program. The operator of the well and joint venture partner is Antler. The horizontal well has approximately a one mile leg and was cased all the way. The Company has a 5% gross and 4% net participation in the well. The well continues to be in production.

On October 13, 2011, the Company announced that the drilling portion of a new well northeast of Sinclair, Manitoba at 12-15-8-28W1 was completed. The well was drilled into the Bakken formation at 926 meters with a horizontal leg of 1300 meters. The well was cased for the entire length of the leg and has 27 fracking ports approximately 50 meters apart. The operator of this well is Antler and the Company has a 5% gross interest.

An additional well was drilled at 13-23-1-28W east of Pierson, Manitoba. This was a horizontal well with a 600 meter leg drilled into the Spearfish formation. The operator of this well is Atikwa with a 50% interest and the Company has 5% gross (4% net). The well is presently not in production due to water problems.

On January 4, 2012, the Company announced the completion of a new Antler horizontal well at 12-15-8-28 northeast of Sinclair, Manitoba. The well was drilled into the Bakken formation at 926 meters with a horizontal leg of 1300 meters and commenced pumping 30 cubes of fluid with a 35% oil cut. This works out to about 65 barrels of oil a day (a cube is about 6.28 US barrels). The Company has a 5% gross interest and a 4% net participation. This well continues to be in production.

On February 16, 2012, the Company reported an update of the last five oil wells drilled and their current production:

- 1) Well 12-15-8-28HZ drilled into the Bakken Formation with a 1300 meter leg. Production had leveled out at 80 barrels of oil per day.
- 2) Well 11-26-1-28HZ drilled into the Spearfish Formation with a 600 meter leg was producing 40 barrels of oil per day.
- 3) Well 15-30-1-27HZ drilled into the Spearfish Formation with a 600 meter leg was producing 100 barrels per day of fluid, of which 50 barrels is oil.
- 4) Well 7-34-1-28HZ drilled into the Spearfish Formation with a 600 meter leg was producing 130 barrels of oil per day.
- 5) Well 13-23-1-28HZ drilled into the Spearfish Formation with a 1300 meter leg was producing 240 barrels of fluid, of which 15 barrels is oil.

On July 30, 2012, the Company reported with Antler that another double success had been achieved with the drilling and fracking of two new horizontal oil wells. The wells, located east of Sinclair Manitoba at 16-16-7-28 and 3-15-8-28 were each drilled with 600 meter legs and are fully cased. The wells are now producing 75 barrels per day for each well. The operator of the wells is Antler. The Company has 2.5% interest (2% net) in each of the new wells and the Company now has an interest in 11 production wells.

On January 17, 2013, the Company paid an initial advance to Antler of \$40,000 towards the drilling of a new horizontal well located at 3-22-7-28 in southwestern Manitoba. Bird River Resources Inc. has a 5% gross interest (4% net) in the

well. The drilling of the new well commenced in early February and was completed by the end of the month. The drilling of the well was successful, and subsequently went on pump and is now production.

On August 29, 2014, the Company paid an initial advance to Antler of \$47,500 towards the drilling of a new horizontal well located at 4-5-2-27 in southwestern Manitoba. Bird River Resources has a 5% gross interest (4% net) in the new well. The drilling of the new well commenced in September and was completed in early November. Due to drilling cost overruns, the Company was required to make a further payment to Antler on November 28, 2014 of \$17,800. The drilling of the well was successful, and subsequently went on pump and is now in production.

On August 21, 2015: the Company paid an advance to Antler River Resources of \$4,400 towards the work-over of well 11-26-1-28 HZ. The work over procedure uses an acid activation process that cleans out the bore hold in order to increase oil recovery.

Oil production in south west Manitoba typically shows a decline in production rates from year to year, however, many of the wells produce over 25 years.

