ECHELON PETROLEUM CORP.
(formerly Rara Terra Minerals Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the Three and Nine Month Periods ended December 31, 2013

Management's discussion and analysis ("MD&A") is prepared as of March 3, 2014 and provides a review of the performance of Echelon Petroleum Corp. ("Echelon" or the "Company") and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the nine month period ended December 31, 2013 and related notes included therein which are prepared in accordance with International Financial Reporting Standards. This report contains discussion and analysis, which includes forward-looking statements that may differ materially from actual results achieved. All of the financial data herein has been prepared in accordance with International Financial Reporting Standards and all figures are stated in Canadian dollars. Additional information on the Company is available on the SEDAR website at www.sedar.com.

FORWARD LOOKING STATEMENTS

Certain statements contained in this document constitute "forward looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", "forecast", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the Company's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments except as required by law.

1.1 Date of Report: March 3, 2014

1.2 Overall Performance

Nature of Business and Overall Performance

The Company was originally incorporated as Rara Terra Capital Corp. under the Business Corporations Act (British Columbia) on December 17, 2009. On August 27, 2010 the Company completed its initial public offering of 3,000,000 common shares in the capital of the Company (each, a "Share") at a price of $0.10 per Share for gross proceeds of $300,000. The Shares were concurrently listed on the TSX Venture Exchange (the "Exchange") and the Company was classified as a Capital Pool Company as defined in Exchange Policy 2.4.

On November 29, 2010 the Company signed a letter of intent (the "LOI") with American Manganese Inc. (TSX-V: AMY) ("American Manganese") to acquire up to 60% of the right, title and interest of American Manganese in the Lonnie property (the "Lonnie Property"), a niobium and rare earth property located in the Omineca Mining Division of British Columbia, which was intended to constitute the Company's

Qualifying Transaction as defined in Exchange Policy 2.4. The Lonnie Property consists of 8 mineral claims, totalling 1,605 hectares, and is located on Granite Creek, south east of Manson Creek in North Central British Columbia, approximately three hours drive north of Fort St. James. Pursuant to the terms of the LOI, as consideration for the acquisition of the interest in the Lonnie Property, Rara Terra agreed to pay American Manganese cash payments totaling $60,000 and to issue to American Manganese 285,000 Shares over the three year term of an option agreement to be entered into between the Company and American Manganese (the “Lonnie Definitive Agreement”). Rara Terra also committed to incur exploration expenditures totaling $500,000 over the three year term of the Lonnie Definitive Agreement.

The Lonnie Definitive Agreement was entered into effective January 31, 2011 and the Company received the final approval for the Qualifying Transaction on May 3, 2011. In connection with the completion of the Qualifying Transaction, the Company changed its name to Rara Terra Minerals Corp. In connection with the closing of the Qualifying Transaction, the Company completed a brokered and non-brokered private placement financing for total gross proceeds of $2,313,170 whereby the Company issued 8,291,000 non-flow-through units and 801,401 flow-through units. The non-flow-through units were priced at $0.25 per unit, with each unit consisting of one Share and one half of one Share purchase warrant. The flow-through units were priced at $0.30 per unit, with each unit consisting of one Share, issued on a flow-through basis, and one half of one non-flow through Share purchase warrant. Each whole warrant is exercisable into one Share at a price of $0.39 per Share until November 3, 2012.

On April 20, 2011, the Company staked an additional 875 hectares of property adjacent to the Lonnie Property.

On June 9, 2011, the Company entered into an option agreement to acquire a 100% interest in eight claims comprising approximately 2,940 hectares in the Xeno property in northern British Columbia for the following consideration:

i) $14,500 upon signing of the agreement (paid);
ii) $12,500 and 75,000 Shares upon approval of the Exchange (paid and issued);
iii) $10,000 and 50,000 Shares on the 1st anniversary of the Exchange approval date (paid and issued): and
iv) $10,000 and 50,000 Shares on the 2nd anniversary of the Exchange approval date. (paid and issued)

The property is subject to a 0.5% Net Smelter Royalty (“NSR”) that can be repurchased by the Company for $250,000.

