

***McChip Resources Inc.***

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***Management's Discussion and Analysis  
For the year ended December 31, 2019***

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## **Introduction**

This Management's Discussion and Analysis ("MD&A") dated April 28, 2020 relates to the financial condition and results of McChip Resources Inc. ("McChip" or "the Company"), and should be read in conjunction with the financial statements and the notes thereto for the year ended December 31, 2019. Historical results, including trends, which might appear on the preceding, should not be taken as indicative of future results. The Company's common shares are listed on the TSX Venture Exchange, symbol MCS and its reporting currency is the Canadian dollar. The financial data contained in this discussion and analysis is in compliance with *International Financial Reporting Standards* ("IFRS").

McChip is a Canadian controlled corporation engaged in the natural resource industry. It was incorporated in the Province of Ontario, by letters patent dated March 8, 1935, as Madsen Red Lake Gold Mines Limited. Pursuant to Articles of Amendment dated May 21, 1981, the name of the Company was changed to McChip Resources Inc. The registered office and mailing address of the Company is Suite 410, 150 York Street, Toronto, Ontario, Canada, M5H 3S5.

McChip invests in petroleum interests in Western Canada, as well as direct and indirect interests in minerals. The indirect interests are in the form of marketable securities and investment in other companies which are listed on recognized exchanges.

Additional information relating to McChip Resources Inc. has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available online at [www.sedar.com](http://www.sedar.com).

The financial statements and the notes thereto have been prepared under principles applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business.

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## **Cautionary Note Regarding Forward-Looking Information**

This MD&A contains "forward-looking statements and "forward-looking information" under applicable Canadian securities laws. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "should", "expect", "believe", "plan", "intend", "estimate", "forecast", "predict", "potential", "continue", "anticipate", or the negative thereof or variations thereon or similar terminology concerning matters that are not historical facts. Forward-looking information may relate to management's future outlook and anticipated events or results, and may include statements or information regarding the future plans or prospects of the company. Without limitation, statements about the Company's plans and intentions with regard to their continuing investment in petroleum interests and future prices and developments thereof, their purchase and sale of marketable securities and investments in other companies, and the lease agreement, and unit agreement signed by other contiguous land owners, with Potash Corporation of Saskatchewan ("PCS") who have the right to mine potash from McChip's mineral leases located in the Rocanville area of the Province of Saskatchewan for the payment of royalties to McChip.

Forward-looking information is based on certain factors and assumptions regarding, among other things, the estimation of mineral and petroleum reserves and resources, the realization of mineral and petroleum reserve and resource estimates, prices of minerals and oil and gas, the timing and amount of future exploration expenditures, the estimation of initial and sustaining capital requirements, the estimation of labour and operating costs, the availability of necessary financing, environmental costs, and material costs, and non-operator interests in petroleum investments, the receipt of necessary regulatory approvals, and assumptions with respect to environmental risks, title disputes or claims, and other similar matters. While management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect. See "Risks and Uncertainties", "Financial Instruments", and "Outlook" sections of this MD&A.

Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in the securities of the Company should not place undue reliance on these forward-looking statements.

We disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except to the extent required by applicable laws and that the forward-looking statements contained in this MD&A are made as of the date hereof.

## Evaluation of Disclosure, Internal Controls, and Procedures

### Disclosure Controls and procedures

Disclosure, controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in reports filed with or submitted to the various securities regulators is recorded, processed, summarized and reported within the time periods specified. This information is gathered and reported to the Company's management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), so that timely decisions can be made regarding disclosure.

The Company's management, under the supervision of, and with the participation of, the CEO and the CFO, have designed and evaluated the Company's disclosure controls and procedures as defined in their signed certification of annual and interim filings venture issuer basic certificate. Based on this evaluation, the CEO and the CFO have concluded that, as of the date of this MD&A, the Company's disclosure controls and procedures were effective.