### **Ore Fault Property**

On January 12, 2004, the Company acquired 80% of the issued and outstanding shares of 2411181 Manitoba Ltd. from Myriad Resources Inc. which owned the original Ore Fault Property. As consideration, the Company issued 400,000 common shares valued at \$0.05 per share plus a \$3,000 note payable due on January 15, 2005 for total consideration of \$23,000. The Company already owned the other 20% of 2411181 Manitoba Ltd. On March 10, 2006, the Company announced that it was acquiring all the underlying smelter rights to the Ore Fault Property for consideration of 700,000 common shares. The transaction was approved by the shareholders of Myriad on May 19, 2006, subsequently closed and the shares released from escrow on September 5, 2006.

On May 16, 2005, the Company expanded its Ore Fault Property by conditionally acquiring the adjacent 124-hectare Lotus Property comprised of 3-claims in consideration for \$5,000 and 50,000 common shares. The transaction was completed at arm's-length.

On October 11, 2007, the Company signed a binding letter of intent with Marathon PGM Corporation (MAR - TSX) ("Marathon") to create a joint venture to actively explore and earn an interest in the Property. The Property, which includes the Lotus claims, is located in the Bird River Sill area of south eastern Manitoba, adjacent to Gossan Resources' Bird River Sill property, which was also under option to Marathon. This arrangement was approved by the Company's shareholders on December 28, 2007.

On May 2, 2008, the Company was advised by Marathon that as per the option and joint venture agreement, it had spent \$549,002 on or for the benefit of the Property. In addition, Marathon had made payments to the Company in the aggregate amount of \$200,000 thereby fulfilling the terms and conditions of section 3.2 of the option and joint venture agreement. As a result, Marathon had exercised its option to acquire a 50% participation interest in the Property and indicated its intention to fulfill its right to earn a 70% interest in the property by August 1, 2008.

On August 19, 2008, Marathon exercised its option and acquired the remaining 30% of the Ore Fault Property for cash consideration of \$1,450,000 thereby giving it 100% ownership of the Ore Fault Property consisting of 19 claims which covers 446 hectares. The Company retains a 1% net smelter return royalty (the "NSR") on all minerals and metals extracted from the property.

## Quarry Lease

The Company holds an 8-hectare Quarry Lease that is located 85 km southwest of Winnipeg near Miami, Manitoba. This lease hosts a narrow bed of bentonite that the Company had in the past used in an abandoned water well sealing operation. The well sealing services are generally conducted during the summer months through to the end of October. Adverse weather can limit operations.

## Interests in joint arrangements

The Company participates in a joint operation with Antler and other parties relating to ten producing oil wells located in southwestern Manitoba (LSD 6-13-7-29, LSD 14-15-8-28, HZ 13-15-8-28, HZ 11-26-1-28, HZ 12-15-8-28, HZ 7-34-1-28, HZ 3-15-8-28 HZ 16-16-7-28, HZ 3-22-7-28 and HZ 4-5-2-27). The Company has rights to the assets and obligations for the liabilities relating to this joint operation, therefore has recognized its share of the assets, liabilities, revenues and expenses in the consolidated financial statements. Pursuant to the arrangement, expenditures are limited to costs of surface access, building location, drilling, completing, equipping and operating or abandoning the oil wells. The related expenditures are deferred in the accounts of the company until the technical and commercial viability of extracting resources has been demonstrated. The Company has earned an interest equal to 80% of their contribution to the costs of surface access, building location, drilling, completing, equipping and operating or abandoning the oil wells, which represents, approximately, a 4% net interest in the joint operation. As at July 31, 2015, technical and commercial viability of extracting resources has been demonstrated on ten oil wells and as a result the amounts previously capitalized to exploration and evaluation assets have been transferred to petroleum and natural gas properties in property and equipment and are being depleted accordingly. During the year ended July 31, 2015, the Company sold its interest in well LSD 2-29-2-28 for a loss of \$3,389.

## Exploration and evaluation assets

In conjunction with the Company's activities in the natural resource industry, the Company has capitalized the following amounts:

	<b>October 31, 2015</b>	<b>July 31, 2015</b>
Petroleum and natural gas properties:		
Lease holdings (i)	\$ 126,704	\$ 126,704
Mineral exploration properties (ii)	273	273
	<u>\$ 126,977</u>	<u>\$ 126,977</u>

There was no exploration and evaluation asset activity for the three month period ended October 31, 2015 with the exception of maintenance work performed on well 11-26-1-28 HZ.

