

STANDARD EXPLORATION LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

MANAGEMENT'S DISCUSSION & ANALYSIS

The following management's discussion and analysis ("MD&A") should be read in conjunction with Standard Exploration Ltd.'s ("Standard" or the "Corporation") unaudited condensed interim financial statements as at and for the three and nine months ended September 30, 2018, and the audited financial statements as at and for the year ended December 31, 2017 and the notes thereto. The accompanying unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". All dollar amounts are referenced in Canadian dollars, except when noted otherwise.

The MD&A is dated November 27, 2018. The reader should be aware that historical results are not necessarily indicative of future performance.

Additional information about the Corporation, filed with the Canadian securities commissions, including periodic yearly and quarterly reports, is available online at www.sedar.com.

Standard is a Canadian-based junior petroleum and gas exploration and development company whose common shares are traded on TSX Venture Exchange under the symbol "SDE".

FORWARD-LOOKING STATEMENTS

This MD&A may contain forward-looking or outlook information which reflects management's expectations regarding the Corporation's growth, results of operations, performance and business prospects and opportunities. The use of words such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "outlook", "forecast" and similar expressions are intended to identify forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results of events to differ materially from those anticipated in these forward-looking statements. Although management believes the expectations reflected in these forward-looking statements are reasonable, there can be no assurance that actual results will be consistent with these forward-looking statements. Readers should not put undue reliance on forward-looking information. These statements are made as of the date hereof and management assumes no obligation to update or revise these statements to reflect new events or circumstances, except as required by securities legislation.

NON-IFRS MEASUREMENTS

The financial data presented in this MD&A has been prepared in accordance with IFRS except for the term "field netbacks". The term "field netbacks" should not be considered an alternative to, or more meaningful than, "net loss and comprehensive loss" as determined in accordance with IFRS as an indication of the Corporation's performance.

Field netbacks are useful supplemental measures as they demonstrate the Corporation's ability to generate cash. The Corporation calculates field netbacks as gross revenues less royalties and operating expenses, including transportation expenses. The Corporation's method of calculating these measures may differ from the methods used by other companies and accordingly may not be comparable to measures used by other companies.

OUTLOOK

The Corporation is about to enter into a new phase of its history. As it was announced on November 13, 2018, Standard's current management team and Board of Directors will be replaced with a new management team and Board. In conjunction with that change, significant new equity will be added to the Corporation and a redirection of operational focus away from Alberta to the southern United States. This new operational focus will include the acquisition of oil and gas properties providing a stable production base and opportunities for increased production and reserves, as well as exposure to higher commodity pricing than is currently being received in Alberta. Production from Standard's current producing property in Alberta will no longer be material to the Corporation's results. The new management team has substantial experience in the new southern United States properties and this expertise is expected to add value to the Corporation going forward.

CONTINGENCY

At September 30, 2018, the estimated liability relating to the fair value of the Corporation's common shares and reimbursement of estimated legal fees offered to Canadian Energy Exploration Inc. ("CEEI"), a shareholder who exercised dissent rights relating to the Corporation's acquisition of CEEI shares in 2012 is included in accounts payable and accrued liabilities is \$29,965.

On March 4, 2016, Standard served the shareholder with a Formal Offer to Settle for 937,032 common shares of Standard and reimbursement of legal fees up to \$20,000. The shareholder did not respond and the Formal Offer expired on May 4, 2016.

THIRD QUARTER 2018 HIGHLIGHTS

- Achieved quarterly average production of 49 boe/d (100% oil) representing an increase of 2% over second quarter of 2018 (48 boe/d) and 11% over the comparable period in 2017 (44 boe/d).
- Reduced overall funds used in operations to \$1,701 as compared to \$30,197 in second quarter of 2018 and \$87,423 in the comparative third quarter in 2017.
- Generated field operating netbacks of \$26.58/boe on an unhedged basis as compared to \$36.84/boe in second quarter of 2018 (representing a decrease of 28%) and \$25.74 in the comparative third quarter in 2017 (representing an increase of 3%).
- Recorded a third quarter loss of \$134,033 as compared to a loss of \$82,519 in second quarter of 2018 and \$174,628 in the comparative third quarter in 2017.
- Continued diligent cost control initiative which enabled the Corporation to lower its general and administrative costs totaling \$123,307 or \$27.27/boe in the quarter as compared \$139,519 in the second quarter of 2018 or \$31.85/boe and \$176,076 or \$43.48/boe during the comparative third quarter in 2017.

