**TSX-V: BSP**

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# BIG SKY PETROLEUM CORPORATION

*(An Exploration Stage Company)*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE YEAR ENDED DECEMBER 31, 2016**

## INTRODUCTION

This is Management's Discussion and Analysis ("MD&A") for Big Sky Petroleum Corporation ("Big Sky" or the "Company") and has been prepared based on information known to management as of April 28, 2017. This MD&A is intended to help the reader understand the consolidated financial statements of Big Sky.

The following information should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2016 and 2015 and the related notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A provides a review of the performance of the Company for the year ended December 31, 2016. Additional information relating to the Company can be found on SEDAR www.sedar.com.

Management is responsible for the preparation and integrity of the consolidated financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management also ensures that information used internally or disclosed externally, including the consolidated financial statements and MD&A, is complete and reliable.

The Company's board of directors follows recommended corporate-governance guidelines for public companies to ensure transparency and accountability to shareholders. The board's audit committee meets with management regularly to review the consolidated financial statements, including the MD&A, and to discuss other financial, operating and internal-control matters.

All currency amounts are expressed in US dollars unless otherwise noted.

## FORWARD LOOKING STATEMENTS

Certain sections of this MD&A provide, or may appear to provide, a forward-looking orientation with respect to the Company's activities and its future financial results. Consequently, certain statements contained in this MD&A constitute express or implied forward-looking statements. Terms including, but not limited to, "anticipate", "estimate", "believe" and "expect" may identify forward-looking statements. Forward-looking statements, while they are based on the current knowledge and assumptions of the Company's management, are subject to risks and uncertainties that could cause or contribute to the actual results being materially different than those expressed or implied. Readers are cautioned not to place undue reliance on any forward-looking statement that may be in this MD&A.

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The following forward looking statements have been made in this MD&A:

- Plans for decommissioning the Company's oil and gas property;
- Plans to settle its liabilities with the creditors;
- Future budgets and how long the Company expects its working capital to last; and
- Management expectations of future activities and results.

## ADDITIONAL INFORMATION

Financial statements, MD&A's and additional information relevant to the Company and the Company's activities can be found on SEDAR at www.sedar.com, and/or on the Company's website at www.bspcorp.com.

## SUMMARY AND OUTLOOK

Big Sky is a Canadian oil and gas exploration company and is looking for partners or financing to advance its projects. In addition, the Company may also sell some or all of its projects to fund its liabilities.

Management's overall expectations for the Company are based on the following:

- The Company has completed a rollback, cut costs and is attempting to re-finance itself or find partners, financing, or buyers for its projects.
- The Company plans to properly decommission the one well that was drilled and settle its liabilities with its creditors.

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## 1. Background

The Company was incorporated under the *Canada Business Corporations Act* on February 3, 2006 and, effective July 6, 2009, changed its continuance out of the federal jurisdiction into the British Columbia jurisdiction under the *Business Corporations Act* (British Columbia). The Company has been listed on the TSX Venture Exchange (the "TSX-V" or "Exchange") since May 5, 2006. Its shares began trading under the symbol "BSP" effective December 5, 2011. On December 3, 2013, the Company consolidated its share capital on the basis of one new share for every 10 old shares. On May 26, 2016, the Company's shares trading under the symbol "BSP.H" in the NEX Board of the Exchange.

## 2. Overview

### (a) Company Mission and Focus

Big Sky is a North American oil and gas exploration company and its mission is to explore and develop its oil and gas interest.

### (b) Non-GAAP Measures

This MD&A might include references to financial measures commonly used in the oil and natural gas industry such as the terms "field netback" (production sales and processing revenue less royalties, turnover taxes and operating expense) and "funds flow from operations" (cash generated from operating activities before changes in refundable tax, non-cash working capital and translation adjustment on operating items). These non-GAAP measures do not have any standardized meaning under IFRS and may not be comparable with similar measures presented by other companies.

### (c) BOE Presentation

Production information is commonly reported in units of barrels of oil equivalent (boe). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet (MCF) to one barrel (bbl). This conversion ratio of 6:1 represents energy equivalency, which is primarily applicable at the burner tip, and does not represent a value equivalency at the wellhead. Such disclosure of boe may be misleading, particularly if used in isolation.