(i) The Company invested in eight lease holdings as follows:

- 1) Northwest quarter 23-1-28, 25% owned with a three-year lease term.
- 2) Southwest quarter 23-1-28, 25% owned with a three-year lease term.
- 3) Northeast quarter 14-4-22, 100% owned with a five-year lease term.
- 4) Northeast quarter 17-1-27, 25% owned with a three-year lease term.
- 5) Northeast quarter 23-1-28, 25% owned with a three-year lease term.
- 6) Northeast quarter 30-1-27, 25% owned with a three-year lease term.
- 7) Northeast quarter 2-3-26, 100% owned with a two-year lease term.
- 8) Southeast quarter 2-3-26, 100% owned with a two-year lease term.

- (ii) The Company holds one Quarry Lease, QL - 1530, located 85 kilometres southwest of Winnipeg near Miami, Manitoba. The 8 hectare lease hosts a narrow bed of bentonite.
- (iii) The Company retains a 1% net smelter return ("NSR") royalty on the Ore Fault Property.

## SUMMARY OF SELECTED ANNUAL FINANCIAL INFORMATION

The following is selected information from the Company's three most recently completed fiscal year-ends:

<b>ANNUAL INFORMATION</b>	<b>Year Ended July 31, 2015</b>	<b>Year Ended July 31, 2014</b>	<b>Year Ended July 31, 2013</b>
	(\$)	(\$)	(\$)
Total revenue	95,260	120,510	175,759
Net income (loss)	(307,796)	(128,963)	(81,477)
Income (loss) per share - basic and fully-diluted	(0.03)	(0.01)	(0.01)
Total assets	468,095	739,494	844,048
Long-term liabilities	9,115	8,669	12,820
Dividends declared	-	-	-

### Results of Operations – Years Ended July 31, 2015, 2014 and 2013

The net loss and comprehensive loss for the 12 months ended July 31, 2015 was \$307,796 as compared to a net loss and comprehensive loss of \$128,963 for the 12 months ended July 31, 2014. The increase of \$178,833 in the net loss for the period is primarily attributable to the decrease in revenue of \$25,250 during the period and the impairment charge relating to the investment in petroleum and natural gas properties in the amount of \$201,141 (2014 - \$41,532). This decrease in revenue is attributable to the decline in revenue from the producing oil wells to \$54,937 due to lower oil prices compared to petroleum revenue of \$76,223 in 2014. Expenses for the period were \$408,274 compared to \$260,369 in 2014 which represents an increase in expenses of \$147,905 over last year. At the end of the 2015 fiscal year, management was advised that an impairment loss on the petroleum and natural gas properties should be recognized. The impairment loss of \$201,141 was the largest single increase in expenses during 2015. During the period, general and administrative expenses decreased \$13,477 to \$115,570 (2014 - \$129,047).

The net loss and comprehensive loss for the 12 months ended July 31, 2014 was \$128,963 as compared to a net loss and comprehensive loss of \$81,477 for the 12 months ended July 31, 2013. The increase of \$47,486 in the net loss for the period is primarily attributable to the decrease in revenue of \$55,249 during the period and the increase in depletion expense and impairment loss. Revenue for the 12 months period ended July 31, 2014 was \$120,510 compared \$175,759 to in same period of the prior year. This decrease in revenue is largely attributable to the decline in revenue from the producing oil wells to \$76,223 compared to \$126,493 in 2013. Expenses for the period were \$260,369 compared to \$260,952 in 2013 which represents a decrease in expense of \$583 over last year. At the end of the 2014 fiscal year, management concluded that two wells should be written down as they no longer produced and as a result, an impairment loss of \$41,532 was recognized. This increase in impairment loss of \$41,532 was the largest single increase in expense during 2014 (\$Nil in 2013).