QUARTERLY DATA (\$)

Quarter ended	Petroleum and natural gas sales	Royalties	Net Loss	Basic and Fully Diluted	Total Assets
September 30, 2018	275,939	(71,482)	(134,033)	(0.00)	3,451,493
June 30, 2018	276,822	(44,366)	(82,519)	(0.00)	3,567,022
March 31, 2018	187,705	(24,146)	(110,112)	(0.00)	3,642,187
December 31, 2017	212,082	(22,451)	(79,736)	(0.00)	3,749,114
September 30, 2017	190,003	(22,310)	(174,628)	(0.00)	3,831,321
June 30, 2017	208,146	(26,844)	(264,623)	(0.00)	4,010,679
March 31, 2017	258,404	(32,030)	(86,907)	(0.00)	4,411,450
December 31, 2016	267,073	(30,791)	(2,434,608)	(0.02)	4,474,943
September 30, 2016	239,185	(29,188)	(166,167)	(0.00)	7,080,408

SUMMARY OF RESULTS (\$, except Boe/d amounts)

	Three Months Ended Sep. 30 2018	Three Months Ended Sep. 30 2017	Nine Months Ended Sep. 30 2018	Nine Months Ended Sep. 30 2017
Petroleum and gas sales revenue	275,939	190,003	740,466	656,552
Royalties	(71,482)	(22,310)	(139,994)	(81,183)
Net revenue	204,457	167,693	600,472	575,369
Expenses				
Production and operating	73,508	51,750	183,677	169,543
Transportation	10,755	11,700	34,681	34,945
Exploration and evaluation expenses	28,089	10,986	41,980	26,488
Depletion and depreciation	99,968	90,223	283,155	291,593
General and administrative	123,307	176,076	375,658	466,920
Net finance expense	2,863	1,586	7,985	6,654
Net loss and comprehensive loss	134,033	174,628	326,664	526,158
Loss per share – basic and diluted	\$0.00	\$0.00	\$0.00	\$0.00
Petroleum and natural gas sales (Boe/d) ⁽¹⁾	49	44	47	58
Net cash from (used in) operating activities	(1,701)	(87,423)	(9,048)	(48,838)
Total assets	3,451,493	3,831,321	3,451,493	3,831,321
Working capital ⁽²⁾	855,689	931,650	855,689	931,650

⁽¹⁾ Average sales for the period

⁽²⁾ Working capital is calculated as current assets less current liabilities. This is a non-IFRS measure.

PETROLEUM AND NATURAL GAS SALES VOLUMES

Sales volumes mcf to boe (6:1 boe conversion)	Three Months Ended Sep. 30 2018	Three Months Ended Sep. 30 2017	Nine Months Ended Sep. 30 2018	Nine Months Ended Sep. 30 2017
Natural Gas (mcf/d)	-	-	-	21
Oil and NGL's (bbls/d)	49	44	47	54
Total boe/d	49	44	47	58

For the nine-month period ended September 30, 2018, petroleum production was generated at its operated property at Chin Coulee.

In 2017, petroleum production was generated at its operated properties at Chin Coulee and Claresholm. Natural gas and natural gas liquids sales were generated at its non-operated property at Crossfield, AB.

Oil sales volumes at Claresholm were recorded for the production months of January 2017 and February 2017 only, as the Corporation sold the property with an effective date of March 1, 2017.

Overall petroleum and natural gas sales volumes during the nine-month period ended September 30, 2018 decreased by 19% (three-month period ended September 30, 2018 – increase of 11%) as compared to the comparative period last year, partly due to the disposition of Claresholm effective March 1, 2017 as well as lower sales volumes at Chin Coulee due to natural declines. In addition, production during February 2018 was lower due to water injection pump limitations, which was subsequently resolved. As well, during the month of April 2018, Chin Coulee 100/04-34-007-15 W4M/00 was down due to maintenance but has since resumed production.

Overall petroleum and natural gas sales volumes during the three-month period ended September 30, 2018 increased by 11% as compared to the comparative period last year. Although the Corporation disposed of its oil property at Claresholm effective March 1, 2017 which was producing approximately 9 boe/d, production from its operated well at Chin Coulee 100/13-27-007-15W400 averaged higher production levels during the current period.

GROSS REVENUE AND PRICING (\$)

	Three Months Ended Sep. 30 2018	Three Months Ended Sep. 30 2017	Nine Months Ended Sep. 30 2018	Nine Months Ended Sep. 30 2017
Petroleum	275,939	190,003	740,466	651,146
Natural gas	-	-	-	870
Natural gas liquids	-	-	-	4,536
	275,939	190,003	740,466	656,552
Petroleum (\$/bbl)	61.02	46.91	57.81	48.40

Prices received for the Corporation's petroleum during the nine-month period ended September 30, 2018 averaged \$57.81/bbl, representing a 19% increase from an average of \$48.40/bbl received during the comparative period last year.

