



**MANAGEMENT'S DISCUSSION  
AND ANALYSIS  
FOR THE THIRD TRIMESTER ENDED ON**

**DECEMBER 31, 2016**

Prepared by:

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# Ressources & Énergie Squatex Inc

Management's Discussion and Analysis, Third Trimester ended on December 31, 2016

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## INTRODUCTION

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of Ressources & Énergie Squatex Inc ("Squatex" or the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the nine month ended on **December 31, 2016** in comparison with data from the same period last year. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations, and should be read in conjunction with the non-audited nine month ended on December 31, 2016 and with the audited annual consolidated financial statements of the Company for the year ended March 31, 2016. The Company's condensed interim financial statements for the nine month period ended on December 31, 2016 contained in this MD&A are prepared in accordance with International Financial Reporting Standards ("IFRS") including comparative figures. Results are reported in Canadian dollars.

## FORWARD-LOOKING STATEMENTS

This report contains statements that are to be considered forward-looking statements. Such statements relate to future events or future economic performance of Squatex and involve risks, uncertainties and other known and unknown factors that may appreciably affect the results, performance or achievements against this or implications Squatex statements. Actual events or results could differ. Forward-looking statements include words or phrases such as "anticipates", "believes", "plans" or other words or phrases suggesting future outcomes of the infringement. Therefore, the decision to invest in securities of Squatex should at no time be based on such statements. Squatex disclaims any intention and undertakes no obligation to update such statements unless otherwise required by law.

## DESCRIPTION OF BUSINESS

Squatex is incorporated under the Canada Business Corporations Act Corporations. The exploration and development of oil and gas properties in the territory of Quebec are the major activities of the Company. As part of achieving its objectives, the Company is required to enter into partnership agreements to reduce the risks and costs of its projects.

Squatex could not determine until now whether its properties contain hydrocarbon reserves that could be economically recoverable. This oil and gas exploration work has a very high degree of risk and there is no assurance that current exploration programs will result in production operations profitable for the Company. The value of the Company's interests in its oil and gas properties is dependent upon the existence of economically recoverable reserves and the Squatex capacity to find adequate financing to develop these reserves and possibly have a profitable future production.

Squatex favors in exploration programs it develops, areas where the chances of success are higher to ensure short term profitability. In recent years, its activities have been focused on its Lower St. Lawrence-Gaspé exploration permits located between Rivière-du-Loup and Rimouski, where it holds 24 licenses totaling 4 311.6 km<sup>2</sup> over Silurian-Devonian and Ordovician rocks to search for conventional oil and gas accumulations. Moreover, Squatex is hoping to reactivate its exploration in the St. Lawrence Lowlands area, where it holds 12 licenses totaling 2 249.33 km<sup>2</sup> on shale gas plays in the Utica / Lorraine and for the exploration of conventional traps within the

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Ordovician platform. As of December 31, 2016, the Company does not produce hydrocarbons. No proven reserves of oil or gas has been identified so far in the Squatex exploration permits.

### OVERALL PERFORMANCE

Squatex and its 30% partner, Petrolympic, started in autumn 2012 a deep core drilling program in the Lower St. Lawrence area. After drilling the Redemption and Portage wells who had interesting oil shows, the Massé No.1 well was drilled over an AVO seismic anomaly (Amplitude vs. Offset) indicating the presence of fluids or porosity. The well met porous hydrothermal dolomites in the Sayabec Formation near the contact with the Val Brillant. In the interval between 1750 m and total depth of 1874 m, strong indications of gas and condensate were obtained and the cores showed porosity values measured in laboratory up to 20.8% with permeability reaching 1624 mD. Following the analysis of results obtained in Massé No.1, Squatex issued a press release announcing the discovery of a reservoir that could hold a large amount of conventional natural gas. In July 2013, the Sayabec No.1 well targeting the Sayabec Fm limestones where a seismic amplitude anomaly was visible over a stratigraphic wedge, also met a dolomitized level with gas and oil shows before reaching a total depth of 759 m in the Cambrian-Ordovician rocks of the Quebec Group.

Following these encouraging results, Squatex reprocessed (AVO Processing) all regional seismic lines of the Massé area to highlight possible zones of porosity in the Sayabec limestones. Doing so, interpretation results identified nine additional wells sites locations in the area to assess the possible extension of the dolomitization observed in the Massé Structure.

In April 2014, an independent study of undiscovered possible petroleum initially in place that could contain the Massé Structure was conducted by the international firm Sproule and Associates that performed their own interpretation of seismic with data obtained from the Massé No. 1 well. The report confirmed the preliminary volume assessment made by Squatex, indicating undiscovered possible gas initially in place in the Massé Structure between 3 and 26 BCF with a mean of 12 BCF.

In fall 2014, Squatex drilled the Massé No.2 well, located on the same structure as Massé No.1. The drilling equipment was then greatly improved to facilitate operations, increase safety and ensure to meet all environmental standards by opting for a closed loop drilling mud recirculation system. The drilling was completed in late November 2014 after reaching Cambrian-Ordovician rocks and after recording a series of logs in the hole. The well was equipped with safety and measurement instruments to be suspended and pressure monitoring is recorded continuously. These data will provide valuable information about fluid migration dynamics and conditions at depth until Squatex proceeds with the programmed evaluation of the productivity of zones encountered while drilling. Regular visits to the drilling site are conducted to collect data and verify the integrity of all the components installed on the well.

Squatex issued a press release on February 19, 2015 announcing the interesting preliminary results obtained in the Massé No.2 stratigraphic well. On July 31, 2015, Squatex issued another press release following a more complete analysis of results obtained in the Massé No.2 well.

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In August 2015, Squatex announced the completion of an academic partnership with the Institut National de la Recherche Scientifique (INRS) to carry out geoscientific studies of importance in the Lower St. Lawrence area. The studies will provide a 3D modeling and determining the reservoir potential of the Sayabec Formation. This work will improve the knowledge of the stratigraphy and structure of this complex geological system and will validate the hydrocarbon potential of this region.