### Internal Control over Financial Reporting

Designing, establishing and maintaining adequate internal control over financial reporting is the responsibility of the Company's management. Internal control over financial reporting is a process designed by, or under the supervision of management, and affected by the Board of Directors, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements in conformity with IFRS. These controls include policies and procedures pertaining to the maintenance of records that, in reasonable detail, accurately reflect transactions pertaining to its assets; provide reasonable assurance that all transactions are recorded to permit the preparation of its financial statements and that expenditures are being made only in accordance with authorizations by management of the Company, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on its financial statements. Management is responsible for establishing and maintaining internal control over financial reporting and has designed and implemented such controls to ensure that the required objectives of these internal controls have been met. The management of the Company applied its judgement in evaluating the cost-benefit relationship to controls and procedures. The result of which was, because of the inherent limitations in all control systems, no evaluation of the controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Minor control deficiencies have been identified within the Company's accounting and/or finance departments and its financial information systems over segregation of duties and user access respectively. Specifically, as is common for companies of this size, certain duties within the accounting and/or finance departments were not adequately segregated due to the limited number of individuals employed in these areas. At the present time, the CEO and CFO oversee all material transactions and related accounting records. The audit committee reviews the financial statements in detail, the key risks of the Company, and queries management about all significant transactions.

For the period covered by this MD&A there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### Summary of Quarterly Results

The summary for each of the eight most recently completed quarters is as follows:

For the quarter ended \$000's (except per share)	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Total revenue (loss)	1,028	(102)	(98)	168	(142)	(320)	761	(160)
Net income (loss)	800	(223)	(234)	30	18	(605)	547	(291)
Income (loss) per share basic and diluted	0.14	(0.04)	(0.05)	0.01	(0.00)	(0.11)	0.10	(0.05)
Total assets	6,978	5,912	5,686	5,885	6,226	6,051	6,645	6,351

This data is derived from the Company's financial statements.

### **Executive Compensation**

The compensation committee is responsible for making recommendations to the Board of Directors with respect to the compensation of the executive officers of the Company as, among other things, with respect to the Stock Option Plan and any other employee benefits and/or plans. The Board of Directors reviews such recommendations and gives final approval.

The executive officers receive a base salary and fees for management services performed.

### **Financial Highlights of Operation**

#### **Year ended December 31, 2019**

The Company recorded a net income of \$333,242 for the year ended December 31, 2019 compared to a net loss of \$330,858 in 2018, an increase in income of \$664,100. The significant items that contributed to the changes were a decrease of \$1,743,747 in the unrealized depreciation of investments in other companies and marketable securities combined with a decrease in the realized gain from the sale of marketable securities of \$879,740, an increase in petroleum interest revenue of \$2,219, a decrease in other income of \$95,647, an increase in income taxes of \$191,796, a decrease in fair value adjustment in petroleum assets of \$85,884 and an increase in administrative expenses of \$567.

#### **Three months ended December, 2019**

The Company recorded a net income of \$760,422 for the three months ended December 31, 2019 compared to a net income of \$18,273 in 2018, an increase in income of \$742,149. The significant items that contributed to the changes were an increase of \$889,328 in the unrealized depreciation of investments in other companies and marketable securities combined with an increase in the realized gain from the sale of marketable securities of \$156,709, an increase in petroleum interest revenue of \$34,263, an increase in other income of \$3,061, an increase in income taxes of \$408,186, a decrease in fair value adjustment in petroleum assets of \$85,884, and an increase in administrative expenses of \$18,910.

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### **Dividend**

The Company paid an ineligible dividend of \$0.02 per common share on February 26, 2020, a \$0.03 per common share on February 28, 2019 and \$0.10 per common share on January 30, 2018.

### **Related Party Transactions**

Included in accounts receivable as at December 31, 2019 is an amount due to a related company that has a common director and officer in the amount of \$5,147 (December 31, 2018 – \$2,601). The amount receivable and/or payable was the result of the Company's investment in petroleum interests which is in the normal course of its business.

Mr. McCloskey is President, CEO and Director of Boanne Investments Limited, ("Boanne") and the Company, Mr. Dumond is the Corporate Secretary of Boanne; CFO, Corporate Secretary and Director of the Company.

Included in accounts receivable as at December 31, 2019, is an amount due from a related party who is a director, and officer of the Company of \$20,000 (2018 – nil).