### (d) Statement of Risk

The accuracy of reserve and economic evaluations is always subject to uncertainty. The magnitude of this uncertainty is generally proportional to the quantity and quality of data available for analysis. As a well matures and new information becomes available, revisions may be required which may either increase or decrease the previous reserve assignments. Sometimes these revisions may result not only in a significant change to the reserves and value assigned to a property, but also may impact the total company reserve and economic status. The reserves and forecasts contained in the NI 51-101 report and the extracts in this MD&A were based upon a technical analysis of the available data using accepted engineering principles. However, they must be accepted with the understanding that further information and future reservoir performance subsequent to the date of the estimate may justify their revision. The Company, MHA Petroleum Consultants ("MHA") and Petrotech Engineering Ltd. ("Petrotech") make no warranties concerning the data and interpretations of such data. In no event shall the Company, MHA and Petrotech be liable for any special or consequential damages arising from the Company's or investors' and shareholders' use of MHA's and Petrotech's interpretation, reports, or services produced as a result of MHA's and Petrotech's work for the Company.

## 3. Oil and Gas Properties

### (a) Montana

Big Sky was originally established for the purpose of acquiring oil and gas exploration opportunities, drilling and completing wells and acquiring oil and gas production with primary focus on the exploration and development of oil and gas in the Alberta Basin, commonly referred to as the Bakken source system.

Big Sky has interests in separate land packages known as the Americana Acreage Block and the FX Block, collectively referred to as the Glacier Prospects. Effective February 2011, the Company signed a Joint Participation Agreement and Operating Agreement with FX Producing Company, Inc. and American Eagle Energy Inc. to explore the region with an undivided 33.33% interest each. During fiscal 2014, the Company wrote off all its capitalized cost.

On April 30, 2013, Big Sky and its two joint Participation Agreement partners signed a Purchase and Sale Agreement with American Midwest Oil and Gas to sell certain of its oil and gas leasehold interests in Toole County, Montana, for a total purchase price of $642,292, of which the Company had a one-third interest. As at December 31, 2016 and 2015, the Company owed $312,764 to its Joint Participation Agreement partners for the sale.

Details of the Glacier Projects should be read in conjunction with the Technical Report dated December 31, 2012 prepared pursuant to NI 51-101 by MHA and entitled "Geological Assessment of the Glacier Prospect Area, Toole and Glacier Counties, Montana" which is available for review under the Company's profile at www.sedar.com.

### (b) Texas

In November 2012, the Company entered the Wolfcamp/Wolfberry play currently developing in the Southern Midland Basin portion of the Permian Basin located in west Texas. Big Sky acquired 90% working interest in a lease block on the eastern shelf of the southern Midland Basin in West Texas.

The Company does not plan to further explore the Texas property and therefore, the Company wrote-off $250,000 of its capitalized cost related to the Texas property during the year ended December 31, 2015. As a result of the impairment, the carrying value of the Texas property as at December 31, 2016 is $nil (2015 - $nil).

Details of the Southern Midland Basin should be read in conjunction with the Technical Report dated February 28, 2013 prepared pursuant to NI 51-101 by Petrotech entitled "Evaluation of the Interests of Big Sky Petroleum Corporation in the Oil & Gas Leases in Crockett & Schleicher Co., Texas" which is available for review under the Company's profile at www.sedar.com.

Big Sky will properly decommission the only well drilled in Texas and settle its liabilities with its creditors.

## 4. Risks and Uncertainties

*General Conditions Relating to Oil Exploration and Production Operations*

The Company's operations are subject to all the risks normally incident to the exploration for and production of oil including geological risks, operating risks, political risks, development risks, marketing risks, and logistical risks.

*Exploration, Development and Production Risks*

Oil and gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The Company's long term commercial success depends on the Company's ability to find, acquire, develop and commercially produce oil reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on the Company's ability to explore and develop any properties the Company may have from time to time, but also on the Company's ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or participation.

Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil will be discovered or acquired by the Company.

Future oil exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include: delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. Oil exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to oil wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Company may not fully insure against all of these risks, nor are all such risks insurable. Although the Company anticipates maintaining liability insurance in an amount that the Company considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon the Company's financial condition.

Oil production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

*Environmental*

All phases of the oil business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil operations.

The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require us to incur costs to remedy such discharge. Although the Company believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

*Prices, Markets and Marketing*

The marketability and price of oil that may be acquired or discovered by the Company will be affected by numerous factors beyond its control. The Company's ability to market may depend upon its ability to acquire space on pipelines that deliver to commercial markets. The Company may also be affected by deliverability uncertainties related to the proximity of the Company's reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and many other aspects of the oil business.

Producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The price depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products and the supply/demand balance. Oil prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of the Company's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of the Company's reserves. The Company might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Company's net production revenue causing a reduction in acquisition, development and exploration activities.