A further review by Squatex of all data acquired in the region, mainly those on logs recorded in the Massé No.2 well gave very interesting results that could change the estimate of hydrocarbon in place in the Massé Structure. Squatex decided in February 2016 to appeal again to the independent expertise of Sproule and Associates to verify and validate Squatex's results by doing their own interpretation of the same data. The final Sproule report was received on May 6, 2016 and significant results are presented through an excerpt from the press release issued by Squatex May 17, 2016:

*Ressources & Energy Squatex ("Squatex" or the "Company") and its partner Petrolympic Ltd. ("Petrolympic") (TSX.V: PCQ) are pleased to announce the results of a major reassessment of resources for the eastern part the Massé structure performed independently by Sproule Associates Limited ("Sproule"). The Massé structure is located in the Lower St. Lawrence permits, some 25 km southeast of Mont-Joli, in the Appalachian Basin of Quebec. Squatex owns a 70% interest in 656,093 hectares (1,621,241 acres) of exploration permits in Quebec over which it is the operator under a joint operation agreement with Petrolympic.*

*The resources reassessment reported by Sproule includes an authentication of in depth analyzes performed by the Squatex's technical team on the Massé No.2 well logs. These new data complete and confirm the initial data previously acquired in the Massé No.1 well for the eastern part of the Massé structure. Sproule considers that the results of its resources simulations could extend over a probable average area of 5.2 km<sup>2</sup>.*

*The potential resources evaluated by Sproule are related to porous levels in the St. Leon and Sayabec Formations encountered in the wells drilled in the eastern part of the Massé structure. The results of the study point out to a potential of 53.6 BCF of gas and 52.2 million barrels of oil over a probable average area of 5.2 km<sup>2</sup>, an oil equivalent total of 61.1 million barrels (MMBOE).*

*Resource volumes for Massé have been increased significantly compared to the previous estimate done in 2014 with the addition of a very important oil volume. Gas resources are also improved considerably following the analysis based on the logs recorded in the Massé No.2 well.*

*The gross pay of the Silurian basin rock of the Lower St. Lawrence extends up to a nearly 540m thick interval recognized by Sproule from the logs in which the net pay varies between 66m and 210m averaging, 130m in thickness. These porous zones are more than encouraging for further work and validate the potential of this region of the Lower St. Lawrence area.*

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*Jean-Claude Caron, President and Chief Executive of Squatex, declares: « Results of the Sproule report make me believe that Massé could be one of the most important discoveries of conventional oil and gas reservoirs made to date in Quebec ». Indeed, the Sproule Report points out a probable presence of 10.3 BCF of gas and 10 MMbbl oil per square kilometer. According to an internal study of Squatex's technical team, the Massé structure could extend over more than 80km<sup>2</sup>. Several porosity anomalies observed on seismic having close similarities the anomalies confirmed by the Massé No.1 and No. 2 wells were also highlighted further west within the property. The assessment done by Sproule does not take into account the presence of these seismic features, these ones being located in their view too far away from the drilled wells. Their occurrence nevertheless represents a significant potential for the Property. Results of the current Sproule study illustrate the rightful vision and efforts of Squatex and Petrolympic who pioneered the development of the oil and gas potential of the Lower St. Lawrence.*

*Squatex and its partner Petrolympic are currently setting up a new drilling program to further validate the potential of the Massé structure and they also intend to keep on with the coring exploration program to validate and test similar prospective structures that have been identified over their permits.*

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## Results of the resource assessment over 5.2 Km<sup>2</sup> from the Sproule Report (May 6, 2016)

Structure	Formation		Low <sup>4</sup>	Best <sup>5</sup>	High <sup>6</sup>	Mean <sup>7</sup>
			(P <sub>90</sub> )	(P <sub>50</sub> )	(P <sub>10</sub> )	
Massé	St. Leon	Gas (BCF) <sup>2,3</sup>	0.2	1.0	3.8	1.6
		Oil (MMbbl) <sup>2,3</sup>	2.0	9.9	42.2	17.0
	Sayabec	Gas (BCF) <sup>2,3</sup>	4.4	24.0	119.7	49.0
		Oil (MMbbl) <sup>2,3</sup>	2.9	17.1	87.3	35.8
Total <sup>7</sup>		Gas (BCF) <sup>2,3</sup>	5.7	26.8	127.6	53.6
		Oil (MMbbl) <sup>2,3</sup>	10.0	33.9	113.6	52.2
		MMBOE <sup>2,3,7</sup>				61.1

**Notes:**

<sup>1</sup> Undiscovered Petroleum Initially-In-Place (equivalent to undiscovered resources) is that quantity of petroleum that is estimated, on a given date, to be contained in accumulations yet to be discovered. The recoverable portion of undiscovered petroleum initially in place is referred to as "prospective resources," the remainder as "unrecoverable." Only the in-place volumes are presented here as a development project to recover any hydrocarbons discovered has not been defined. **There is no certainty that any portion of these unrisked undiscovered PIIP will be discovered and, if discovered, there is no certainty that it will be developed or, if it is developed, there is no certainty as to either the timing of such development or whether it will be commercially viable to produce any portion of the resources.**

<sup>2</sup> These are the project gross unrisked undiscovered petroleum initially in place volumes (i.e. 100% project gross) estimated for the Sayabec Formation of the Eastern Massé Structure without any adjustments for working interest and before deduction of any royalties.

<sup>3</sup> "BCF" is billions of cubic feet, "MMbbl" is millions of barrels of oil, "MMBOE" is millions of barrels of oil equivalent. BOE's may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

<sup>4</sup> Low Estimate is considered to be a conservative estimate of the quantity that will actually be in-place. It is likely that the actual remaining quantities in-place will exceed the low estimate. If probabilistic methods are used, there should be at least a 90 percent probability (P90) that the quantities actually in-place will equal or exceed the low estimate.

<sup>5</sup> Best Estimate is considered to be the best estimate of the quantity that will actually be in-place. It is equally likely that the actual remaining quantities in-place will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50 percent probability (P50) that the quantities actually in-place will equal or exceed the best estimate.

<sup>6</sup> High Estimate is considered to be an optimistic estimate of the quantity that will actually be in-place. It is unlikely that the actual remaining quantities in-place will exceed the high estimate. If probabilistic methods are used, there should be at least a 10 percent probability (P10) that the quantities actually in-place will equal or exceed the high estimate.

<sup>7</sup> Statistical aggregation is the process of probabilistically aggregating distributions that represent estimates of resource quantities at the reservoir, prospect, or portfolio level. Arithmetic summation and statistical aggregation of the means yield similar results. Arithmetic summation of the Low Estimate, Best Estimate and High Estimate are not statistically appropriate. Both the statistical and arithmetic summation of the unrisked prospects may be misleading because it assumes success for each of the prospect entities. The chance of this occurring is extremely unlikely. Actual recovery is likely to be less and may be zero.