The net loss and comprehensive loss for the 12 months ended July 31, 2013 was \$81,477 as compared to a net loss and comprehensive loss of \$51,280 for the 12 months ended July 31, 2012. The increase of \$30,197 in the net loss for the period is primarily attributable to the decrease in revenue of \$14,766 during the period and the increase in G&A and depletion expenses. Revenue for the 12 months period ended July 31, 2013 was \$175,759 compared to \$190,525 in same period of the prior year. This decrease in revenue is largely attributable to the decline in revenue from the producing oil wells to \$126,493 compared to \$141,646 in 2012. Expenses for the period were \$260,952 (2012 - \$288,025) which represents a decrease in expense of \$27,073 over the same period last year. This decrease in expenses for the 2013 fiscal

year is largely attributable to a decrease in impairment charges from \$39,825 in 2012 to \$Nil in 2013 and the decrease in oil production expenses.

Currently, BDR's mineral property portfolio consists of a quarry license providing the right to exploit calcium bentonite beds located near Miami, Manitoba, 85 kilometres southwest of Winnipeg. The Company engages in secondary activities, from time to time, involving the purchase or acquisition of certain industrial minerals, typically diatomaceous earth and bentonite, for distribution and resale. Additionally, the Company also operates an environmental division which distributes various industrial and environmental products i.e, Dexpan and CanDry Absorbents. The environmental division also provides an abandoned water well sealing service, the primary client being the Manitoba Government. The well sealing service operates from mid May through to the end of October. The management and board of directors are continually reviewing the Company's business strategy while monitoring the current market and economic conditions. Additionally, management assesses new potential resource property acquisitions as they are presented.

Over the past several quarters, oil revenue, administrative and other expenses have varied within a range reflecting the Company's costs associated with oil and gas investments. Additionally, new business development, the well sealing service and related costs in maintaining the Company's listing as a reporting issuer in good standing have remain relatively constant. Management does not foresee any material change in the amounts of these expenditures in the near future.

## SELECTED QUARTERLY INFORMATION

The following is selected financial information for the eight most recent interim periods indicated.

Quarter Ended	Total Revenue (\$)	Net Income (Loss)		Total Assets (\$)
		Total (\$)	Per Share (\$)	
October 31, 2015	29,715	(25,491)	(0.002)	455,494
July 31, 2015	26,276	(240,989)	(.02)	468,095
April 30, 2015	19,022	(24,355)	(0.002)	696,793
January 31, 2015	21,679	(30,104)	(0.003)	713,937
October 31, 2014	28,273	(12,348)	(0.01)	731,662
July 31, 2014	25,742	(77,610)	(0.01)	739,494
April 30, 2014	27,473	(11,077)	(0.01)	809,809
January 31, 2014	27,832	(23,083)	(0.01)	815,320

### Results of Operations - Interim Period Ended October 31, 2015

The net loss and comprehensive loss for the 2016 first quarter (3 months) ended October 31, 2015 was \$25,491 as compared to a net loss and comprehensive loss of \$12,348 for the 3 months ended October 31, 2014. Revenue for the 3 months period ended October 31, 2015 was \$29,715 compared to \$28,273 in the same period of the prior year. The current quarter revenue includes \$13,766 from producing oil wells compared to \$17,387 in the same period of the prior year, down primarily due to lower oil prices. Revenue from industrial mineral sales increased to \$15,949 for the three months ended October 31, 2015 compared to \$10,886 for same period in 2014. Expenses for the period were \$55,979 (2014 - \$41,863), an increase of \$14,116 in expenses over the same period last year, largely attributable to the work-over of an existing oil well which was expensed during the period and changes in industrial product inventory levels compared to the previous year.