Prices received for the Corporation's petroleum during the three-month period ended September 30, 2018 averaged \$61.02/bbl, representing a 30% increase from an average of \$46.91/bbl received during the comparative period last year.

Prices received for the Corporation's natural gas and natural gas liquids sales are not presented due to the immaterial volumes received.

ROYALTIES (\$, except percent of total revenue)

	Three Months Ended Sep. 30 2018	Three Months Ended Sep. 30 2017	Nine Months Ended Sep. 30 2018	Nine Months Ended Sep. 30 2017
Crown	52,249	11,959	93,080	39,490
Gross overriding and freehold	19,233	10,351	46,914	41,693
Total royalties	71,482	22,310	139,994	81,183
\$/boe	15.81	5.51	10.93	5.17
Percent of total revenue	26%	12%	19%	12%

Royalties for the nine-month period ended September 30, 2018 averaged \$10.93/boe or 19% of petroleum and natural gas and natural gas liquids revenues as compared to royalties during the comparative period last year of \$5.17/boe or 12% of petroleum and natural gas revenues.

Royalties for the three-month period ended September 30, 2018 averaged \$15.81/boe or 26% of petroleum and natural gas and natural gas liquids revenues as compared to royalties during the comparative period last year of \$5.51/boe or 12% of petroleum and natural gas revenues.

Royalties for the nine month period ended September 30, 2018 on a per boe basis during the current period were higher than during the comparative period last year due to higher average Crude Oil Royalty Calculation Par Prices (reference prices) as pre-determined by Alberta Energy.

OPERATING AND TRANSPORTATION EXPENSES (\$)

	Three Months Ended Sep. 30 2018	Three Months Ended Sep. 30 2017	Nine Months Ended Sep. 30 2018	Nine Months Ended Sep. 30 2017
Operating expenses	73,508	51,750	183,677	169,543
Operating - transportation	10,755	11,700	34,681	34,945
Total operating expenses	84,263	63,450	218,358	204,488
\$/boe	18.63	15.67	17.05	13.02
Percentage of gross revenue	31%	33%	29%	31%

Operating expenses for the nine-month period ended September 30, 2018 were \$218,358 or \$17.05/boe compared to \$204,488 or \$13.02/boe from the comparative period last year. Operating expenses as a percentage of gross revenue for the nine-month period ended September 30, 2018 was 29% as compared to 31% from the comparative period last year.

Operating expenses for the three-month period ended September 30, 2018 were \$84,263 or \$18.63/boe compared to \$63,450 or \$15.67/boe from the comparative period last year. Operating expenses as a

percentage of gross revenue for the three-month period ended September 30, 2018 was 31% as compared to 33% from the comparative period last year.

Overall operating costs increased during 2018, in part, due to high average electricity prices per MWh (Mega-watt hour) during the current period, as well as expenses related to repairs and maintenance.

Variance in operating costs year over year are due, in part, to periodic repairs and maintenance.

Overall, the battery facility at Chin Coulee has been operating efficiently and has had no major downtime.

FIELD NETBACKS (\$) ⁽¹⁾

	Three Months Ended Sep. 30 2018	Three Months Ended Sep. 30 2017	Nine Months Ended Sep. 30 2018	Nine Months Ended Sep. 30 2017
Gross revenue	275,939	190,003	740,466	656,552
Royalties	(71,482)	(22,310)	(139,994)	(81,183)
Operating expenses ⁽²⁾	(84,263)	(63,450)	(218,358)	(204,488)
Netback	120,194	104,243	382,114	370,881
\$/boe	26.58	25.74	29.83	23.62

⁽¹⁾ See section titled "NON-IFRS MEASUREMENTS"

⁽²⁾ Including transportation expenses

Field netbacks for the nine-month period ended September 30, 2018 were \$382,114 or \$29.83/boe, representing a 26% increase per boe compared to field netbacks from the comparative period last year of \$370,881 or \$23.62/boe. This increase is mostly due to higher average oil prices received during the current period.

Field netbacks for the three-month period ended September 30, 2018 were \$120,194 or \$26.58/boe, representing a 3% increase per boe compared to field netbacks from the comparative period last year of \$104,243 or \$25.74/boe. This increase is mostly due to higher average oil prices received during the current period.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES (\$)

	Three Months Ended Sep. 30 2018	Three Months Ended Sep. 30 2017	Nine Months Ended Sep. 30 2018	Nine Months Ended Sep. 30 2017
G&A expenses	123,307	176,076	375,658	466,920
\$/boe	\$27.27	\$43.48	\$29.33	\$29.74

G&A expenses for the nine-month period ended September 30, 2018 totalled \$375,658, representing a 20% decrease from \$466,920 from the comparative period last year.