*Availability of Drilling Equipment and Access*

Oil exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities. To the extent the Company is not the operator of its oil properties, the Company will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

*Competition*

The petroleum industry is competitive in all its phases. The Company competes with numerous other participants in the search for, and the acquisition of, oil properties and in the marketing of oil. The Company's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than us. The Company's ability to increase reserves in the future will depend not only on the Company's ability to explore and develop its present properties, but also on the Company's ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and include price and methods and reliability of delivery.

*Reserve Estimates*

There are numerous uncertainties inherent in estimating quantities of oil reserves and cash flows to be derived therefrom, including many factors beyond the Company's control. In general, estimates of economically recoverable oil reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. The Company's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves. Any recovery and reserves estimates on the properties are estimates only. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

There is no assurance that any forecast price and cost assumptions contained in a reserve report will be attained and variances could be material. Actual future net cash flows will be affected by other factors such as actual production levels, supply and demand for oil, curtailments or increases in consumption by oil purchasers, changes in governmental regulation or taxation and the impact of inflation on costs. Reserves data is therefore based on judgments regarding future events therefore, actual results will vary and variations may be material.

*Title to Assets*

Although title reviews may be conducted prior to the purchase of oil producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the Company's claim which could result in a reduction of any revenue to be received by the Company.

*Title Issues*

The Company has investigated the rights to explore the various oil properties it holds or proposes to participate in and, to the best of its knowledge, those rights are in good standing. However, no assurance can be given that applicable governments will not revoke, or significantly alter the conditions of, the applicable exploration and development authorizations and that such exploration and development authorizations will not be challenged or impugned by third parties. There is no certainty that such rights or additional rights applied for will be granted or renewed on terms satisfactory to the Company. There can be no assurance that claims by third parties against the Company will not be asserted at a future date.

*Regulatory*

Oil operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. The Company's operations may require licenses from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at any of the Company's projects.

*Foreign Currency Rate Risk*

The Company's financing has been in Canadian dollars; however, a significant amount of the Company's activities are transacted in or referenced to US dollars. The majority of the Company's operating costs and all of the Company's payments in order to maintain property interests are to be in US dollars. As a result, fluctuations in the US dollar against the Canadian dollar could result in unanticipated fluctuations in the Company's financial results. The Company does not manage its exposure to fluctuations in the US dollar against the Canadian dollar.

*Substantial Capital Requirements*

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil reserves in the future. If the Company's revenues or reserves decline, it may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash 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 Company's inability to access sufficient capital for operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

*Additional Funding Requirements*

The cash flow from the Company's projects is not sufficient to fund the Company's ongoing activities at all times. From time to time, the Company requires additional financing in order to carry out acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause us to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate the Company's operations. Given the recent oil prices decrease, it has affected its ability to raise the necessary capital to replace its reserves or to maintain its projects. If the Company's future or possible cash flow from operations is not sufficient to satisfy capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to the Company.

*Issuance of Debt*

From time to time the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Depending on future exploration and development plans, the Company may require additional equity and/or debt financing that may not be available or, if available, may not be available on favorable terms. The Company's articles will not limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

*Hedging*

From time to time the Company may enter into agreements to receive fixed prices on the Company's oil production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases. Similarly, from time to time the Company may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Company will not benefit from the fluctuating exchange rate.

*Reliance on Key Personnel*

The Company's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on the Company. The Company does not have key person insurance in effect for management. The contributions of these individuals to the Company's immediate operations are likely to be of central importance. In addition, the competition for qualified personnel in the oil industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of the Company's business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the Company's management.

*Conflicts of Interest*

Certain of the Company's directors are also directors of other oil companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the *Business Corporations Act* (British Columbia).

*Insurance*

The Company's involvement in the exploration for and development of oil properties may result in the Company becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Any insurance obtained in accordance with industry standards to address certain of these risks has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's financial position, results of operations or prospects.

## 5. Impairment of Oil and Gas Properties

The Company had written off all its oil and gas properties in fiscal 2015 and therefore, did not have further impairment for fiscal 2016.