BDR has a joint venture agreement with Antler River Resources in oil and gas drilling programs in south west Manitoba for a participation of five percent gross interest on average. Through this joint venture BDR has participated in the successful development and completion of 10 producing oil wells as of October 31, 2015. Deferred expenditures include

costs of surface access, building location, drilling, completing, equipping and operating or abandoning the oil wells. The cash flows of the joint operations include the expenditures as outlined above as well as the company's proportionate share of the joint venture's revenues and operating expenses. As at October 31, 2015, the Company had a net amount of \$297,780 of property and equipment, and petroleum and natural gas properties. This amount is currently being depleted using the unit of production method which resulted in \$3,700 of depletion expense for the quarter. During the three month period ended October 31, 2015, the Company recognized \$13,766 of gross revenues from the ten oil wells.

Over the past several quarters, administrative expenses have varied within a range reflecting the Company's costs associated with oil and gas investments, new business development, the well sealing service and related costs in maintaining the Company's listing as a reporting issuer in good standing. Management does not foresee any material change in the amounts of these expenditures in the near future.

## **LIQUIDITY AND CAPITAL RESOURCES**

At October 31, 2015, the Company had working capital of \$24,621 a decrease of \$21,615 from the previous 3 months period ended July 31, 2015 of \$46,236. This decrease during the quarter was largely due to the increase in expenses relating to the work over well 11-26-1-28HZ of \$4,400 and the increase in industrial products inventory levels during the quarter. The current quarter oil revenue was \$13,766 a decrease of \$1,295 over the prior (4<sup>th</sup>) quarter oil revenue of \$15,061 ended July 31, 2015. The Company incurs ongoing general operating expenses on a monthly basis relating to the management of a public reporting issuer, such as office rent, telephone, internet services, stock transfer & filing fees, stock exchange fees and professional fees.

Presently, the Company holds percentage interests (5% gross - 4% net) and (2.5% gross - 2% net) in a total of twelve oil wells of which ten are in production. The Company also owns 25% to 100% interests in eight oil and gas leases (properties) which are to be drilled in the future. During the fourth quarter of the 2015 fiscal year, the Company had total revenue of \$26,276 of which \$15,061 was from oil revenue and \$11,215 from industrial mineral sales.

The Company plans to continue to seek out undervalued leases with strong potential for oil and gas reserves. The Company also continues to review business opportunities from, time to time, that have synergy with the Company's existing operations and that may provide stable ongoing cash flow.

The Company's ability to raise funds for future development is largely tied to the North American capital markets and investor interest in resource exploration and development companies. The US financial markets have improved during the past 12 months; however, more recently there is going concerns about the state of the European and Asian economies. Demand by the world's major consumers of raw materials particularly China and India has declined over the past two years however, management expects the strength of the US economy and the historic low interest will contribute to an improving global economy in the coming year. The recent decline of world oil prices to below \$40 per barrel reflects the slowing global economy and the continued high production of oil worldwide particularly in the Middle East and US as result of new fracking drilling technology. This growing global supply of oil and the slowing global economies, gives concern to the increase in oil prices in the near future. Notwithstanding the foregoing the Company's strategy will be to continue to search for undervalued oil and gas properties that may be acquired and also investigate new business opportunities particularly in the environmental sector.

## **DECOMMISSIONING OBLIGATIONS**

The Company has decommissioning obligations resulting from its ownership interest in petroleum and natural gas properties. The total decommissioning provision is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total estimated undiscounted cash flows required to settle the obligations, before considering



salvage, as at October 31, 2015 is approximately \$17,500 (July 31, 2015 - \$17,500), which has been discounted using a pretax rate of 2.96% reflecting the time value of money and the risks specific to the obligation.

These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 25 years (2014 - 25 years) into the future and will be funded from general corporate resources at the time of abandonment.

The Company's decommissioning obligations for the year ended October 31, 2015 are as follows:

Balance, July 31, 2015	\$ 9,115
Liability incurred	Nil
Accretion	Nil
<u>Disposal</u>	<u>Nil</u>
<u>Balance, end of period October 31, 2015</u>	<u>\$ 9,115</u>

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

The Company's authorized share capital consists of an unlimited number of common voting shares, of which 10,570,225 were outstanding as at July 31, 2015 and October 31, 2015.