For the nine-month period ended September 30, 2018, G&A expenses were \$29.33/boe as compared to \$29.74/boe, representing a 1% decrease from the comparative period last year.

G&A expenses for the three-month period ended September 30, 2018 totaled \$123,307, representing a 30% decrease from \$176,076 from the comparative period last year.

For the three-month period ended September 30, 2018, G&A expenses were \$27.27/boe as compared to \$43.48/boe, representing a 37% decrease from the comparative period last year

Overall G&A expenses decreased during 2018 as compared to the previous period last year, due, in part, to reduced consulting fees charged and lower rent. Additionally, during the nine-month period ended September 30, 2017, G&A expenses of \$19,500 related to marketing fees paid in conjunction with the sale the Corporation's Claresholm asset.

The following table breaks down G&A expenses by category (\$):

	Three Months Ended Sep. 30 2018	Three Months Ended Sep. 30 2017	Nine Months Ended Sep. 30 2018	Nine Months Ended Sep. 30 2017
Salaries and consulting fees	77,139	97,722	235,447	292,614
Audit and legal	9,802	7,269	15,268	16,078
Rent and parking	3,000	6,000	10,000	18,000
Computer services & software	12,524	13,254	33,591	36,101
Directors fees	7,000	3,000	11,500	11,500
Transfer Agent & filing fees	3,901	5,588	13,402	16,052
Insurance	3,603	3,098	9,698	9,193
Travel, meals and entertainment	383	157	939	396
Office supplies and services	5,624	16,975	24,112	23,720
Reserve report	-	-	5,506	(205)
Other	331	23,013	16,195	43,471
	123,307	176,076	375,658	466,920

EXPLORATION AND EVALUATION EXPENSES (\$)

	Three Months Ended Sep. 30 2018	Three Months Ended Sep. 30 2017	Nine Months Ended Sep. 30 2018	Nine Months Ended Sep. 30 2017
	28,089	10,986	41,980	26,488

Exploration and evaluation expenses for the nine-month period ended September 30, 2018 totaled \$41,980 (September 30, 2017 – \$26,488) which comprised of lease rentals related to non-producing properties and other similar expenses.

Exploration and evaluation expenses for the three-month period ended September 30, 2018 totaled \$28,089 (September 30, 2017 – \$10,986) which comprised of lease rentals related to non-producing properties and other similar expenses.

NET FINANCE EXPENSE (\$)

	Three Months Ended Sep. 30 2018	Three Months Ended Sep. 30 2017	Nine Months Ended Sep. 30 2018	Nine Months Ended Sep. 30 2017
Interest income	1,973	\$1,914	6,523	\$4,146
Accretion on decommissioning provision	(4,836)	(\$3,500)	(14,508)	(\$10,800)
	(2,863)	(\$1,586)	(7,985)	(\$6,654)

During the nine-month period ended September 30, 2018, interest income of \$6,523 (September 30, 2017 - \$4,146) was earned on funds held in a T-bill savings account and accretion of decommissioning provision expense of \$14,508 (September 30, 2017 - \$10,800) was recorded.

During the three-month period ended September 30, 2018, interest income of \$1,973 (September 30, 2017 - \$1,914) was earned on funds held in a T-bill savings account and accretion of decommissioning provision expense of \$4,836 (September 30, 2017 - \$3,500) was recorded.

DEPLETION, DEPRECIATION, AND AMORTIZATION (“DD&A”) (\$)

	Three Months Ended Sep. 30 2018	Three Months Ended Sep. 30 2017	Nine Months Ended Sep. 30 2018	Nine Months Ended Sep. 30 2017
Depletion	99,968	90,223	283,155	\$291,593
\$/boe	22.11	22.28	22.11	18.57

Using the unit-of-production method based on total estimated proved plus probable reserves, depletion for the nine-month period ended September 30, 2018 was \$283,155 or \$22.11/boe compared to \$291,593 or \$18.57/boe during the same period last year. Lower overall depletion during the current period is mostly due to lower average sales volumes in the current period.

Using the unit-of-production method based on total estimated proved plus probable reserves, depletion for the three-month period ended September 30, 2018 was \$99,968 or \$22.11/boe compared to \$90,223 or \$22.28/boe during the same period last year. Higher overall depletion during the current period is mostly due to higher average sales volumes in the current period.

IMPAIRMENTS

There were no indicators of impairment identified at September 30, 2018.