In November 2016, Squatex mobilized a drilling rig at the Massé No.2 site to rim and clean the hole to ensure of its integrity and of its ability to withstand the proposed additional work planned in the exploration program. The drilling equipment remained on the site in order to be able to resume work planned in early spring 2017.

In 2008, in the St. Lawrence Lowlands, Squatex and its partner Petrolympic Ltd. ("Petrolympic") signed a joint operations agreement ("Agreement") with Canbriam Energy Inc. ("Canbriam") (collectively, the "Partners") with respect to farming in a series of drilling options over some properties. Canbriam drilled a first well, Canbriam Farnham No.1 in 2009 and has earned a 60% interest over 8000 hectares within two licenses selected in the agreement. Canbriam did not exercise the other options provided before 30 September 2013 and the agreement has ended on that date.



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During the current period ended December 31, 2016, no exploration work was done in the Lowlands other than tracking records, since all exploration work obligations in this area are repelled in time. Since June 13, 2011, companies are exempted by the government of performing assessment work on their exploration permits (the holder must, however, pay the annual fee to retain its license). After this exemption period, the license expiration date will be extended accordingly to the exact duration of the latter. The Government reiterated in 2013 the work exemption by introducing a moratorium on shale gas exploration in Quebec, which caused a total freeze on any exploration of this territory, conventional exploration not being severable from shale gas exploration. Consequently, Squatex and its partners do not plan to make any short-term exploration on its Lowlands permits, as long as conditions do not change. The partners decided to abandon the Canbriam Farnham No.1 well and to rehabilitate the site according to regulations after receiving a government permit to do so on December 15, 2014 and the abandonment was made during summer of 2015 by the operator Canbriam Energy.

Squatex who rejuvenates on 1 September 2009 all its exploration licenses in the St. Lawrence Lowlands and in the Lower St. Lawrence-Gaspé areas (these were reverting to their first year of exploration), the company will be able to continue exploring until at least September 2019 provided that it fulfills the obligations connected therewith. In addition, Bill 18, passed in June 2011, came to extend the exploration period for three additional years to allow the holding of environmental studies initiated by the government.

The current strategy of the Company is to prepare for the resumption of exploration of its oil and gas exploration licenses in partnership with Petrolympic while continuing to look for other business opportunities. In August 2016, Squatex paid the annual fees (annuities) to thereby retain its licenses in accordance with the regulations of the oil and gas law and Squatex plans to fulfill its annual obligation again in 2017 retaining all its permits.

In order to have easier access to capital needed to fulfill its proposed exploration program in the Lower St. Lawrence, Squatex decided to take steps to be listed soon on the market.

## TRENDS

While general economic conditions continue to stagnate and relative stability seems to be emerging on the financial markets, significant uncertainty persists regarding the global outlook in the short and medium terms. In addition, various recent pronouncements about future Shale Gas exploitation in the Province of Quebec and the announcement of a strategic environmental study to be hold during up to three years, followed by the moratorium on exploration of shale gas will cause delays for the Company and / or its partners exploration work planned in the St. Lawrence Lowlands. The Management and the Board will monitor closely future developments on this and see their implications on the functioning of Squatex.

### SUMMARY OF LAND POSITIONS

As of December 31, 2016, Squatex owns interests in a total of 6 560.93 km<sup>2</sup> (1,621,205 acres) of exploration oil and gas permits in the Appalachian Basin of Quebec over the St. Lawrence Lowlands and the Lower St. Lawrence-Gaspé areas(See attached map). The Company's properties in the St. Lawrence Lowlands is a 70% interest in 2 249.33 km<sup>2</sup> (555.809 acres) in partnership with Petrolympic and 28% interest from the surface to the Top of Trenton over 80.00 km<sup>2</sup> (19.768 acres) under an agreement with Canbriam, and 70% in the same block below the Top Trenton. These properties represent a significant position in unconventional targets in the Utica-Lorraine shales and in conventional plays within the Trenton-Black River carbonates. Squatex also owns properties in the Lower St. Lawrence-Gaspé area consisting in a 70% interest in 4 311.60 km<sup>2</sup> (1,065,396 acres) in partnership with Petrolympic. These property located between Rimouski and Rivière-du-Loup present plays for light oil and gas in reefs and in hydrothermal dolomites.



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The following tables present the permits in force as of December 31, 2016 on which Squatex has an interest. For the location of the license, refer to the map:

### ST. LAWRENCE LOWLANDS PERMITS - 70% OWNERSHIP:

Permit Number	Renewal	Area (km <sup>2</sup> )
2009RS287	01/09/2017	208,71
2009RS288	01/09/2017	179,90
2009RS289	01/09/2017	209,09
2009RS290	01/09/2017	72,48
2009RS291	01/09/2017	224,47
2009RS292	01/09/2017	188,27
2009RS293	01/09/2017	145,80
2009RS294	01/09/2017	216,64
2009RS295	01/09/2017	193,16
2009RS296 (part)	01/09/2017	203,39 *
2009RS297	01/09/2017	163,42
2009RS298 (part)	01/09/2017	244,00 *
<b>Sub-total</b>		<b>2 249,33</b>

\* A 60% interest between the surface and the Top of Trenton over a 80,00 km<sup>2</sup> block have been transferred jointly by Squatex and Petrolympic Canbriam. Squatex retain 70% below the Top Trenton.

### ST. LAWRENCE LOWLANDS PERMITS - 28% OWNERSHIP: (FROM SURFACE TO TOP TRENTON):

Permit Number	Renewal	Area (km <sup>2</sup> )
2009RS296 (part)	01/09/2017	203,39
2009RS298 (part)	01/09/2017	244,00
<b>Sub-total</b>		<b>80,00 of 447,39</b>

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## LOWER ST. LAWRENCE/GASPE PERMITS - 70% OWNERSHIP:

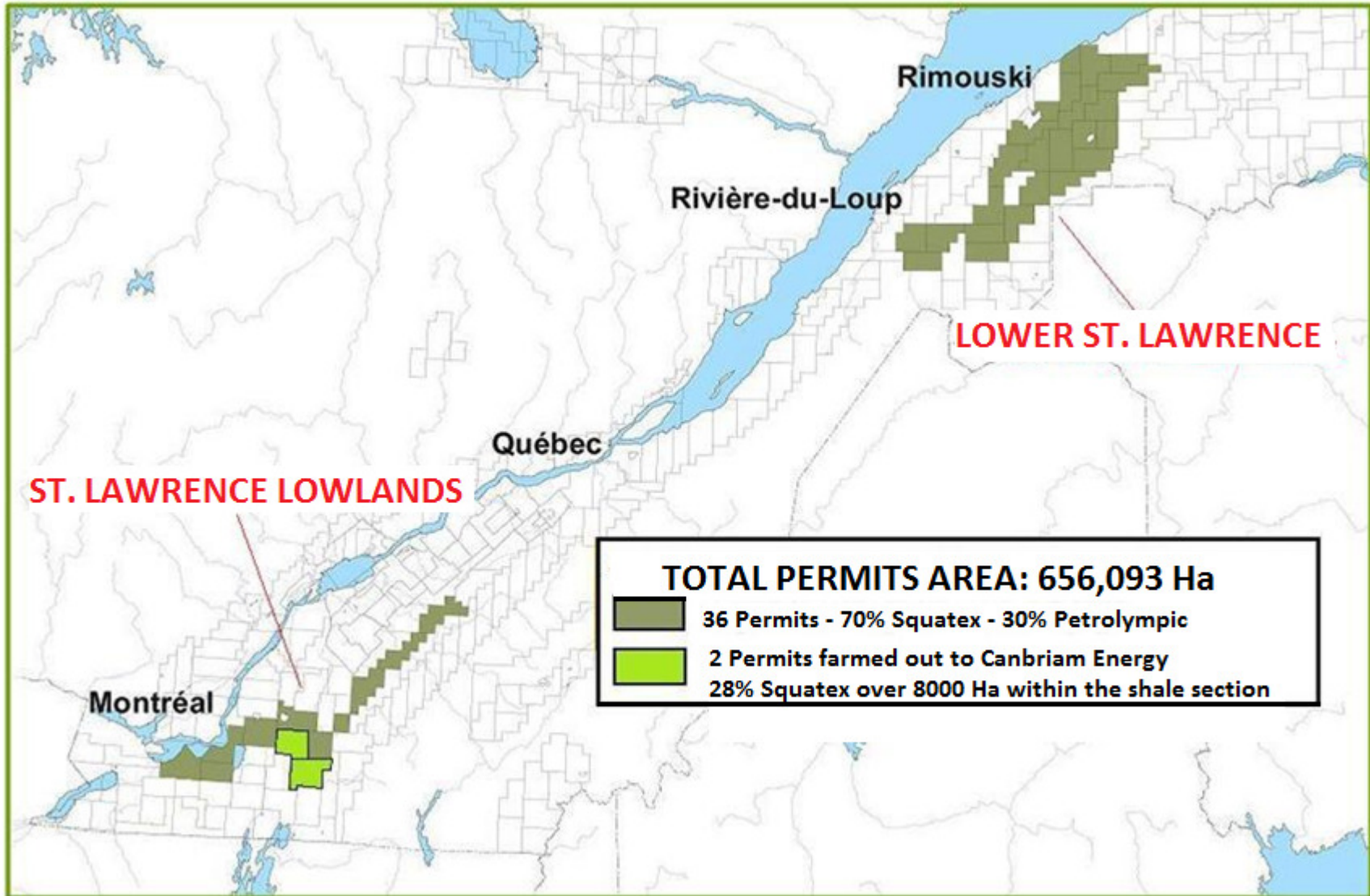
Permit Number	Renewal	Area (km <sup>2</sup> )
2009RS299	01/09/2017	189,75
2009RS300	01/09/2017	207,04
2009RS301	01/09/2017	171,36
2009PG552	01/09/2017	102,67
2009PG553	01/09/2017	230,68
2009PG554*	01/09/2017	151,50
2009PG555	01/09/2017	164,38
2009PG556*	01/09/2017	236,66
2009PG557	01/09/2017	98,94
2009PG558	01/09/2017	194,20
2009PG559	01/09/2017	187,37
2009PG560	01/09/2017	198,17
2009PG561	01/09/2017	244,35
2009PG562	01/09/2017	198,47
2009PG563	01/09/2017	225,73
2009PG564	01/09/2017	143,77
2009PG565	01/09/2017	153,70
2009PG566	01/09/2017	214,54
2009PG567	01/09/2017	206,31
2009PG568	01/09/2017	206,68
2009PG569	01/09/2017	134,97
2009PG570	01/09/2017	76,08
2009PG571	01/09/2017	209,51
2009PG572	01/09/2017	164,77
<b>Sub-total</b>		<b>4 311,60</b>

\* Gaspé area

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## SQUATEX'S EXPLORATION PERMITS LOCATION MAP



### EXPLORATION ACTIVITIES

#### LOWER ST. LAWRENCE-GASPE PERMITS

The compilation and integration in 2012 of all the encouraging results obtained in the area led to Squatex continue its coring program on new zones of interest. In September 2012, a first deep core hole was spudded in the northeast part of the Lower St. Lawrence permits block.

The Massé No.1 well, located in the Municipality of Ste-Jeanne D'Arc, was equipped with a BOP mounted on a casing cemented to a depth of 150 meters (equal to 10% of the total planned depth) and was supervised by a team of five engineers/geologists. Drilling was stopped in late November at a depth of 1710 meters due to harsh winter conditions. The well began in very disturbed beds of the St. Leon Formation, then, at 800 meters, went through reefal carbonates sequences similar to the Sayabec and / or West Point Formations, followed by overlapping basal Silurian sequences showing a 15 meters thick porous dolomites sequence in Sayabec reefs. Both reef sequences gave shows of gas and condensate that were sampled. Monitoring of the suspended well and frequent fluids analysis measurements were performed at regular intervals to ensure the safety and environmental friendliness during winter before resuming drilling.

The well was re-entered (Massé No.1A) in 2013 to drill through an AVO seismic anomaly indicating the possibility of the presence of fluids or porosity. This objective was met by giving strong flows of natural gas (89% methane) in a very porous and permeable dolomite at the base of the Sayabec near the Val Brilliant sandstone between 1750 m and 1874 m. The main porous zone was encountered between 1790 m and 1874 m a thickness of 10 meters. Cores at 1847 m and deeper show porosities up to 20.8% and permeability up to 1624 mD. Due to the limitations of the mining drill used for coring, the Massé No.1 was abandoned and cemented to a total depth of 1874 m without being able to go across the 40 m remaining in the Val Brillant.