There were 100,000 stock options outstanding as of July 31, 2015. All of the options outstanding are exercisable into common shares at 10 cents per share. During the 2015 fiscal year 700,000 incentive stock options previously granted to officers and directors expired on June 10, 2015.

The last grant of stock options was 100,000 options approved at a meeting of the Board of Directors on February 26, 2014. This grant of the stock options is exercisable into common shares at 10 cents per share for a term expiring March 14, 2019.

As at October 31, 2015, on a fully diluted basis there would be 10,670,225 common shares issued and outstanding. There are no warrants presently outstanding.

## **TRANSACTIONS WITH RELATED PARTIES**

The following is a summary of the related party transactions of the Company during the three month period ended October 31, 2015. The Company paid management fees of \$7,500 (2014 - \$7,500) to a director and officer of the Company and \$4,500 (2014 - \$4,500) to another director and officer. The Company also paid rent in the amount of \$2,400 (2014 - \$2,400) to a director and officer of the company. These amounts are recorded at the exchange amount which is the amount agreed upon by both parties.

As at October 31, 2015 included in trade payables and other payables are amounts owing to directors and officers of the Company in the amount of \$81,400 (2014 - \$30,000). These amounts are unsecured and non-interest bearing with no specified terms of repayment.

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND ACCOUNTING POLICIES**

### **Critical Accounting Estimates**

Management has made significant assumptions about the Company's future, that in the event that actual results differ from assumptions made, could result in material adjustments to the carrying amounts of assets and liabilities, relating to but are not limited to the following:

- (i) the recoverability of accounts receivable that are included in the statement of financial position;
- (ii) the recoverability of exploration and evaluation expenditures incurred on the Company's property interests;
- (iii) although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title and such properties may be subject to prior agreements or transfers and title may be affected by undetected issues;
- (iv) the estimated useful lives and residual value of property and equipment which are included in the financial statements and the related depreciation included in profit or loss;
- (v) the inputs used in accounting for share based payment transactions and in valuation of warrants included in financial assets at fair value through profit or loss; and
- (vi) management's judgment in determining the functional currency of the Company as Canadian Dollars.

### **Critical accounting judgments**

#### *Income taxes and recovery of deferred tax assets*

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements.

#### *Restoration, rehabilitation and environmental obligations*

Management's assumption of no material restoration, rehabilitation and environmental exposure, is based on the facts and circumstances that existed in the current and prior periods.

#### *Going concern assumption*

Going concern presentation of the financial statements which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

#### *Accounting policies*

Reference should be made to the Company's audited financial statements for a full discussion of its significant accounting policies.

## **RISKS AND UNCERTAINTIES**

Oil and gas exploration and mineral exploration are speculative ventures. There is no certainty that expenditures on exploration and development will result in the discovery of an economic hydrocarbon reserve. At the present time, the Company holds interests in a small number of producing oil wells. The Company's viability and potential success lie in its ability to develop, exploit and generate revenue out of its resource properties. Revenues, profitability and cash flow from any future resource operations involving the Company will be influenced by oil, gas and /or metal prices and by the relationship of such prices to production costs. Such prices have fluctuated widely and are affected by numerous factors beyond the Company's control.

The ability of the Company to sell, and profit from the sale of any eventual production from any of the Company's properties will be subject to the prevailing conditions in the marketplace at the time of sale. The global marketplace is unregulated and subject to changing attitudes of consumers and other end-users on the basis of economic conditions. Many of these factors are beyond the control of the Company therefore represent a market risk which could impact the long term viability of Company and its operations.

### *Capitalization and commercial viability*

The Company will require additional funds to further explore and, if successful, develop its oil and gas interests and any additional properties that may be acquired. The Company may not have sufficient funds to carry out the completion of its exploration program, and may have to obtain other financing or raise additional funds. The Company has limited financial resources, and there is no assurance that additional funding will be available to the Company to carry out the completion of all the activities of its program, for additional exploration or for the substantial capital that is typically required in order to place a property into commercial production. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and evaluation of its properties.