EXPLORATION AND EVALUATION ASSETS

During the three and nine-month period ended September 30, 2018, the Corporation did not record any exploration and evaluation assets.

PROPERTY AND EQUIPMENT

During the three and nine-month period ended September 30, 2018, the Corporation did not incur any capital expenditures on its developed and producing properties.

DECOMMISSIONING EXPENSES

During the three and nine-month period ended September 30, 2018, the Corporation incurred \$1,406 and \$12,167 respectively (three and nine-month period ended September 30, 2017 - \$4,098 and \$5,129 respectively) in cash decommissioning costs at its Redwater, Alberta property.

SHARE CAPITAL

(a) Authorized

The authorized share capital of the Corporation consists of an unlimited number of voting common shares and an unlimited number of preferred shares.

(b) Issued

Common shares	Number of shares	Stated Value
Balance, December 31, 2017	121,234,854	\$ 15,922,585
Balance, September 30, 2018	121,234,854	\$ 15,922,585

SHARE-BASED COMPENSATION

Under the Corporation's share option plan, the Corporation may grant options to its directors, officers, employees and consultants up to a maximum of 10% of the issued and outstanding common shares at the time of the grant, with a maximum of 5% of the Corporation's issued and outstanding shares reserved for any one person on a yearly basis. The maximum option term is 10 years from the grant date with vesting terms set at the discretion of the board of directors.

In July 2013, share options were granted to directors and officers to acquire 900,000 common shares of the Corporation at an exercise price of \$0.10 per share. As at September 30, 2018, these share options expired unexercised.

In April 2014, share options were granted to directors and officers to acquire 2,600,000 common shares of the Corporation at an exercise price of \$0.05 per share. The options vest as to one-third immediately and one-third on each of the first and second anniversary dates.

In February 2015, share options were granted to directors and officers to acquire 5,000,000 common shares of the Corporation at an exercise price of \$0.05 per share. The options vest as to one-third immediately and one-third on each of the first and second anniversary dates.

The Corporation recorded share-based compensation expense of \$Nil during the three and nine months ended September 30, 2018 (\$Nil and \$4,725 during the three and nine months ended September 30, 2017 respectively) with a corresponding increase to contributed surplus.

NET LOSS AND COMPREHENSIVE LOSS, AND CASH FLOWS FROM OPERATING ACTIVITIES (\$)

	Three Months Ended Sep. 30 2018	Three Months Ended Sep. 30 2017	Nine Months Ended Sep. 30 2018	Nine Months Ended Sep. 30 2017
Net loss and comprehensive loss	(134,033)	(174,628)	(326,664)	(526,158)
Per share – basic and diluted	(0.00)	(0.00)	(0.00)	(0.00)
Net cash from (used in) operating activities	(1,701)	(87,423)	(9,048)	(48,838)

During the nine-month period ended September 30, 2018, the Corporation recorded a net loss and comprehensive loss of \$326,664 (September 30, 2017 - \$526,158). On a per share basis, this loss equates to \$0.00 per share (September 30, 2017 - \$0.00 per share).

During the three-month period ended September 30, 2018, the Corporation recorded a net loss and comprehensive loss of \$134,033 (September 30, 2017 - \$174,628). On a per share basis, this loss equates to \$0.00 per share (September 30, 2017 - \$0.00 per share).

SUPPLEMENT TO THE FINANCIAL STATEMENTS

The outstanding common shares and share options are summarized below (also see notes 10 and 11 to the unaudited condensed interim financial statements for three and nine month periods ended September 30, 2018):

	November 27, 2018	September 30, 2018
Common shares	121,234,854	121,234,854
Stock options	7,600,000	7,600,000

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2018, the Corporation had a working capital surplus of \$855,689 (December 31, 2017 - \$896,857), which included cash of \$929,898 (December 31, 2017 - \$919,199).

RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2018, professional fees of \$9,802 and \$14,568 respectively (three and nine months ended September 30, 2017 - \$6,734 and \$14,045 respectively) were incurred to a firm of which an officer and director of the Corporation is a partner and are included in general and administrative expenses. Of this amount, \$3,353 is included in accounts payable and accrued liabilities as at September 30, 2018 (September 30, 2017 - \$4,512).

The related party transactions are in the normal course of operations and have been initially measured at fair value, which is the amount of consideration established and agreed to by the related party and is similar to amounts negotiated independently with third parties.