Subsequently, the drill was moved about 15 kilometers further east to run a second well near the town of Sayabec. The Sayabec No.1 site was selected to verify the possibility of presence of dolomitization in the Sayabec Formation limestone. At this location, a seismic amplitude anomaly is visible over a stratigraphic wedge near the boundary of the permit. A porous dolomitized level was actually encountered near the base of Sayabec giving oil and gas shows before reaching total depth at 759 meters in Cambrian-Ordovician rocks of the Quebec Group.

Following the in-depth analysis of drilling results Massé No.1, Squatex issued November 20, 2013 a press release announcing the discovery of a reservoir which could contain a significant amount of conventional natural gas. The new coring data acquired in 2013 helped to reinterpret the various cumulative data since 2001 on the territory of the Lower St. Lawrence-Gaspé to delimit areas with better hydrocarbon potential and target locations for future drilling.

In fall 2013, Squatex reprocessed the Massé region seismic profiles with a special software (AVO) to highlight possible areas of porosity in the Sayabec Formation. The interpretation of these results has identified nine additional drilling locations in the area showing seismic AVO porosity anomalies similar to that found in the Massé structure.

In April 2014, an independent study of undiscovered possible petroleum initially in place that could contain the Massé Structure was conducted by the international firm Sproule and Associates that performed their own interpretation of seismic with data obtained from the Massé No. 1 well. The report confirmed the preliminary volume assessment made by Squatex, indicating undiscovered possible gas initially in place in the Massé Structure between 3 and 26 BCF with a mean of 12 BCF.

The structural interpretation of the seismic shows that the prospective AVO zone over the Massé Structure could span over some 40 km<sup>2</sup>, which could result, using similar parameters measured in the well, by a reservoir having a volume likely to reach 100 BCF (over the three levels encountered). The independent report by Sproule and Associates determined that an average of 12 BCF of gas initially in place over an average area of 10 km<sup>2</sup> was limited to one porous level and an area limited to local seismic coverage without taking into account major regional structural lines. Further exploration work will be required in order to assess the reservoir in the Massé structure and to confirm its potential. Reservoir extensions could expand on over 300 km<sup>2</sup> as shown by AVO porosity anomalies observed on the reprocessed regional seismic lines.

In September 2014, Squatex spudded the Massé No.2 well after running a 210 meters casing to protect the groundwater environment. This new well is located on the same structure drilled by the Massé No.1 well. The drilling equipment was greatly improved to facilitate operations, increase safety and ensure to meet all environmental standards by opting for a closed loop drilling mud recirculation system.

On 7 November 2014, Squatex issued a press release stating that drilling operations were carried out smoothly as originally planned and that the main objective would be reached in the coming days.

Drilling operations were completed on November 28, 2014 on the Squatex Massé No.2 well after crossing the Val Brillant Formation and reaching Cambrian-Ordovician rocks. A full suite of logs was recorded in the hole and the wellhead was equipped with safety and measurement instruments before Squatex suspended the hole for the winter. The pressure data is being monitored continuously during the well suspension period and are analyzed and interpreted by combining the results of analyzes performed on fluids encountered. These data will provide valuable information about fluid migration dynamics and conditions at depth until Squatex proceeds with the programmed evaluation of the productivity of zones encountered while drilling. Regular visits to the drilling site are conducted to collect data and verify the integrity of all the components installed on the well.

Squatex issued a press release on February 19, 2015 announcing the interesting preliminary results obtained in the Massé No.2 stratigraphic well. On July 31, 2015, Squatex issued a new press release following a more complete analysis of the results of the Massé No.2 well.

In August 2015, Squatex announced the completion of an academic partnership with the Institut National de la Recherche Scientifique (INRS) to carry out geoscientific studies of importance in the Lower St. Lawrence area. The studies will provide a 3D modeling and determining the reservoir potential of the Sayabec Formation. This work will improve the knowledge of the stratigraphy and structure of this complex geological system and will validate the hydrocarbon potential of this region. Geological field work and in depth cores analyses were performed during the fall and the study of results obtained are now in process.

A further review by Squatex of all data acquired in the region, mainly those on logs recorded in the Massé No.2 well gave very interesting results that could change the estimate of hydrocarbon in place in the Massé Structure. Squatex decided in February 2016 to appeal again to the independent expertise of the international firm Sproule and Associates to verify and validate Squatex's results by doing their own interpretation of the same data. The final Sproule report was received on May 6, 2016 and significant results are presented through an excerpt from the press release issued on Squatex May 17, 2016 in the Overall Performance section of the present report.

In November 2016, Squatex mobilized a fully equipped drilling rig at the Massé No.2 site to carry some maintenance work. The hole was rimmed and cleaned to ensure of its integrity and to verify its ability to withstand the proposed additional work planned in the exploration program. The drilling equipment is remaining on the site in order to be able to resume work planned in early spring 2017.

The company is currently assessing the funding requirements for further exploration work. In order to have easier access to capital needed to carry out its planned exploration program in the Lower St. Lawrence region, Squatex has initiated procedures to be listed in a near future on the Stock Market.

### **ST. LAWRENCE LOWLANDS PERMITS**

Due to the government's decision to hold a strategic environmental assessment on shales gas exploration and exploitation and restrictions and delays that the latter has made, followed by the moratorium on exploration of shale gas put into force by the government, Squatex and its partners do not plan to make any short-term exploration on its Lowlands permits, as long as conditions do not change. The partners decided to abandon the Canbriam Farnham No.1 well and to rehabilitate the site according to regulations. The government permit to do so was granted to Squatex dated December 15, 2014 and the abandonment was made in the summer of 2015 by the operator Canbriam Energy.

### **EXPLORATION EXPENSES INCURRED**

The Company relies on the professional expertise of its team of geologists to manage and supervise its exploration programs. Management assesses the legitimate of proposed exploration programs and approves expenses judged useful and appropriate in order to progress knowledge in a prudent and necessary way. For the nine month period ended December 31, 2016, Squatex spent 160 591 \$ (\$ 209,044 for the nine month period ended December 31, 2015) on its unproved properties of oil and gas. On these amounts, Squatex will receive tax credits relating to resources of 28 558 \$ (\$ 40,892 for the same period ended December 31, 2015), representing net exploration and evaluation expenses of 132 033 \$ for the period ended December 31, 2016 and of \$ 168,052 for the same period ended December 31, 2015. Following the interesting results obtained with drilling Massé No.1 and No.2, the Company is reviewing its financing of exploration expenses to conduct further geological work in the same environment. An exploration program over two years with several other core sampling has been defined in order to specify the extent of the level (s) of the reservoir and hydrocarbon potential of the area under license. Permit requests and various authorization were prepared in order to execute the work program provided promptly.