## 6. Material Financial and Operations Information

### (a) Selected Annual Financial Information

**Selected Annual Information**

| | Year ended December 31 2016 | Year ended December 31 2015 | Year ended December 31 2014 |
|---|---|---|---|
| | $ | $ | $ |
| Oil & gas revenue | - | - | - |
| Exploration and evaluation expenses | - | (150) | (8,736) |
| General and administrative expenses | (65,473) | (81,577) | (115,557) |
| Other income (expenses) | 200,000 | (250,043) | (1,558,853) |
| Net income (loss) for the year | 134,527 | (331,770) | (1,683,146) |
| Earnings (loss) per share | 0.02 | (0.05) | (0.28) |
| Total assets | 25,436 | 25,932 | 277,427 |
| Total long-term financial liabilities | - | - | 250,000 |
| Cash dividends declared – per share | N/A | N/A | N/A |

### (b) Summary of Quarterly Results

The following is a summary of the Company's financial results for the last eight quarters:

| | **Dec 31, 2016 Quarter** | Sep 30, 2016 Quarter | Jun 30, 2016 Quarter | Mar 31, 2016 Quarter | **Dec 31, 2015** Quarter | Sep 30, 2015 Quarter | Jun 30, 2015 Quarter | Mar 31, 2015 Quarter |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **-** | - | - | - | **-** | - | - | - |
| **Net income (loss)** | **180,699** | (12,970) | (15,710) | (17,492) | **(26,343)** | (263,019) | (18,162) | (24,246) |
| **Earnings (loss) per Share** | **0.03** | (0.00) | (0.00) | (0.00) | **(0.00)** | (0.04) | (0.00) | (0.00) |

### (c) Review of Operations and Financial Results

*For the three months ended December 31, 2016 compared to the three months ended December 31, 2015*

During the three months ended December 31, 2016, the Company had a net income of $180,699 ($0.03 earnings per share) compared to a net loss of $26,343 ($0.00 loss per share) for the same period in 2015.

The Company's general and administrative expenses amounted to $19,301, compared to 2015's $26,345, a decrease of $7,044. The decrease was mainly due to management conserving cash and cutting back costs in accounting, audit and legal fees (2016 - $18,817; 2015 - $22,184).

During the three months ended December 31, 2016, the Company had a fair value gain on decommissioning liabilities of $200,000 (2015 - $nil).

*For the year ended December 31, 2016 compared to the year ended December 31, 2015*

During the year ended December 31, 2016, the Company had a net income of $134,527 ($0.02 earnings per share) compared to a net loss of $331,770 ($0.05 loss per share) for the same period in 2015.

During the year ended December 31, 2016, the Company incurred $nil (2015 - $150) exploration and evaluation expenses.

During the year ended December 31, 2016, the Company also incurred $65,473 in general and administrative expenses, compared to 2015's $81,577, a decrease of $16,104. The decrease was mainly due to the management conserving cash and cutting back costs in accounting, audit and legal fees (2016 - $53,394; 2015 - $63,962), office (2016 - $101; 2015 - $3,132), and travel (2016 - $nil; 2015 - $2,770).

During the year ended December 31, 2016, the Company had a fair value gain on decommissioning liabilities of $200,000 (2015 - $nil), and wrote off $nil (2015 - $250,000) in oil and natural gas properties. The Company had foreign exchange loss of $nil (2015 - $43).

### (d) Liquidity and Capital Resources

The Company had a working capital deficiency of $943,543 as at December 31, 2016 (December 31, 2015 – working capital deficiency of $1,073,810). Cash totaled $412 as at December 31, 2016, a decrease of $367 from $779 as at December 31, 2015. The decrease was a result of $1,552 used in operating activities including changes in working capital and exploration and evaluation expenses; and offset by $1,185 effects of exchange rate changes on behalf of cash held in foreign currencies.

As of the date of this MD&A, the Company has no other outstanding commitments. The Company has not pledged any of its assets as security for loans, or otherwise and is not subject to any debt covenants.

Management estimates that the current cash position and future cash flows from options will not be sufficient for the Company to carry out its anticipated exploration and operating plans through 2017. The Company will therefore rely on debt or equity financing in 2017 to continue with its exploration and operating plans.

There may be circumstances where, for sound business reasons, a reallocation of funds may be necessary in order for the Company to achieve its stated business objectives.

## (e) Disclosure of Outstanding Share Data

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

| | No. of Common Shares Issued & Outstanding | Share Capital Amount |
|---|---|---|
| December 31, 2016 | 6,067,667 | $10,190,960 |
| December 31, 2015 | 6,067,667 | $10,190,960 |

The Company has established a stock option plan for its directors, officers and consultants under which the Company may grant options to acquire a maximum number of common shares equal to 10% of the total issued and outstanding common shares of the Company.

During the year ended December 31, 2016, a total of 115,000 options with exercise prices between Cdn$1.20 and Cdn$3.50 expired. As at December 31, 2016, the Company had a total of 18,000 options outstanding with exercise price of Cdn$1.20, expiring between November 29, 2017 and January 7, 2018. If all the remaining outstanding exercisable options were exercised, the Company's available cash would increase by Cdn$21,600.