MATERIAL TRANSACTIONS

On November 13, 2018, the Corporation entered into a definitive reorganization and investment agreement with Ian Atkinson, Calvin Yau, Chris Birchard and Gary McMurren (the "Initial Investor Group") which provides for: (i) a non-brokered private placement of up to an aggregate of \$20.0 million, provided that the Corporation shall be entitled to increase the size of the private placement to \$25.0 million as a result of excess demand (the "Private Placement"); (ii) the appointment of a new management team (the "New Management Team") and new Board of Directors (the "New Board") in connection with the completion of the Private Placement; and (iii) subject to regulatory approval, a rights offering (the "Rights Offering") to

holders of common shares (“Common Shares”) of Corporation (collectively, the “Recapitalization”). Completion of the Recapitalization is subject to customary closing conditions, including the approval of the TSX Venture Exchange (the “TSXV”).

The Corporation also entered into a definitive agreement (the “Acquisition Agreement”), pursuant to which the Corporation will acquire all of the limited partnership units of Gulf Pine Energy Partners, LP (“Gulf Pine”) for a total transaction value of USD\$24.4 million (comprised of cash consideration of USD\$3,425,000), including net debt (the “Transaction”). In connection with the Transaction, the Corporation has arranged for a USD\$13.5 million credit facility held with a reputable US independent commercial bank. The Transaction is subject to customary closing conditions, including the approval of the TSXV.

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

There are no contractual obligations or capital commitments.

BASIS OF BARREL OF OIL EQUIVALENT

For the purposes of calculating unit costs, natural gas has been converted to a barrel of oil equivalent (boe) using 6,000 cubic feet (“6 mcf”) equal to one barrel (6:1), unless otherwise stated. The boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method and does not represent a value equivalency; therefore boe may be misleading if used in isolation. This conversion conforms to the Canadian Securities Regulators’ National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Risk management overview

The Corporation is exposed to a variety of financial risks including credit risk, liquidity risk and market risk from its use of financial instruments. This note presents information about the Corporation’s exposure to each of the above risks, the Corporation’s objectives, policies and processes for measuring and managing risk, and the Corporation’s management of capital. Further quantitative disclosures are included throughout these interim financial statements. The Corporation employs risk management strategies and policies to ensure that any exposure to risk are in compliance with the Corporation’s business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Corporation’s risk management framework, the Corporation’s management has the responsibility to administer the strategies and monitor these risks.

(b) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly, which can be substantially observed or corroborated in the marketplace. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

Cash and cash equivalents are measured at fair value based on a Level 1 designation.

(c) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Cash and cash equivalents

The Corporation manages the credit exposure related to cash and cash equivalents by selecting financial institutions with high credit ratings and monitors all short-term deposits to ensure an adequate rate of return. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Accounts receivable

Substantially all of the Corporation's accounts receivable are due from marketers of the Corporation's petroleum and natural gas production, joint interest partners and government agencies, and are subject to normal industry credit risk.

Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. Management of the Corporation believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partners. The Corporation attempts to mitigate the risk from joint interest receivables by obtaining partner approval of significant capital expenditures prior to expenditure and, in certain circumstances, may elect to cash call a joint interest partner in advance of the work. However, the receivables are from participants in the oil and natural gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalation costs and the risk of unsuccessful drilling. The Corporation does not typically obtain collateral from oil and natural gas marketers or joint interest partners, however, the Corporation does have the ability to withhold production from joint interest partners in the event of non-payment.

The Corporation sells substantially all of its production to two marketers.

Receivables from petroleum and natural gas marketers are generally collected on the 25th day of the month following production and sale. Management of the Corporation believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Corporation has not experienced any collection issues with its marketers.

As at September 30, 2018, the Corporation's accounts receivable were comprised of the following:

	September 30, 2018
Petroleum and natural gas sales	\$ 69,769
Joint interest partners	370
GST	11,816
Other	679
	\$ 82,634
0 to 30 days	\$ 71,062
31 to 60 days	-
61 to 90 days	-
Greater than 90 days	11,572
	\$ 82,634

The Corporation considers amounts greater than 90 days past due and establishes an allowance for doubtful accounts based on management's assessment of collection. Therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. There were no receivables allowed for or written off during the nine month period ended September 30, 2018. The amount due from marketers at September 30, 2018 totaling \$69,769 was subsequently collected in full.

Deposits

Deposits are held by government agencies and as such, the exposure to credit risk is minimal.

d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due by balancing capital and operating expenditures with available cash flow. The Corporation's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic downturn.

The Corporation expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow, as well as future equity and debt financings.

Accounts payable and accrued liabilities

The Corporation's trade payable are normally due between 30 and 60 days from the date of invoice.

The Corporation's accounts payable and accrued liabilities as at September 30, 2018 are comprised of the following:

	September 30, 2018
General and administrative	\$ 19,034
Operating	221,357
Other	29,965
	\$ 270,356
0 to 30 days	\$ 102,792
31 to 60 days	14,087
61 to 90 days	2,095
Greater than 90 days	151,382
	\$ 270,356

A portion of the Corporation's accounts payable balances greater than 90 days are in dispute.