### TECHNICAL DISCLOSURE

The technical disclosures appearing under the title "Overall Performance" and "Exploration Activities" were prepared by Paul Laroche, P. eng, P. geo, who is a qualified person under National Instrument 51-101.

### OBLIGATIONS

In order to maintain its exploration licenses, Squatex must pay an annual rent of \$ 10.20 per km<sup>2</sup> and perform statutory work a minimum of \$ 50.00 per km<sup>2</sup> the first year, increasing to \$ 50.00 km<sup>2</sup> each subsequent year up to five years. At the end of this initial period, the Company has the option to renew the license for five years by paying an annual rent of \$ 51.00 per km<sup>2</sup> and by performing a minimum of work of \$ 250.000 per km<sup>2</sup>. Additional credits to the minimum required for statutory expenses are granted by the government and serve to reduce subsequent obligations. Law 18, passed June 13, 2011, procures exemption to the obligations of performing minimum work during the conduct of the strategic environmental assessment. Nevertheless, Squatex continued doing work in the Lower St-Lawrence area. In August 2016, Squatex has met the payment requirements to all existing license and intends to renew it for the period 2016-2017.

### ENVIRONMENTAL RESPONSIBILITY

The Company is subject to government laws and regulations concerning environmental protection. Environmental consequences are difficult to identify in terms of results, time and impact. To the best of his knowledge, Squatex conducts its operations with standard practices in order to be coherent with legislation and government regulations in an environmental matter.

### RISKS AND UNCERTAINTIES

The oil and gas exploitation involves many risks, which can even withstand a combination of experience, knowledge and careful evaluation. The long-term commercial success of Squatex depends on its ability to find, acquire, develop and commercially exploit reserves of oil and natural gas. Without the continual addition of new reserves, the ones that could hold Squatex at some point, and their potential for exploitation, could decrease over time. A future increase of the reserves owned by Squatex will depend not only on its ability to carry out exploration and development of properties it may hold from time to time, but also on its ability to select and acquire producing properties and appropriate possible productive areas. It is impossible to certify that Squatex will be able to identify acceptable properties for acquisition or participation. In addition, even if such acquisitions or participations opportunities are identified, Squatex may decide that based on current market conditions, terms of acquisition and participation or pricing meaning that such acquisitions or participations would be unprofitable. We can't ensure that Squatex will manage to discover or acquire oil fields or natural gas. Even if Squatex manage to find these, we can't ensure that these resources are of commercial quantities.



### **STRATEGIC ENVIRONMENTAL STUDY AND MORATORIUM ON SHALE GAS**

In 2011, Quebec government has given to the Bureau d'Audiences Publiques sur l'Environnement ("BAPE") a mandate to conduct an inquiry and public hearings on sustainable development of Utica Shale in Quebec. The BAPE report led the Quebec government to conduct a Strategic Environmental Assessment ("SEA") whose results were finally released in January 14. During this time period of almost three years where a moratorium on exploration of gas shale was established, the Company's exploration activities, like those of all the other Quebec's firms, have stopped completely on the territory of the Lowlands of the St-Lawrence, the obligations of work permits being suspended by law 18 passed June 13, 2011 and due to the high level of uncertainty raised by many citizen groups about the future of oil and gas exploration in Quebec. This period of uncertainty will continue as long as the government will not establish clear rules for the recovery of investment and exploration and set future value of

### **UNCERTAINTY AS OF THE ESTIMATED RESERVES OF NATURAL GAS AND CRUDE OIL**

The estimated oil and gas reserves is a complex process that relies on a considerable number of decisions and assumptions for assessing the geological, geophysical, engineering and economic that are available for each reservoir. Therefore, these estimates are fundamentally imprecise. Actual data regarding the future production, revenue and expense of oil and gas may vary significantly. Each significant fluctuation in these assumptions could have a significant impact on the estimated quantities and the present values of the reserves. Furthermore, these reserves are subject to upward or downward revision in light of production history, results that will be obtained during exploration work and set value of the prevailing for oil and gas and other factors, many of which are beyond the control of Squatex. It is likely that real output and income, taxes, development of expenditures and operation expenses against reserves will vary from the current estimates and these variations could be material.

As of December 31, 2016, there is no reserve of oil and gas proved, likely or possible on land held by Squatex.

### **REGULATORY IMPACT**

The oil and gas industry is subject to extensive controls and regulations put in place by the various levels of government targeting prices, royalties, ownership of land, production quotas, import and export of oil and gas and environmental protection. There is no way to forecast with certainty the impact of these controls or regulations on the operations of the Company or modifications to the following.

The oil and natural gas industry is currently subject to environmental regulation pursuant to various federal and provincial laws. The laws include restrictions and prohibitions on the issue or the release of various substances produced or used for certain operations of the oil and gas industry, which have impact on well and facilities location and the extent to which the exploration and development are allowed. In addition, the legislation requires the resignation and revaluation of wells and facilities to be carried out to the satisfaction of provincial authorities. Violation of these laws can result in fines and penalties, suspension or revocation of permits and authorizations necessary for the operation of a business and liability for damage caused by pollution. In Quebec, environmental compliance matters are governed, since September 21, 1972, by law, entitled Environmental Quality Act (the "Quebec Act Environmental Protection").

The Quebec law on environmental protection imposes requirements of environmental protection, information and surveillance. In addition, it sets up a process of impact assessment and wider public consultation on matters of environmental assessment and enforcement.

### **PERMITS, LICENCES AND APPROVALS**

In Quebec, those looking for oil or natural gas must hold an oil and gas exploration license issued under the Mining Act (Quebec). The permit is issued for a given territory, to any person who meets the requirements and pays the annual fee prescribed by regulation. The period of validity of a given licence is five years. It can be renewed for a period of one year, up to five times, for all or part of the territory which is subject to certain conditions specified in the Mining Act (Quebec).

The holder of a petroleum and natural gas exploration permit must perform each year, in the given territory subject to the permit, work which nature and minimum cost are specified by regulation, including geological and geophysical studies or drilling. The minimum costs to be incurred vary according to the age of the permit.