On June 9, 2011, the Company also entered into a second option agreement to acquire a 100% interest in 20 claims comprising approximately 4,185 hectares in the Xeno property in northern British Columbia for the following consideration:

i) $28,000 upon signing of the agreement (paid);
ii) $28,000 and 75,000 Shares upon approval of the Exchange (paid and issued); and
iii) $50,000 and 115,000 Shares on the 1st anniversary of the Exchange approval date (paid and issued).

On July 8, 2011 the Company staked an additional 841 hectares of property adjacent to the above referenced Xeno properties.

On May 1, 2012 the Company made the following payments pursuant to the Lonnie Definitive Agreement with American Manganese:

- $4,607 (renegotiated from $20,000) and 75,000 Shares to American Manganese;
- $1,000 and 3,750 Shares to David Heyman; and
- $1,000 and 3,750 Shares to Nick Horsley.

During fiscal 2012 the Company retained the services of Fugro Airborne Service Corp. to plan and execute an airborne survey of the Xeno property. This geophysical survey was designed to provide electromagnetic, magnetic, and radiometric data of the top 100 meters of the earth's crust enabling the generation of high resolution electromagnetic resistivity, radiometric, and magnetic anomaly maps. Although the planning of the survey program was completed in the fall of 2011, inclement weather prevented the program from being completed in fiscal 2012. Fugro conducted the airborne survey in mid 2012 and completed the program in August 2012. Fugro delivered the survey data to the Company in October 2012 and the Company delivered this data to its consulting geophysicist in December 2012. The Company received the report of the consulting geophysicist in early June 2013. As of the date of this report the company has not determined whether it will pursue further exploration of the Xeno property.

On September 10, 2012 the TSX-V approved the Company's application for a one year extension to the 4,546,201 share purchase warrants issued pursuant to the May 3, 2011 private placement. The new warrant expiry date being November 3, 2013.

On November 15, 2012 the Company entered into an Oil & Gas Turnkey Participation and Operating Agreement ("OGA") with Circlestar Energy Corp. ("Circlestar"), wherein for consideration of US$393,750 to be paid by the Company to Circlestar, Circlestar would sell to the Company a 75% working interest before payout (60% net revenue interest) and a 56.25% working interest after payout (45% net revenue interest) in an oil and gas exploration and development prospect located on approximately 160 acres in Trego County, Kansas. Circlestar is engaged in the oil and gas exploration and production industry, and identified the oil and gas exploration and development prospect located in Trego County, Kansas, as being a favorable prospect for development. In December 2012, the Company made payments totaling $395,026 (US$393,750) to Circlestar with respect to the drilling and completion of the first Trego County property well prospect triggering the acquisition of the working interest and net revenue interest referred to above. The OGA also grants the Company a right of first refusal to participate and acquire interests in new well projects on the Trego County property. If the Company does not participate in those future project well opportunities or fund its share of the associated costs, the Company will lose its right of first refusal to participate and acquire interests in any future project well opportunities. The Company, following approval from the TSX-V, issued 370,313 common shares with a fair value of $44,437 pursuant to a finders fee agreement and the finder having identified and assisted in the negotiation of the OGA.

In January 2013, the Company paid $205,249 (US$206,387) and in February 2013 paid an additional $145,115 (US$143,614) to Circlestar to fund the Company's proportionate share of the drilling and completion costs of a second well on the Trego County, Kansas property. In March the Company paid $130,274 (US$125,853) to fund the Company's proportionate share of the hydraulic fracturing of the first and second wells on the Trego County, Kansas property and a further $183,932 (US$179,072) to fund its proportionate share of the costs of a lateral drilling program off of each of the first and second Trego wells.

In February 2013, the Company incorporated 0960128 B.C. LTD., as a wholly owned British Columbia subsidiary, and may incorporate a Kansas subsidiary, to be wholly owned by 0960128 B.C. LTD. The Company may assign all or a portion of its interest in the OGA to the Kansas subsidiary.