At September 30, 2018, the estimated liability relating to the fair value of the Corporation's common shares and reimbursement of estimated legal fees offered to Canadian Energy Exploration Inc. ("CEEI"), a shareholder who exercised dissent rights relating to the Corporation's acquisition of CEEI shares in 2012 included in accounts payable and accrued liabilities is \$29,965.

On March 4, 2016, the Corporation served the shareholder with a Formal Offer to Settle for 937,032 common shares of the Corporation and reimbursement of legal fees up to \$20,000. The shareholder did not respond and the Formal Offer expired on May 4, 2016.

(e) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Corporation's net income (loss) or the value of financial instruments and relate to risks that are largely outside the control of the Corporation. The objective of the Corporation is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Market risks are as follows:

Foreign currency risk

Prices for crude oil are determined in global markets and generally are denominated in United States dollars ("US\$"). Natural gas prices obtained by the Corporation will be influenced by both United States and Canadian demand and the corresponding North American supply, and by imports of liquefied natural gas. An increase (decrease) in the value of the Canadian dollar relative to the US\$ will decrease (increase) the revenues received from the sale of crude oil and natural gas commodities. The impact of such exchange rate fluctuations cannot be accurately quantified.

As at and for the nine-month period ended September 30, 2018, the Corporation had no forward foreign exchange contracts in place or monetary assets and liabilities denominated in foreign currency.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation does not have any debt hence there is no exposure to interest rate risk as at September 30, 2018.

Commodity price risk

The Corporation is exposed to fluctuations in commodity prices for crude oil, natural gas, and natural gas liquids. Commodity prices are affected by many factors including supply, North American and World demand, foreign exchange rates, weather patterns and geo-political influences. The Corporation currently does not use financial hedges to manage the Corporation's exposure to commodity price fluctuations and therefore has no related financial instruments.

A 10% change in the commodity prices, assuming that production remained constant at 2018 level, the Corporation's net loss would vary by \$74,047.

(f) Capital management

The Corporation's capital management policy is to maintain a strong capital base that optimizes the Corporation's ability to grow, maintain investor and creditor confidence and to provide a platform to create value for its shareholders. The Corporation maintains a flexible capital structure to maximize its ability to pursue petroleum and natural gas exploration and acquisition opportunities and sustain the future development of the business. The Corporation monitors the level of risk associated for each capital project to balance the proportion of debt and equity in its capital structure. The Corporation's officers are responsible for managing the Corporation's capital and do so through quarterly meetings and regular reviews of financial information. The Corporation's directors are responsible for overseeing this process. The Corporation considers its capital structure to include working capital.

The Corporation monitors its capital based on projected cash flow from operations and anticipated capital expenditures. In order to manage its capital structure, the Corporation prepares annual capital expenditure and operating budgets, which are updated as necessary. The annual and updated budgets are prepared by the Corporation's management and approved by or reviewed with the Corporation's Board of Directors. The budget results are regularly reviewed and updated as required.

In order to maintain or adjust the capital structure, the Corporation may issue shares, seek debt financing and adjust its capital spending to manage its current and projected capital structure. The Corporation's ability to raise additional debt or equity financing is impacted by external conditions, including future commodity prices and global economic conditions. The Corporation continually monitors business conditions including changes in economic conditions, the risk of its drilling programs, forecasted commodity prices, and potential corporate or asset acquisitions.

The Corporation's defined capital as at September 30, 2018 is as follows:

	September 30, 2018
Current assets	\$ 1,126,045
Current liabilities	(270,356)
Working capital	\$ 855,689

The Corporation is not required to meet any financial covenants and is not subject to any other externally imposed capital requirements. There has been no change to management's approach to managing capital during the nine month period ended September 30, 2018.

SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed interim financial statements as at and for the three and nine months ended September 30, 2018 have been prepared following the same accounting policies and methods of computation as the Corporation's audited annual financial statements for the year ended December 31, 2017, except as noted below:

IFRS 9 — Financial Instruments replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted.

As of January 1, 2018, the Corporation adopted all of the requirements of IFRS 9. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. On January 1, 2018, the Corporation determined the appropriate classification category and measurement of its financial statements and liabilities under IFRS 9 and compared each of their original classification and measurement under IAS 39 as shown below:

Financial instrument	Measurement category (IAS 39)	Measurement category (IFRS 9)
Cash and cash equivalents	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

The Corporation does not have any asset contracts and debt investments measured at FVOCI.