Included in accounts payable as at December 31, 2019, is an amount due to Mr. McCloskey, a management executive and Director the Company in the amount of \$91 (December 31, 2018 - \$206). The amounts payable is the result of the Company's investment in petroleum interests which is in the normal course of its business.

Related party expenses paid to Messrs. McCloskey and Dumond, management executives and Directors of the Company, during the year ended December 31, 2019, remuneration in the normal course of business, for consulting and management fees amounted to \$221,927 (2018 - \$240,927). Administrative fees were paid to a related party in the amount of \$2,192 for the year ended December 31, 2019 (2018 - \$2,053).

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### **Liquidity and Capital Resources**

The global economy continues to be turbulent and unpredictable, and forecasting future trends is both challenging and uncertain. Management adjusts and readjusts strategies to meet the challenges presented in these unsettled economic conditions confronting the Company.

The Company presently derives its revenue from investment in petroleum interests, investment in marketable securities, investment in other companies and royalties from potash leases.

Working capital increased by \$418,572 to \$4,672,667 at December 31, 2019 compared to \$4,254,095 at December 31, 2018. The increase was related to a decrease in cash of \$184,696, an increase in accounts receivable of \$18,606, an increase in marketable securities of \$1,127,877, a decrease in accounts payable and accrued liabilities of \$13,720, a net increase in income taxes receivable of \$45,823, an increase in bank loans of \$10,000, and an increase in loans payable of \$592,758.

McChip's approach to managing its liquidity is to ensure that it has sufficient resources to meet its liabilities as they come due and have sufficient working capital to fund operations for the ensuing fiscal year.

### Cash Flow provided by Operating Activities

The Company recorded a net income of \$333,242 for the year ended December 31, 2019. When decreased for non-cash items by \$141,382 and increased for changes in working capital items by \$78,149, represented cash generated by operating activities of \$113,711.

### Cash Flow used in Investing Activities

During the year ended December 31, 2019, investing activities used net cash of \$731,362. The net cash generated in investing activities was effected by the purchase of marketable securities of \$3,483,989, purchase of investments of other companies of \$18,065, proceeds from the sale of marketable securities of \$2,810,723, expenditures on investments in petroleum interests of \$41,066, and a decrease in abandonment fund deposit of \$1,035.

### Cash Flow provided by Financing Activities

Financing activities provided cash of \$432,955 during the year ended December 31, 2019. The Company used cash by paying a dividend of \$169,803, increasing its bank loan by \$10,000, and increasing its loan payable by \$592,758.

## Share Capital

Shareholders' equity at December 31, 2019 was \$5,663,588 compared to \$5,500,149 at December 31, 2018, an increase of \$163,439, a result of a net income of \$333,242 and a dividend payment of \$169,803 during the year.

The Company's share capital was comprised of the following as at:

	December 31, 2019	December 31, 2018
<b>Authorized:</b> Unlimited number of common shares		
<b>Issued:</b>		
Common shares	5,660,096	5,660,096

The following table sets out the common shares and stock options outstanding as at:

	December 31, 2019
Common shares	5,660,096
Stock options	350,000
	6,010,096

Stock options issued and outstanding have an exercise price of \$0.60 and expire on September 25, 2021.

Please refer to Notes 10 and 12 to the Company's financial statements dated December 31, 2019 for further information regarding share capital.

### Contributed Surplus

The contributed surplus of the Company at December 31, 2019 was \$883,200 (December 31, 2018 - \$883,200). These amounts are related to stock options that have been granted or exercised on the company's common shares.

**Risks and Uncertainties**

An investment in the securities of the Company is subject to a number of risks. In addition to the other information contained in the MD&A and the Company's other publicly filed disclosure documents, investors should give careful consideration to the following factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this MD&A. Any of the matters highlighted in these risk factors could have a material adverse effect on the Company's business prospects or financial condition.

**Investment in Petroleum Interests**

The price fluctuations for oil and natural gas together with the barrels of oil equivalent produced will affect the revenue reported by the Company for investment in petroleum interests.