As of the date of this MD&A, there were 6,067,667 common shares issued and outstanding and 6,085,667 common shares outstanding on a diluted basis.

## (f) Commitment and Contingency

The Company is currently engaged in three litigation claims where plaintiffs are demanding for the payments of delinquent invoices, attorneys' fees and court costs if any. Amounts of delinquent invoices are included in accounts payable. The amounts of attorney fees and court costs are unknown.

## (g) Off-Balance Sheet Arrangements

None.

## (h) Transactions with Related Parties

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

| For the year ended December 31, 2016 | Short-term benefits | Share-based Payments | Total |
|---|---|---|---|
| Companies controlled by Chief Executive Officer, President, Chief Financial Officer and a Director | $ 45,290 | $ - | $ 45,290 |
| Total | $ 45,290 | $ - | $ 45,290 |

| For the year ended December 31, 2015 | Short-term benefits | Share-based Payments | Total |
|---|---|---|---|
| Companies controlled by Chief Executive Officer, President, Chief Financial Officer and a Director | $ 49,576 | $ - | $ 49,576 |
| Total | $ 49,576 | $ - | $ 49,576 |

| Due to related parties | Services for | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| Companies controlled by Chief Executive Officer, President, Chief Financial Officer and a Director | Rent, accounting and financial services; loan | $ 217,649 | $ 150,693 |
| Company controlled by a director | Legal | 21,612 | 21,061 |
| Director | Loan | 7,414 | - |
| Total | | $ 246,675 | $ 171,754 |

### (i) Financial Instruments

The fair values of the Company's cash, accounts receivable (net of GST receivable), and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these instruments. The Company's cash is valued based on quoted market prices.

Amounts due to related parties approximate their fair value as they are due on demand.

The Company's financial instruments are exposed to certain financial risks, including foreign currency risk, credit risk, liquidity risk and interest risk.

- **Foreign currency risk**

  The Company raises financing in Canadian dollars while incurring exploration and decommissioning costs on its oil and gas properties in US dollars. The Company is therefore affected by changes in exchange rates between the Canadian dollar and US dollar, which may adversely affect the Company's financial position, results of operations and cash flows. The Company has net monetary liabilities of approximately $374,000 (2015 – $287,000) denominated in Canadian dollars. A 6% change in the absolute rate of exchange in US dollars would affect its net loss by $22,440 (2015 - $17,220).

- **Credit risk**

  The Company's cash is held in a Canadian financial institution. Credit risk is managed by using major banks that are high credit quality financial institutions as determined by ratings agencies. The Company's accounts receivable consists primarily of Goods and Services tax due from the federal government of Canada.

- **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities, amounts due to related parties, and amounts due to joint participation agreement partners are due within the current operating period.

- **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash is limited because they are generally held to maturity. The Company is not exposed to significant interest rate risk.

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy.

| December 31, 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash | $ 412 | $ - | $ - | $ 412 |

| December 31, 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash | $ 779 | $ - | $ - | $ 779 |

### (j) Management of Capital Risk

The Company's capital is comprised of share capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the acquisition and exploration of oil and gas properties and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets, or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. There were no changes to the Company's approach to capital management during the year ended December 31, 2016 and the Company is not subject to any externally imposed capital requirements.

## 7. Changes in Internal Control Over Financial Reporting ("ICFR")

*Changes in Internal Control Over Financial Reporting ("ICFR")*

In connection with National Instrument 52-109, *Certification of Disclosure in Issuer's Annual and Interim Filings* ("NI 52-109") adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issue Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI52-109.

*Disclosure Controls and Procedures*

The Company's CEO and CFO are responsible for establishing and maintaining the Company's disclosure controls and procedures. Management, including the CEO and CFO, have evaluated the procedures of the Company and have concluded that they provide reasonable assurance that material information is gathered and reported to senior management in a manner appropriate to ensure that material information required to be disclosed in reports filed or submitted by the Company is recorded, processed, summarized and reported within the appropriate time periods.

While management believes that the Company's disclosure controls and procedures provide reasonable assurance, they do not expect that the controls and procedures can prevent all errors, mistakes, or fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

## 8. Information on the Board of Directors and Management

**Directors:**
*Mark T. Brown, B.Comm, CPA, CA*
*Desmond M. Balakrishnan, BA, C.LA, LLB*
*Arden McCracken - PhD*

**Audit Committee members:**
*Mark T. Brown, Desmond M Balakrishnan and Arden McCracken*

**Management:**
*Mark T. Brown, CPA, CA – Chief Executive Officer, President*
*Winnie Wong, CPA, CA – Chief Financial Officer and Corporate Secretary*