In March 2013, the Company closed a non-brokered private placement raising $767,250 by way of issuing 5,115,000 Shares at a price of $0.15 per Share. No warrants were issued nor were any finder's fees incurred in connection with the private placement.

On March 29, 2013 the Company entered into a letter of intent (the "TCLOI") with Circlestar for the proposed acquisition by the Company of a working interest in certain oil and gas well drilling prospects located on approximately 1,360 acres in Trego County, Kansas, USA (the "Project"). The extent of the participating interest in the Project to be acquired by Echelon and the purchase price remained subject to due diligence and negotiation. Pursuant to the TCLOI, the Company paid a non-refundable due diligence payment in the amount of $172,410 (US$168,300), to be used to fund a 3D seismic program on the Project. The 3D seismic program was completed during in the quarter ended June 30, 2013. The Company retained the services of an independent petroleum industry consulting firm to review the results of the 3D seismic program. The data was delivered to the consulting firm and they have presented their analysis to the Company. Echelon reviewed the consultant's analysis and agreed with the consulting firms conclusion that there were a number of potential drilling targets within the 1,360 acre Trego property of sufficient merit to proceed to negotiate a definitive agreement with Circlestar.

In conjunction with the above referenced 3D seismic program the Company paid an additional $20,283 (US$19,800) to fund a 3D seismic survey of the original 160 acre Trego property referred to above. Based upon the analysis by the independent petroleum industry consulting firm of the resulting data the Company agreed with the conclusion of the consulting firm that there were no potential additional drilling targets of sufficient merit to warrant conducting additional exploration of the 160 acre Trego property.

In April 2013, the Company terminated the above described Lonnie Definitive Agreement.

In May 2013, the Company made the following payments pursuant to the Lonnie Definitive Agreement with American Manganese:

- $1,000 and 3,750 Shares to David Heyman; and
- $1,000 and 3,750 Shares to Nick Horsley.

In May 2013, a further 337,500 Shares were released from escrow.

In April and May 2013, the Company staked an additional 958 hectares of property adjacent to the above referenced Xeno Properties.

In July 2013, the Company paid $10,000 and issued 50,000 shares pursuant to the above referenced Xeno Property acquisition.

On August 28, 2013, Circlestar sold, assigned and transferred to the Company a 75% interest in Circlestar's rights, title and interest in the above referenced OGA (executed between Circlestar and the Company on November 12, 2012), including, Circlestar's property and rights thereto as they are entitiled pursuant to the terms of the Lynd Family Trust 36 Lease; Circlestar's undivided interests in the personal property and tangible assets involved in the production of the hydrocarbons produced therefrom; and to the hydrocarbons produced and sold from the property described in the OGA. The effective date of the transaction is January 28, 2013 and it is subject to the terms of the OGA, the terms and conditions of the Lynd Family Trust 36 Lease, and the terms and conditions of the recorded assignments of overriding royalties recorded in the records of Trego County, Kansas.

On September 13, 2013 the Company entered into a second Oil & Gas Turnkey Participation and Operating Agreement (the “OGA2”) with Circle Star Energy Corp. (“Circle Star”), whereby the Company proposes to acquire a 50% working interest before payout (40% net revenue interest) and a 37.5% working interest after payout (30% net revenue interest) in certain oil and gas project wells to be located within an oil and gas prospect referred to as the Lynd Family Trust 1360 prospect (the “Prospect”) which is situated on approximately 1,360 acres in Trego County, Kansas (the “Transaction”). Under the Agreement, the Company is required to contribute its pro-rata share of the turnkey payment with respect to the initial well, and for additional wells, if any. The Company’s share of the turnkey payment for the initial well is expected to be US$331,640. Also, the Company has been granted the right of first refusal to participate in the development of new project wells in addition to the initial well on the terms and conditions set out in the Agreement. The Agreement replaces and supersedes the TCLOI dated March 29, 2013 for this transaction. The US$168,300 previously advanced to Circle Star by the Company as a due diligence payment pursuant to the TCLOI, used to shoot 3D seismic on the Prospect, will be reimbursed in part to the Company pursuant to the Agreement. The Company has agreed to pay a finder’s fee consisting of the issuance of 165,800 common shares of the Company (the “Finder’s Fee Shares”) at a deemed price of $0.15 per Finder’s Fee Share in connection with the closing of the Transaction. The Finder’s Fee Shares are expected to be subject to a hold period that will expire four months and one day after the date of issuance of the Finder’s Fee Shares. Closing of the Transaction and the issuance of the Finder’s Fee Shares are subject to approval of the TSX Venture Exchange which approval has not yet been received.