Following the exploration permits granted by the Ministry of Natural Resources, the Company, in order to maintain the validity of its licences, must pay a rent of \$ 10.20 per km<sup>2</sup>, and has to perform on the territory, minimum exploration expenses of \$ 50.00 per km<sup>2</sup>, increasing of \$ 50.00 per km<sup>2</sup> each year to a maximum of \$ 250.00 per km<sup>2</sup>. To be noted that duration of permits will be extended the equivalent time to holding the SEA with suspension of work obligations during this timeframe as long as the licensee pays its annual rent. The rent payments for the current year was made by Squatex in August 2016 and the Company intends to do the same for the following years in order to retain its permits.

### **PROPERTY TITLES**

Even though the Company has taken reasonable measures to ensure proper title to its properties, there is no certainty that any shares of its properties will not be challenged or questioned. Third parties may have valid claims to portions underlying the interests of the Company. No appeal has been filed or brought to the attention of Squatex to date.

### **FUTURE FUNDING NEEDS CONCERN**

The Company will need additional financing in the future to continue its activities, especially its exploration programs and development. If financing is obtained by issuing new shares, control of Squatex may be affected and shareholders may suffer additional dilution. To the extent that financing is not available, this could affect the commitments of work which could result in the inability of the Company to pursue, in totality or partly, its planned exploration and development program, property rights or revenue opportunities loss for the Company. To this end, the Company recently announced the appointment of an independent consultant acknowledged to the Cree First Nations in order to create business connexions and allow the progress of the oil and gas exploration project of Squatex in the Lower St. Lawrence.

### **DEPENDENCE OF KEY PERSONNEL**

The success of the Company depends largely on the quality of management. The loss of these people, or inability to interest equivalent qualified people could have a material adverse impact on operations and business prospects of the Company. The company has contracted a professional liability insurance on its directors and officers.

### **MARKETING**

The Company operates in a competitive environment where raw materials prices depends of many factors that are beyond control of the Company. The prices of oil and natural gas have fluctuated greatly in the past. Oil prices are based on supply and demand at international level and political events, including the Middle East, may have an important influence on oil prices and supply globally. Any decrease in the price of oil and natural gas could have a material adverse effect on future operations and financial position of the Company and the level of expenses for acquisition of future supplies of oil and gas. In addition, the marketing of production of the Company depends on the availability and capacity of gathering systems and pipelines, of the consequences of federal and provincial regulations and on the general economic conditions. All these factors are beyond control of the Company.

The price of natural gas sold in interprovincial and international trade is determined by negotiation between buyers and sellers. The price received by a natural gas producer depends, partly, on the prices of competing fuels, like natural gas produced, the access to downstream transport, the length of contracts, the climatic conditions and the balance of supply and demand.

### **RISK OF PROSECUTION**

The Company may be liable because of pollution or other risks against which it could not be assured or against which it may elect not to insure, given the high cost of premiums or for other reasons. The payment of money to do so could result in the loss of assets of the Company.

### **LAND CLAIMS**

None of the properties in which the Company holds an interest is currently subject to any official land claims by Aboriginal nations. No assurance can be given, however, to the effect that this will not be the case in the future.

### **AVAILABILITY OF DRILLING EQUIPMENT AND ACCESS**

Oil and gas exploration and production activities depend on the ability to have access to drilling equipment and other related equipment especially in areas where these activities are exercised. Limited demand for such equipment or restrictions on land access may impact the Company's ability to acquire and use such equipment and may delay exploration activities or the eventual production of the resource.

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Management's Discussion & Analysis, Third trimester ended December 31, 2016

## GROWTH MANAGEMENT

The Company may be subject to risks associated to its growth, including restraints and pressure on its internal systems and controls. The ability of the Company to conduct an effective growth management will require to implement and continuously improve its operating systems and financial reporting and to enhance, develop and manage his basic labor. The inability of the Company to face growth could have a material adverse impact on its business, operations and prospects.

## SELECTED FINANCIAL INFORMATION

FOR THE NINE MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<b>EXPLOITATION</b>	\$	\$
Net exploration and evaluation expenses	132,033	168,152
Net loss and total comprehensive loss	(269,840)	(264,441)
Net and comprehensive loss per basic and diluted share	(0.0026)	(0.0025)

	ON DECEMBER 31 2016	ON MARCH 31 2016
<b>STATEMENT OF FINANCIAL POSITION</b>		
Working capital (negative)	(18,356)	(244,496)
Total assets	426,186	181,241
Total liabilities	1,367,736	1,191,351
Shareholder's equity (deficiency)	(941,550)	(1,010,110)

	2016	2015
<b>CASH FLOW</b>		
Cash flows from operating activities	(289,139)	(84,231)

# Ressources & Énergie Squatex Inc

## Management's Discussion & Analysis, Third trimester ended December 31, 2016

FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<b>EXPLOITATION</b>	\$	\$
Net exploration and evaluation expenses	23,084	53,070
Net income and total comprehensive income	101,616	90,651
Net and comprehensive income per basic and diluted share	0.0010	0.0009

### QUARTERLY DATA

	Year ended March 31, 2017			Year ended March 31, 2016				Year ended March 31, 2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>	—	—	—	—	—	—	—	—
<b>Net profit (loss) and comprehensive income (loss)</b>	101 616	(190 287)	(181 70)	(371 192)	90 651	(201 266)	(153 826)	(50 208)
<b>Total assets</b>	426 186	110 672	145 497	181 241	239 461	338 349	264 684	335 570
<b>Total liabilities</b>	1 367 736	1 420 239	1 300 777	1 191 351	914 379	1 139 918	900 987	854 047
<b>Basic and diluted earnings per share<sup>(1)</sup></b>	0.0010	(0,0018)	(0,0017)	(0,0035)	0,0009	(0,0019)	(0,0015)	(0,0048)

<sup>(1)</sup> These numbers take into account the share subdivision effected on a ratio of two shares for every share then issued that became effective on September 16, 2015.

## RESULTS OF OPERATIONS

### REVENUE

During the nine month period ended December 31, 2016, no activity generated by Squatex has produced income beside some non-significant financial income.

### NET PROFIT – NINE MONTH PERIOD

The net and comprehensive loss for the nine month period ended December 31, 2016 increased from \$ 264,441 for the nine month period ended December 31, 2015 to \$ 269,840 for the same period in 2016. This slight increase in loss is mainly attributable to additional expenses in professional services (\$ 59,891 increase over the previous nine month period) and office and

# Ressources & Énergie Squatex Inc

## Management's Discussion & Analysis, Third trimester ended December 31, 2016

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mailing expenses (an increase of \$ 10,128 compared to the same period in 2015) because of the procedures for obtaining new funding. In addition, interest on a promissory note to a company under common control increased by \$ 29,155 between 2016 and 2015, as the amount of the promissory note increased between these two periods, from \$ 500,000 at December 31, 2015 to \$ 923,195 at December 31 2016. However, the loss is reduced by a decrease in net exploration expenses of \$ 36,119 for the same period, as exploration expenditures are kept to a minimum due to the Company's current financial means of financing its exploration activities, also by an increase in the deferred tax recovery of \$ 46,401.