IFRS 9 has introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have any impact on the financial statements of the Corporation, however there are additional required disclosures which have been included in note 4.

IFRS 9 also contains a new hedge accounting model, however the Corporation does not apply hedge accounting to any of its risk management contracts. The adoption of IFRS 9 has been applied retrospectively and did not result in a change in the carrying value of any of the Corporation's financial instruments on the transition date.

IFRS 15 — Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or

after January 1, 2018 with early adoption permitted. The Corporation adopted the standard on January 1, 2018 using the modified retrospective approach. There were no changes to reported net earnings or retained earnings as a result of adopting IFRS 15. IFRS 15 requires additional disclosures to disclose disaggregated revenue by product type, refer to note 9.

In addition, as a result of the adoption of IFRS 15, the Corporation has revised the description of its accounting policy for revenue recognition as follows:

Revenue recognition

Revenue from the sale of natural gas, natural gas liquids, condensate and crude oil (collectively “products”) is recognized based on the consideration specified in contracts with customers and when the control of the products are transferred to the customers and collection is reasonably assured. The revenue is based on prices specified in the contract and the revenue is recognized when it transfers control of the product to a customer. The sales or transaction price of the Corporation’s products to customers are made pursuant to contracts based on prevailing commodity pricing and adjusted by quality and equalization adjustments. The revenue is collected on the 25th day of the month following production.

Future accounting pronouncement:

IFRS 16 — Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (“lessee”) and the supplier (“lessor”) and replaces the previous leases standard, IAS 17 Leases. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The Corporation is in the early stages of evaluating the impact of IFRS 16 on its financial statements and the extent of the impact has not yet been determined

CRITICAL ACCOUNTING ESTIMATES

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management’s most critical estimates, judgments and assumptions in preparation of the financial statements:

Identification of cash-generating units (CGUs)

The Corporation’s petroleum and natural gas assets are grouped into CGUs based on the ability of these assets to generate separately identifiable independent cash inflows. The classification of assets into CGUs requires significant judgment and interpretation. Management considers factors such as integration among assets, shared infrastructure, common sales points, geography and how management makes decisions about the Corporation’s operations.

Reserves

The Corporation's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under *National Instrument 51-101 - Standards of Disclosure for Petroleum and Gas Activities*. The reserve assessment was completed by an external independent reserve engineering firm for the years ended December 31, 2017 and 2016.

Oil and natural gas reserves are used in the calculation of depletion, and impairment and/or impairment reversal determinations. Reserve estimates are based on engineering data, estimated future prices and costs, expected future rates of production and the timing of future capital expenditures; all of which are subject to many uncertainties and estimations. The Corporation expects that, over time, its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, oil and gas production levels and reservoir performance and may also be affected by changes in commodity prices.

Recoverable value of exploration and evaluation assets, and property and equipment

Exploration and evaluation assets are inherently judgmental to value. The amounts for exploration and evaluation assets represent active exploration projects and investments. These amounts are recorded to profit or loss as exploration costs unless the determination process is not completed and there are no indications of impairment at the reporting date or commercial reserves are established. The outcome of ongoing exploration and evaluation activities and whether the carrying value of exploration and evaluation assets will ultimately be recovered is inherently uncertain and requires significant judgment and estimates.

Management performs impairment tests on the Corporation's property and equipment when indicators of impairment are present. The assessment of impairment indicators is subjective and considers the various internal and external factors such as the financial performance of individual CGUs, market capitalization and industry trends. In addition, the impairment assessment is impacted by how management determines the composition of CGUs. Management has grouped assets into CGUs based on several factors with a primary focus on assets whose cash inflows are independent. If impairment indicators are present an impairment test is required to be performed and the CGU is written down to its recoverable amount. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimate of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

Decommissioning provisions

The calculation of decommissioning provisions depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures.

Valuation of accounts receivable

The valuation of accounts receivable is based on management's best estimate of collectability and provisions for doubtful accounts.

Valuation of contingent liability

The valuation of the contingent liability relating to the dissenting shareholder is based on management's best estimate of the ultimate settlement.

Taxes

The amounts recorded for deferred taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently enacted or substantively enacted. They are also based

on estimates of the probability of the Corporation utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices and changes in legislation, tax rates and interpretations by taxation authorities. The availability of tax pools is subject to audit and interpretation by taxation authorities.

Share options and warrants

The amounts recorded relating to the fair value of share options and warrants issued are based on estimates of the future volatility of the Corporation's share price, market price of the Corporation's shares at the grant date, expected lives of the options and warrants, risk-free interest rate, forfeiture rate, expected dividends and other relevant assumptions.