The operator of the Company's oil and gas participations, Signalta Resources Limited ("Signalta") reports that the current low natural gas price environment continues to challenge all operators' investment abilities. Fundamentally Signalta believes in the potential for superior rates of returns in the oil and gas business over the medium to long term. The strategy is to continue to reposition holdings during this challenging portion of the cycle. Above average assets that present themselves in these difficult periods generally have the staying power to benefit from a sizeable upswing in gas prices in the future.

In reviewing the performance of our investments with Signalta over a thirty year period through many cycles of varying magnitude, it is fair to say that large advances of our values have resulted from continued investment throughout difficult periods such as we have experienced in the recent years.

**Saskatchewan Potash Project, Province of Saskatchewan, Canada**

On November 1, 2017, the Company entered into a purchase and sale agreement with Altius Royalty Corporation (the "Purchaser") with respect to certain of its mineral rights in the Rocanville Area of Saskatchewan. Pursuant to the terms of the purchase and sale agreement the Purchaser has paid \$3,000,000 on closing and in addition, an annual royalty of \$500,000 for a term of ten years, conditional on certain potash production levels and grades of potash ore being maintained on an annual basis during the term of the agreement. First two years of production levels have been met.

**Marketable Securities and Investment in other companies**

The Company's investments are predominately represented by shares of natural resource based companies listed on a recognized exchange. The Company uses this method to get exposure to resource opportunities that normally would not be available to it.

The year ended December 31, 2019, reflected an increase in net investment income of \$864,007 compared to 2018. The contributing factor was an increase in the unrealized depreciation of investments in other companies and marketable securities of \$1,743,747 and a decrease in the realized gain of \$879,740, which was attributed to both the change in market values and in investment portfolio holdings when comparing 2019 to 2018.

The Company's long position in marketable securities and investment in other companies had a combined fair value of \$5,414,642 at December 31, 2019 (December 31, 2018 - \$4,389,875) an increase of \$1,024,767.

**Capitalization and Dilution**

The Company currently has sufficient cash flow to meet its obligations as they come due. The Company's historical capital expenditure and operating needs have been generated internally from its investment in petroleum interests, marketable securities, and investment in other companies. It is anticipated that future royalties from its potash acreage will contribute to the Company's cash flow. If the Company required major funding in the form of debt and/or equity there is no assurance that additional funding would be available. The terms of any additional funding obtained by the Company could result in substantial dilution to the present shareholders of McChip.

**Future Profitability**

The Company presently derives its revenue from investment in petroleum interests, investment in marketable securities, investment in other companies.

### **Outlook**

The Company will continue to implement the following strategies:

- remain in the natural resource industry
- participate in low-risk natural resource ventures, directly or indirectly, using operators having proven track records with additional development opportunities
- strategically invest in marketable securities and invest in other companies that are predominately natural resource based

### **Other Information**

#### **Contractual Obligations**

The Company does not have any contractual obligation.

#### **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

#### **Going Concern**

Management has prepared its financial statements using accounting principles applicable to a going concern which assumes continuity of operations, realization of assets and settlement of liabilities in the normal course of business. Should the going concern assumption no longer be valid, adjustments would be required to the carrying values of assets and liabilities and to the reported expenses, and statements of financial position classifications.

#### **Critical Accounting Policies**

The financial statements are reported in Canadian dollars, and they may include management's estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. If estimates and assumptions were made, actual results could differ from these estimates and assumptions. The financial statements have been prepared using careful judgment within the significant accounting policies summarized below.

#### **Revenue Recognition**

The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

The operators of the various petroleum interests recognize the revenue from the sale of petroleum and natural gas when the product passes through the sales outlet meter of the processing plants. The Company recognizes the earnings from its investment in petroleum interests to the extent it is earned and receivable from these operations, and is not subject to a significant reversal in revenue. The Company does not operate any of the interests it has in oil and natural gas.

Any change in fair value in investments in petroleum interests is also included as part of revenue.

Royalty income is recognized as earned as per the terms of the overriding royalty agreement in accordance with IFRS 15. Revenue is recognized when it is no longer susceptible to market factors and is no longer subject to a significant reversal in revenue.