The Company has limited financial resources and there is no assurance that additional funding will be available to it for further exploration and development of its projects or to fulfill its obligations under applicable agreements. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of the property interests of the Company with the possible dilution or loss of such interests.

The Company is very dependent upon the personal efforts and commitment of its existing management who are not full-time employees of the Company. To the extent that management's services would be unavailable for any reason, the Company's operations could be disrupted. The Company is also reliant upon the services of outside consultants.

### *Title matters*

While the Company has performed its own due diligence with respect to title of its property interests, this should not be construed as a guarantee of title. Properties and interests may be subject to prior unregistered agreements of transfer or aboriginal land claims, and title may be affected by undetected defects.

### *Competition*

Significant and increasing competition exists for oil and gas opportunities internationally. There are a number of large established companies with substantial capabilities and far greater financial and technical resources than the Company. The Company may be unable to acquire additional attractive mining properties on terms it considers acceptable and there can be no assurance that the Company's exploration and acquisition programs will yield any new reserves or result in any commercial producing operations.

### *Limited history of earnings*

The Company has a limited history of earnings, and there is no assurance that any other properties that it may acquire will generate earnings, operate profitably or provide a return on investment in the future. The Company has no plans to pay dividends for the foreseeable future. The future dividend policy of the Company will be determined by its directors.

### *Potential profitability depends upon factors beyond the control of the Company*

The potential profitability of mineral properties is dependent upon many factors beyond the Company's control. For instance, world prices of and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging and/or controls and respond to changes in domestic, international, political, social and economic environments. Another factor is that rates of recovery may vary from the rate experienced in tests and a reduction in the recovery rate will adversely affect profitability and, possibly, the economic viability of a property. Profitability also depends on the costs of operations, including costs of labour, equipment, electricity, environmental compliance or other production inputs. Such costs will fluctuate in ways the Company cannot predict and are beyond the Company's control, and such fluctuations will impact on profitability and may eliminate profitability altogether. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for development and other costs have become increasingly difficult, if not impossible, to project. These changes and events may materially affect the financial performance of the Company.

### *Environmental risks and other regulatory requirements*

The current or future operations of the Company require permits from various federal and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mineral resources and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with the applicable laws, regulations and permits. There can be no assurance that all permits which the Company may require for the construction of facilities and conduct of its operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any project which the Company might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in oil and gas operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of oil and gas companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in the development of new properties.

### *Operating hazards and uninsurable risks*

In the course of exploration, development and production of properties, certain risks, including unexpected or unusual geological operating conditions including fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise they could reduce or eliminate any future profitability and result in an increase in costs and a decline in value of the securities of the Company.

The Company is not insured against most environmental risks. Insurance against environmental risks (including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and

production) has not been generally available to companies within the industry. The Company periodically evaluates the cost and coverage of the insurance against certain environmental risks that is available to determine if it would be appropriate to obtain such insurance. Without such insurance, and if the Company becomes subject to environmental liabilities, the payment of such liabilities would reduce or eliminate its available funds or could exceed the funds the Company has to pay such liabilities and result in bankruptcy. Should the Company be unable to fund fully the remedial cost of an environmental problem, it might be required to enter into interim compliance measures pending completion of the required remedy.

#### *Foreign countries and regulatory requirements*

The Company may acquire properties located in other countries where exploration activities may be affected by varying degrees of political instability and haphazard changes in government regulations such as tax laws, business laws and laws pertaining to oil and gas and mining. Any changes in regulations or shifts in political conditions would be beyond the control of the Company and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation and safety.

#### *Currency fluctuations*

The Company maintains its accounts in Canadian currency. If the Company acquires properties in other countries, its operations may be subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. The Company does not engage in currency hedging activities.

#### *First Nations Issues*

The Company's management regularly consults with and informs the local First Nations band regarding any issues that may have an impact on them, and has received continued support for the Company's current and proposed future activities. However, unforeseen circumstances in the future could potentially have an effect on the Company's operations.