During the nine months ended September 30, 2013, the Company earned $4,052 in net revenues from oil sales from production on the Trego Property, which is receivable at September 30, 2013.

On November 3, 2013, 4,546,201 Share purchase warrants issued pursuant to the May 3, 2011 private placement expired and an additional 337,500 Shares were released from escrow.

1.3 Discussion of Operations

Operations during the three months ended December 31, 2013 were primarily related to the production related activities of the Trego 160 acre property; working with the Company’s advisors and consultants regarding the evaluation of the 3D seismic program data to determine new exploration programs on the 1,360 acre Trego property; identification and negotiation of working interests in new oil and gas exploration properties; determining whether to conduct further exploration of the Xeno mineral property; evaluating alternative plans to raise new capital to fund corporate growth; and to general corporate matters.

There were no transactions with related parties other than consulting fees paid to or accrued by the Company’s directors and officers, the payment of rent for office space, and the reimbursement of expenses incurred by the Company’s officers and directors. There were no legal proceedings, contingent liabilities, defaults under debt or other contractual obligations, breach of any laws or special resolutions during the period.

A more detailed description of the activities undertaken during the three month period ended December 31, 2013 and to the date of this report is presented below.

1.4 Selected Quarterly Information

Summary of Quarterly Results

The following is a summary of the Company's financial results for the eight most recently completed quarters. The financial data has been prepared in accordance with International Financial Reporting Standards and all figures are stated in Canadian dollars.

For the Quarterly Periods ended:		December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Total Revenues	$	(1,202)	(6,746)	12,000	Nil
Loss before other items	$	(104,437)	(120,271)	(127,132)	(357,261)
Loss per common share before other items, basic and diluted	$	(0.00)	(0.01)	(0.01)	(0.02)
Net and comprehensive loss for the period	$	(104,437)	(120,271)	(130,332)	(583,662)
Loss per share, basic and diluted	$	(0.00)	(0.01)	(0.01)	(0.03)

For the Quarterly Periods ended:		December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Total Revenues	$	Nil	Nil	Nil	Nil
Loss before other items	$	(119,779)	(97,832)	(91,912)	(119,923)
Loss per common share before other items, basic and diluted	$	(0.01)	(0.00)	(0.00)	(0.01)
Net and comprehensive loss for the period	$	(119,779)	(97,832)	(91,598)	(79,876)
Loss per share, basic and diluted	$	(0.01)	(0.00)	(0.00)	(0.01)

1.5 Results of Operations

(The Company reported a net and comprehensive loss of $104,437 (December 31, 2012: $119,779) during the three month period ended December 31, 2013. The primary costs contributing to this net and comprehensive loss included Consulting and management fees of $82,500 (December 31, 2012: $78,250) and Rent of $10,500 (December 31, 2012: $10,500). The Company also incurred a net loss of $1,202 (December 31, 2012: $Nil) related to its working interest in the oil production generated from the 36-1 and 36-2 Trego wells.

The Company has reported a net loss since inception. These and other amounts are more fully described in the section of this report that follows.

Comprehensive Loss, Administrative, Exploration and General Expenses

The following revenue and expenses were incurred during the three and nine month periods ended December 31, 2013 and 2012.