Investment transactions are accounted for as of the settlement date. Realized gains and losses from investment transactions are calculated on an average cost basis. The difference between fair value and average cost is included in the Statements of Operations and Comprehensive Income (loss) as part of the "Unrealized appreciation (depreciation) of investment in other companies and marketable securities".

**Income/(loss) per share**

Basic income/(loss) per share is calculated by dividing the income/(loss) for the period by the weighted average number of common shares outstanding during the period. Contingently issuable shares are not considered outstanding common shares and consequently are not included in the income per share calculation. Diluted income/(loss) per share is determined by adjusting the income/(loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all options, warrants and other similar instruments outstanding that may add to the total number of common shares.

**Income taxes**

The Company accounts for its income taxes using the deferred tax assets and liabilities method. Deferred income tax assets and liabilities are determined based on the difference between the carrying amount and the tax basis of the assets and liabilities. Any change in the net amount of deferred income tax assets and liabilities is included in profit or loss. Deferred income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws which are expected to apply to taxable profit for the years in which the assets and liabilities will be recovered or settled. Deferred income tax assets are recognized when it is likely they will be realized. Deferred tax assets and liabilities are not discounted.

The tax expense includes current and deferred tax. This expense is recognized in profit or loss, except for income tax related to the components of other comprehensive income or of equity, in which case the tax expense is recognized in other comprehensive income or equity respectively.

Current income tax assets and liabilities are obligations or claims for the current and prior periods to be recovered from (or paid to) taxation authorities that are still outstanding at the end of the reporting period. Current tax is computed on the basis of tax profit which differs from net profit. This calculation is made using tax rates and laws enacted at the end of the reporting period.

On the statements of financial position all deferred tax assets and liabilities must be classified as non-current under IFRS.

**Accounting for share-based compensation**

The grant date fair value of options allotted to directors, officers, and employees is recognized as an expense, with a corresponding increase in contributed surplus, over the period that the grantee becomes unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

The fair value of share options is measured at the grant date, using an option pricing model that takes into account the exercise price, the term of the option, the current share price, the expected volatility of the underlying shares, the expected dividend yield, the forfeiture and the risk-free rate for the term of the option. If the options are exercised, contributed surplus will be reduced by the applicable amount with a corresponding charge to share capital.

For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

**Use of estimates**

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amount of expenses during the period. These estimates are reviewed periodically, and as adjustments become necessary they are made in the period in which they become known. Actual results could differ from these estimates.

**New accounting standards adopted by the Company****IFRS 16 Leases**

The Company adopted IFRS 16 using the modified retrospective transition approach. Accordingly, comparative figures at and for the year ended December 31, 2018 have not been restated and continue to be reported under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*.

At inception of a contract the Company assesses whether a contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

The Company's leases its head office. The Company's current office lease agreement is on a month to month arrangement.

The Company has elected not to recognize a right of use asset and lease liability in relation to this lease arrangement due to the short-term nature. Rent expense recorded for the years ended December 31, 2019 and 2018 amounted to \$31,500.

**IFRIC 23 Uncertainty over Income Tax Treatments**

In June 2017, the International Accounting Standards Board (IASB) issued a new International Financial Reporting Interpretations Committee (IFRIC) interpretation, incorporated into Part 1 of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in September 2017, to specify how to reflect the effects of uncertainty in accounting of income taxes. IAS 12 *Income Taxes* provides requirements on the recognition and measurement of current or deferred income tax liabilities and assets. However, it does not provide a specific requirement for the accounting for income tax when the application of tax law to a particular transaction or circumstances is uncertain. As a result, the interpretation aims to reduce the diversity in how entities recognise and measure tax liability or tax asset when there is uncertainty over income tax treatments. For the year beginning January 1, 2019 the implementation of IFRIC 23 did not have a material effect on the financial statements.

**Capital disclosures**

The Company manages its capital structure and makes adjustments to it in light of the changes in economic conditions and the risk characteristics of its underlying assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of management to sustain future development of the Company.

The Company is not subject to externally imposed capital requirements.

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

There were no changes in the Company's approach to capital management during this reporting period.

**Commitments**

The Company currently has no outstanding commitments.