### NET INCOME - QUARTER

Net and comprehensive income for the three month period ended December 31, 2016 is relatively stable compared to the same period ended December 31, 2015. The increase in earnings of \$ 10,965 is mainly due to lower net exploration and evaluation expenses during this period, as well as the increase in the recovery of deferred taxes that are offset by an increase in professional services expenses.

### STATEMENT OF FINANCIAL POSITION

The Company's working capital increased by \$ 226,140 between March 31, 2016 and December 31, 2016 as a private placement was completed on December 21, 2016, resulting in an increase in cash of \$ 209,500 and accounts receivable (subscription receivable) of \$ 20,900. Although, accounts receivable increased by \$ 49,212 due to higher re-billing to our partner. This increase in assets is offset by a decrease in tax credits receivable of \$ 24,660 and an increase in trade payables and provisions of \$ 19,015.

### LIQUIDITY

As at March 31, 2016, the Company had \$ 70,357 in cash. As at December 31, 2016, the Company had \$ 261,618 in cash, an increase of \$ 191,261. The increase in cash is mainly attributable to the receipt of the private placement for \$ 209,500 as at December 31, 2016. The fact that a company under common control renounces to the payment of its services also allows the Company to maintain a positive cash balance. The Company believes it is in a position to carry out the minimum short-term development plans and minimum commitments referred to in the financial statements. There is no liquidity risk related to financial instruments.

However, the Company has not yet found a property containing oil and gas reserves economically recoverable and therefore, did not generate income or cash flow from operations up to date. At December 31, 2016, the Company had a working capital deficiency of \$ 18,356 and a deficit of \$ 6,182,272.

The ability of the Company to continue its operations depends on its ability to obtain new financing required for the continued exploration of its oil and gas properties and the continued support of suppliers. Although the Company was able to fund its exploration programs and operations in recent years, there is no guarantee that it will manage to obtain additional financing on acceptable terms in the future. These significant uncertainties raise significant doubt about the Company's ability to continue its operations and therefore the appropriateness of the use of IFRS applicable to entities operating in a situation of continuity.

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## Management's Discussion & Analysis, Third trimester ended December 31, 2016

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The financial statements have not been adjusted as would be required to the carrying amounts and classification of assets, liabilities, revenues and expenses presented in the financial statements and the statement of financial position have not been adjusted as would be required if the going concern assumption were not appropriate. These adjustments could be material.

### FUNDING SOURCES

The main source of funding comes from the investment of the equity holders (private placement for a total of \$ 230,400 on December 21, 2016 and issuance of common shares and flow-through share units during the year ended March 31, 2015 for a total of \$ 132,000), of promissory note to a company under common control (for a total of \$ 923,195 at December 31, 2016), the waiver, by a company under common control, its fee for a total period of 45 months at December 31, 2016 and the refundable tax credit for resources.

### OFF-STATEMENT ARRANGEMENT

The Company does not have any off balance sheet settlement other than significant commitments related to statutory obligations for exploration licences it hold.

### RELATED PARTY TRANSACTIONS

Related party transactions were made with companies whose main leader is also a director or a principal officer of the Company. Total related party transactions for the nine months period ended December 31, 2016 also includes transactions with key management.

	2016	2015
	\$	\$
Management fees	18,000	18,000
Professional services	73,800	66,600
Net exploration and evaluation expenses for tax credits	70,426	105,401
Financial expenses	80,011	50,856



### PROVISION

On October 23, 2015, the Company received a notice of assessment of tax authorities for the years ended March 31, 2012, 2013 and 2014, declining certain expenses in the resource calculation credits. The contribution totals \$ 208,805, including \$ 26,163 on interest. The Company disagrees with the notice of assessment and initiated a process of opposition to justify its claims. All without prejudice as to the entire objection process and judicial proceedings that may ensue, the Company believes that the maximum exposure is a claim of the refundable tax credits relating to resources already cashed which would amount an approximate total of \$ 189,992 at December 31, 2016, excluding any applicable interest if the expenses referred in the notice of assessment projects are ultimately rejected.

### SUBSEQUENT EVENT

There are no subsequent event that require additional disclosure in the condensed interim Financial Statements of December 31, 2016.

### FUTURE ACCOUNTING CHANGES

#### IFRS 9 – Financial instruments

IFRS 9 Financial Instruments issued in July , 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces improvements including a more logical standard of classification and measurement of financial assets , a more prospective depreciation standard based on expected credit losses and a substantially modified hedge accounting model. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is currently reviewing the impact that this standard will have on its financial statements.

#### IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16. IFRS 16 describes the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, which is the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces IAS 17, Leases ("IAS 17") and related interpretations. All leases result in the lessee obtaining the right to use an asset from the beginning of the lease and, if lease payments are staggered over time, the tenant also gets financing. Therefore, IFRS 16 eliminates classification of leases as either operating leases or finance leases as required by IAS 17 and instead introduces a single accounting model for tenants. Applying that model, a lessee is required to recognize :

- (i) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of little value; and
- (ii) depreciation of leased assets separately from its lease liabilities in the statement of profit or loss.

### **ADOPTION OF ACCOUNTING STANDARDS**

The Company has not adopted new accounting standards during the nine months period ended December 31, 2016.

### **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The carrying value and fair value of Squatex's financial instruments are substantially the same given their short maturity, except where otherwise stated in the analysis below.

Squatex's financial assets classified as loans and receivables are: cash, accounts receivables (excluding sales tax) and the investment debenture. The shares of Canadian public companies and the investment conversion option in a debenture are classified as financial assets at fair value through profit or loss.

Squatex's financial liabilities consist of debts to suppliers and other payables and due to a company under common control that are classified as financial liabilities measured at amortized cost.

### **ADDITION REQUIREMENTS FOR EMERGING ISSUERS WITHOUT SIGNIFICANT OPERATING PRODUCTS**

The principal activity of the Company is oil and gas exploration and the assessment of work conducted by the Company is presented in the 51-101 report which can be found on SEDAR.

### **ADDITION INFORMATION**

This MD&A is dated March 1, 2017. This same report and more information on the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).