	For the three months ended December 31, 2013	**For the three months ended December 31, 2012**	**For the nine months ended December 31, 2013**	**For the nine months ended December 31, 2012**
Revenue	$ (1,202)	$ -	$ 4,052	$ -
Expenses				
Consulting and management fees	82,500	78,250	238,167	204,250
General and administrative	5,003	1,526	15,910	5,804
Investor relations	500	4,500	5,375	18,228
Professional fees	6,745	3,580	37,737	10,000
Property investigation costs	-	8,430	-	20,005
Rent	10,500	10,500	31,500	31,391
Transfer agent and filing fees	301	3,051	14,299	8,501
Travel and promotion	-	9,942	15,218	11,335
Net loss before other items	(104,437)	(119,779)	(354,154)	(309,523)
Other items				
Impairment of exploration and evaluation assets	-	-	3,200	-
Interest income	-	-	-	314
Net and comprehensive loss for the period	($ 104,437)	($ 119,779)	($ 357,354)	($ 309,209)

More specifically, the small decrease in Net and comprehensive loss incurred during the three month period ended December 31, 2013 compared to that incurred during the comparable period in 2012 was largely a result of the following:

- Investor relations declined to $500 in the current quarter (December 31, 2012: $4,500) as a result of the Company terminating the contract with the investor relations company that it had previously retained.

- Property investigation costs declined to $nil in the current quarter (December 31, 2012: $8,430) as a result of the Company primarily focusing on opportunities that were being advanced by its strategic advisor and not undertaking new activities related to its Xeno mineral property.

- Transfer agent and filing fees declined to $301 in the current quarter (December 31, 2012: $3,051) as a result of a reduction in the number of share transfer and transactions that would result in fees payable to the TSX-Venture exchange.

- Travel and promotion activities declined to $nil in the current quarter (December 31, 2012: $9,942) as the Company ceased participating in media programs nor attending industry conferences in order to conserve the cash resources of the Company.

These reductions were offset by the following:

- Consulting and management fees increased to $82,500 in the 2013 period from $78,250 in the comparable 2012 period due to the cost of retaining the services of a strategic advisor. As at December 31, 2013 the directors and the strategic advisor had deferred payment of their management and consulting fees in the amounts of $68,250 and $27,563 respectively.

- General and administrative costs increased to $5,003 in the current quarter (December 31, 2012: $1,526) as a result of the current quarters amortization of a corporate insurance policy as well as the Company incurring increased foreign exchange costs pertaining to its retaining United States based legal advisors.

- Professional fees increased to $6,745 in the current quarter (December 31, 2012: $3,580) as a result of the Company retaining its United States based legal advisors and for Canadian tax related projects carried out by Canadian chartered accounting firm.

Dividend Report & Policy

The Company has not paid any dividends to date. The Company intends to retain its future earnings, if any, for use in its business and does not expect to pay dividends on its shares in the foreseeable future.

1.6 Liquidity

The Company has total assets of $1,656,968 (December 31, 2012: $1,655,327). The primary assets of the Company are cash of $6,361 (December 31, 2012: $483,577); its investment in mineral exploration and evaluation assets in the amount of $495,286 (December 31, 2012: $705,980); and its investment in oil and gas exploration and evaluation assets in the amount of $1,147,015 (December 31, 2012: $439,464). The Company has working capital of $(165,356) (December 31, 2012: $506,053), which may not be sufficient to sustain operations over the next twelve months and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations, raise further capital, and to identify, evaluate and negotiate an acquisition of, a participation in, or an investment of an interest in one or more mineral or oil and gas properties.

As at December 31, 2013, the Company did not have any contractual obligations.

1.7 Capital Resources

At December 31, 2013, the Company had not yet achieved profitable operations, had accumulated a deficit of $2,317,731 (December 31, 2012: $1,376,401) and had working capital of $(165,356) (December 31, 2012: $506,053), which may not be sufficient to sustain operations over the next twelve months, and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations, raise further capital, and to identify, evaluate and negotiate an acquisition of, a participation in, or an investment of an interest in one or more mineral or oil and gas properties.

The capital resources of the Company are its cash and receivables of $6,361 (December 31, 2012: $483,577). The Company does not currently have any capital commitments.