## **FINANCIAL INSTRUMENTS**

### **Risk management and hedging activities**

In the normal course of operations the Company is exposed to various financial risks. Management's close involvement in the operations allows for the identification of risks and variances from expectations. The Company does not meaningfully participate in the use of financial instruments to control these risks. The Company has no designated hedging transactions. The financial risks and management's risk management objectives and policies are as follows:

#### *Currency risk*

The Company does not hold any assets or liabilities denominated in a foreign currency therefore is not exposed to currency risk.

#### *Price risk*

The Company is exposed to price risk with respect to commodity prices of oil and gas. The Company monitors commodity prices in order to manage their exposure to these risks. An annual average change of 1% in crude oil prices would affect the reported net income by \$137 (2014 - \$174).

### *Credit risk*

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the company. The Company is exposed to credit risk on its financial assets. Cash is held with an established Canadian bank and the Company's other receivables are from Canadian government entities, from which management believes the risk of loss to be remote. The Company does not have any derivatives or similar instruments that mitigate the maximum exposure to credit risk.

The carrying amount of financial assets recorded in the consolidated financial statements at October 31, 2015 in the amount of \$124,673 (2014 - \$199,696) represents the maximum exposure to credit risk at the reporting date.

### *Liquidity risk*

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. Management monitors the Company's liquidity by assessing forecast and actual cash flows and by maintaining adequate cash on hand. Management is confident that the Company will be successful in raising funds to meet commitments associated with financial instruments. As at October 31, 2015 the Company had working capital in the amount of \$ 24,621 (2014 \$129,227).

The contractual maturities of financial liabilities at October 31, 2015, based on the earliest date on which payment can be required, were as follows:

	<b>Total amount</b>	<b>6 months or less</b>	<b>More than 6 months</b>
Trade payables	\$ 71,409	\$ 71,409	\$ -
Other payables	61,684	61,684	-
	<u>\$ 133,093</u>	<u>\$ 133,093</u>	<u>\$ -</u>

### *Interest rate risk*

The Company is not exposed to any meaningful interest rate risk due to the short term nature of its interest generating assets.

### *Sensitivity analysis*

The Company has cash and cash equivalents subject to interest rate risk of \$124,673 (2014 - \$152,855). A 1% change in the primary interest rate would affect the reported net income, on an annualized basis, by approximately \$1,125 (2014 - \$1,529).

### *Fair values, carrying amounts and changes in fair value*

The fair values of the Company's financial instruments approximate their carrying value due to their short-term nature. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the balance sheet, have been prioritised into three levels:

- (i) Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities,
- (ii) Level two includes inputs that are observable other than quoted prices included in level one, and
- (iii) Level three includes inputs that are not based on observable market data.

The Company's financial instruments within the fair value hierarchy as at October 31, 2015 and July 31, 2015 are as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<hr/>			
As at October 31, 2015:			
Cash and cash equivalents	\$ 89,287	\$ -	\$ -
<hr/>			
As at July 31, 2015:			
Cash and cash equivalents	\$ 101,550	\$ -	\$ -
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#### *Collateral*

The carrying value of financial assets the Company has pledged as collateral is \$Nil (2014 - \$Nil).

#### **CAPITAL MANAGEMENT**

The Company considers its capital structure to consist of share capital, stock options and warrants. When managing capital, the Company's objective is to ensure the company continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral and petroleum and natural gas properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the company's operations. As at October 31, 2015, the Company had managed capital (being total shareholder's equity) of \$313,286 (July 31, 2015 \$338,777).

The Company presently has interests in 10 production wells and ongoing exploration and assessment on 8 properties that it intends to drill in the future. As such the Company is dependent on external financing to fund its activities and or joint ventures. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended October 31, 2015. The Company is not subject to externally imposed capital requirements.

#### **DISCLOSURE AND INTERNAL FINANCIAL CONTROLS**

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to

make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim financial statements and that (ii) the unaudited interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim financial statements.

In contrast to the certificate required under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (MI 52-109), the Company utilizes the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in MI 52-109. In particular, the certifying officers filing the Certificate are not making any representations relating to the establishment and maintenance of: (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in MI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.