**Investment in petroleum interests**

This investment represents participation agreements with Signalta, a Canadian controlled private company and other similar operators based in Calgary, Alberta. As this investment represents residual interests it has been considered as an investment in equity interests. Typically, the Company's proportionate share of specific yearly investment programs would range from less than 1% to 1%. The Company, by agreement, does not exercise joint control or significant influence over Signalta, as operator of the petroleum participations.

Accordingly, this investment has been classified as FVTPL. This investment is legally held by Boanne, a Canadian private company which is a related party that owns approximately 22.8% of the Company.

**Financial Instruments**

The Company's financial risk exposure and the impact on the Company's financial instruments are summarized below:

**Credit risk**

The Company's credit risk is attributable to accounts receivable and certain investment in other companies. In the opinion of management the credit risk with respect to these instruments is low.

**Liquidity risk**

The Company's approach to managing its liquidity risk is to ensure that it has sufficient liquidity to meet its liabilities when they come due. The Company, as at December 31, 2019 had cash of \$417,957, accounts receivable of \$554,049 income tax receivable of \$115,341, and marketable securities having a fair value of \$4,899,766 which aggregates to \$5,987,113 available to settle its current liabilities of \$1,314,446.

**Interest rate risk**

The Company has a bank credit facility for short term working capital purposes and loans to supplement its investment strategies. The facility exposes the Company to interest rates risk which fluctuates in accordance with market rates.

**Foreign currency risk**

The Company is exposed to foreign currency risk. This would be in conjunction with its investments in currency of the United States of America. This is a negligible part of the Company's business and with the amount of foreign currency involved management considers the foreign currency risk to be low.

**Price risk**

The Company is exposed to price risk. The volatility of commodities prices affects the net revenue received. The value of the Company's marketable securities and investment in other companies are carried at fair value. The value of these investments would be affected by increases and decreases in the share prices recorded for them on the respective stock exchanges and thus exposes the Company to a marketable securities and investment price risk.

**Public trading risk**

The public trading market for the Company's common shares is the TSX Venture Exchange symbol MCS. Various factors could cause significant fluctuations in the price and volume of trading in the Company's common shares.

**Sensitivity analysis**

Based on its knowledge and experience of the financial markets, management of the Company believes the following movements are "reasonably possible" over a one year period:

Cash and cash equivalents are in cash only at the present time. Given the low current prevailing interest rates on short term investments, downward sensitivity is not meaningful. If the cash was in interest bearing deposits and a sensitivity of plus or minus 0.5% change in rates were applied over the year ended December 31, 2019, there would not be a significant effect on the Company's net income.

As at December 31, 2019, had the prices on the respective stock exchanges for marketable securities and publicly held investments in other companies raised or lowered by 5%, with all other variables held constant, the equity of the Company would have increased or decreased by \$255,067, (December 31, 2018 - \$200,646).

**Fair value of financial instruments**

Fair value is determined using the following methods and assumptions:

The carrying value of accounts receivable, loan receivable, accounts payable and accrued liabilities and, loans payable approximate their fair value due to the relatively short periods to maturity of these instruments. The carrying value of the floating rate loans payable is assumed to approximate its fair value as interest is based on market related variable rates.

Cash, Marketable securities and investment in other companies, and investment in petroleum interest are carried at fair value.

The Company has classified its financial instruments as follows:

On the date of initial application, January 1, 2018, the financial instruments of the Company were reclassified as follows:

	IFRS 9	
	Classification	Measurement
Cash	FVTPL	Fair value
Accounts receivable / abandonment deposit	Amortized cost	Amortized cost
Loan receivable	Amortized cost	Amortized cost
Marketable securities	FVTPL	Fair value
Investment in petroleum interest	FVTPL	Fair value
Investment in other companies	FVTPL	Fair value
Bank indebtedness	Other financial liabilities	Amortized cost
Loans payable	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Edward G. Dumond  
 Richard D. McCloskey  
 Douglas C. Bolton  
 Timothy M. Gould  
 Gordon A. McCreary  
 Anthony D. Weldon

Director – CFO and Corporate Secretary  
 Director – CEO and President  
 Director  
 Director  
 Director  
 Director

April 28, 2020