1.8 Off Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed.

1.9 Transactions with Related Parties

The following cash payments were made to related parties:

	For the three months ended December 31, 2013	**For the three months ended December 31, 2012**	**For the nine months ended December 31, 2013**	**For the nine months ended December 31, 2012**
Consulting Fees				
Koko Financial Ltd. Note 1	$nil	$15,000	$nil	$45,000
R. Flowerdew Note 2	22,500	17,500	67,000	47,500
9082 Investments Inc. Note 3	15,000	15,000	44,667	45,000
J. Veltheer Note 4	22,500	19,500	67,000	55,500
	$60,000	$67,000	$178,667	$193,000
Rent				
Network Exploration Ltd. Note 5	$10,500	$10,500	$31,500	$31,391
	$70,500	$77,500	$210,167	$224,391

Note 1. Koko Financial Ltd. is a company owned by Fraser Atkinson, a former director of the Company.

Note 2. Mr. Flowerdew is the CFO and Corporate Secretary and a director of the Company

Note 3. 9082 Investments Inc. is a company owned by Alex Helmel, the President, CEO and a director of the Company

Note 4. Dr. Veltheer is a director of the Company.

Note 5. Network Exploration Ltd. is a company managed by Alex Helmel, the President, CEO and a director of the Company

As at December 31, 2013, $68,250 was due to directors of the Company for services to the Company. The amounts are unsecured, non-interest bearing, and have no fixed terms of repayment.

The Company anticipates that the payments for consulting services and rent may continue in fiscal 2014.

1.10 Proposed Transactions

Not applicable.

1.11 Critical Accounting Estimates

Save as disclosed in the Company's annual audited financial statements for the years ended March 31, 2013 and 2012 (as are filed and reviewable on SEDAR (www.sedar.com)) the Company has no other critical accounting estimates.

1.12 Changes in Accounting Policies

There are no accounting policies that the Company has adopted, other than what was disclosed in the annual audited March 31, 2013 financial statements. The Company adopted IFRS on April 1, 2011.

1.13 Financial Instruments and Other Instruments

Financial risk and capital management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in a bank account. The cash is deposited in a bank account held with a major bank in Canada. As the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to risk is on its GST receivable. This risk is minimal as the receivables are due from the Government of Canada.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. Liquidity risk is assessed as high.

The Company's non-derivative financial liabilities at September 30, 2013, which include accounts payable, are due within one year.

	Within one year	Between one and five years	More than five years
Accounts payable	$ 84,210	$ -	$ -
Accrued liabilities	27,563	$ -	$ -
Payable to related parties Note 1	68,250	$ -	$ -
	$ 180,023	$ -	$ -

Note 1 The Company's management and directors have deferred a portion of their monthly remuneration. The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company incurs expenditures and liabilities for its Trego Property in United States dollars. The Company does not hedge its exposure to fluctuations in foreign exchange rates. At March 31, 2013, there is no foreign currency exposure because there are no liabilities denominated in foreign currencies. This risk is considered minimal.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash on hand is subject to minimal interest rate risk.

Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital and working capital. There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	December 31, 2013	December 31, 2012
Cash	$ 6,361	$ 483,577
Receivables:		
GST receivable	(2,803)	1,806
Trego 36-1 & 36-2 oil production	0	0
	$ 6,361	$ 485,383

Financial liabilities included in the statement of financial position are as follows:

	December 31, 2013	December 31, 2012
Non-derivative financial liabilities:		
Accounts payable, accrued liabilities, payable to related parties	$ 180,023	$ 3,830
	$ 180,023	$ 3,830

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Financial instruments classified as level 1 – quoted prices in active markets include cash.

1.15 Disclosure of Outstanding Share Data

Authorized: Unlimited common shares without par value

As of the date of this MD&A the following Shares, incentive stock options and warrants were outstanding.

Issued: At December 31, 2013 there were 22,105,214 issued and fully paid common shares (December 31, 2012: 16,932,714)

Incentive Stock Options – 896,200 options consisting of 360,000 options with an exercise price of $0.10 per share and expiring on August 27, 2015 and 536,200 options with an exercise price of $0.26 per share and expiring on May 3, 2016.

1.16 Other Information and Audit Committee Approval

Additional information about the Company is available on SEDAR at www.sedar.com. This MD&A has been reviewed and approved by the Audit Committee of the Company.