

## **SILK ROAD ENERGY INC.**

### **FORM 51-102F1 MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2016**

*The following discussion and analysis should be read in conjunction with the financial statements of the Corporation for the year ended September 30, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the IFRS Interpretations Committee and in effect at September 30, 2016.*

#### **Date**

This management discussion & analysis ("MD&A") is dated January 27, 2017, and is in respect of the year ended September 30, 2016. This MD&A was prepared by management of Silk Road Energy Inc. ("Silk Road" or the "Corporation"), and was approved by the Board of Directors on January 30, 2017. All amounts are in Canadian dollars unless otherwise stated.

#### **Overall Performance**

Silk Road Energy Inc. ("Silk Road Energy" or the "Corporation") was incorporated under the Business Corporations Act (Alberta) on November 9, 2010 and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange ("Exchange"). On January 28, 2014, the Corporation entered into a formal acquisition agreement ("Acquisition Agreement") with Gold Note Resources Inc. ("Gold Note"), pursuant to which the Corporation has completed the purchase of certain oil production, oil and gas reserves, lands, leases and miscellaneous interests held by Gold Note in the Bashaw, Columbia and Thornbury areas of Alberta (the "Acquisition"). The Acquisition constitutes the Corporation's qualifying transaction (the "Qualifying Transaction") under the applicable policies of the Exchange.

Pursuant to the terms of the Acquisition Agreement, the Corporation purchased, on industry standard terms, certain non-operated petroleum and natural gas rights, oil and gas production, tangibles, oil and gas reserves, lands, leases and miscellaneous interests including seven (7) gross producing wells (the "Assets") located in the Bashaw, Columbia and Thornbury areas in Alberta, Canada for an aggregate purchase price of \$500,000 inclusive of applicable taxes and in Canadian funds, payable by way of 2,352,941 common shares of Silk Road ("Consideration Shares") at a deemed price of \$0.17 per Common Share and \$100,000 cash. The Consideration Shares are subject to the terms and conditions of an escrow agreement between Silk Road, Gold Note, and Olympia Trust Company dated January 24, 2014.

The completion of the Acquisition by the Corporation was approved by the board of director of the Corporation and by the TSXV as the Qualifying Transaction of the Corporation. As a result, the Corporation is no longer considered a Capital Pool Company as of January 29, 2014.

## Selected Business Highlights

On January 6, 2012, the Corporation completed its initial public offering (the “Offering”) of 6,042,500 common shares at a price of \$0.10 per share for gross proceeds of \$604,250. In connection with the Offering, the Corporation paid cash commissions of \$60,425 (10% of gross proceeds) and issued to the agent options to purchase 604,250 common shares at a price of \$0.10 per common share for a period of 24 months from closing.

The Corporation has also granted options to acquire an aggregate of 934,250 common shares, at an exercise price of \$0.10 per share, to the directors of the Corporation, which options will expire ten years from the date of grant. Subsequent to the issuance of the common shares pursuant to the Offering, the Corporation had 11,725,729 common shares issued and outstanding.

On January 27, 2015, the Corporation announced that the 2,352,941 common shares of Silk Road (“Consideration Shares”) issued to Gold Note at a deemed price of \$0.17 per common share in connection with the Acquisition were cancelled and returned to treasury effective January 27, 2015. The Consideration Shares were subject to the terms and conditions of a Form 5D Escrow Agreement – Surplus Security between Silk Road, Gold Note, and Computershare Trust Company of Canada (formally Olympia Trust Company) dated January 24, 2014 (the “Escrow Agreement”), and were cancelled in accordance with the Escrow Agreement as: (i) the Tax Debt (as defined in the Escrow Agreement) of Gold Note has not paid in full or elimination, and (ii) satisfactory confirmation has not been provided to the Exchange confirming the Canada Revenue Agency is fully satisfied respecting the Tax Debt. After giving effect to the cancellation of the Consideration Shares, the Corporation had 9,372,788 common shares issued and outstanding.

## Selected Financial Information

A summary of selected financial information is as follows:

	As at September 30, 2016	As at September 30, 2015	As at September 30, 2014
Total Assets	\$199,454	\$655,262	\$796,596
Total Liabilities	\$218,119	\$287,016	\$241,767
Total Shareholders’ Equity	\$(18,665)	\$368,246	\$554,829
	Year Ended 2016	Year Ended 2015	Year Ended 2014
Revenue	\$37,120	\$190,183	\$209,301
Net Loss	(\$386,911)	(\$456,538)	(\$245,519)
Loss per share – basic and Diluted	(\$0.032)	(\$0.043)	(\$0.031)

For the year ended September 30, 2015, the Corporation sold its Columbia assets and had no changes in accounting policy and declared no cash dividends. On January 29, 2014, the Corporation completed its Qualifying Transaction with the acquisition of certain oil and gas assets from Gold Note for cash consideration of \$100,000 and the issuance of 2,352,941 Consideration Shares. As of January 29, 2014 the Corporation was no longer classified as CPC. On January 27, 2015 the 2,352,941 Consideration Shares issued to Gold Note were cancelled in accordance with the Escrow Agreement. After giving effect to the cancellation of the Consideration Shares, the Corporation had 9,372,788 common shares issued and outstanding.

### **Additional Disclosure for Venture Corporations without Significant Revenue**

The following table sets forth a breakdown of material components of the general and administration costs of the Corporation for the year ended September 30, 2016 and 2015:

	Year ended September 30, 2016 (\$)	Year ended September 30, 2015 (\$)
Production revenues	37,120	190,183
Operating costs	42,933	95,223
Depletion, Impairment and Accretion expenses	39,964	114,277
Share-based compensation	0	269,955
General and administrative fee	341,134	594,567

### **Results of Operations**

As at September 30, 2016, the Corporation had production revenues of \$37,120 (2015 – \$190,183) and operating costs of \$42,933 (2015 - \$95,223) and the Corporation had a net loss of \$386,911 (2015 - \$456,538) and had general and administration fees of \$341,134 (2015 - \$594,567) and depletion, impairment and accretion expenses of \$39,964 (2015 - \$114,277) and share based compensation of \$0 (2015 - \$269,955).

### **Summary of Quarterly Results**

	Gross Revenue	Net Income/ (Loss)	Loss per Share	
			Basic	Diluted
Q4 ended September 30, 2016	\$(8,814)	\$(210,597)	\$(0.018)	\$(0.018)
Q3 ended June 30, 2016	\$5,047	\$(41,290)	\$(0.003)	\$(0.003)
Q2 ended March 31, 2016	\$29,275	\$(37,027)	\$(0.003)	\$(0.003)
Q1 ended December 31, 2015	\$11,612	\$(97,997)	\$(0.008)	\$(0.008)
Q4 ended September 30, 2015	\$33,559	\$(106,391)	\$(0.010)	\$(0.010)
Q3 ended June 30, 2015	\$37,868	\$(188,793)	\$(0.020)	\$(0.020)
Q2 ended March 31, 2015	\$51,427	\$(154,352)	\$(0.016)	\$(0.016)

Q1 ended December 31, 2014	\$67,329	\$(7,002)	\$(0.0001)	\$(0.0001)
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### **Liquidity**

As at September 30, 2016, the Corporation has working capital of \$32,248 (2015 - \$294,699) comprised of cash or cash equivalents, accounts receivable and accounts payable and accrued liabilities.

### **Related Party Transaction**

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and approved by the related parties. There were \$38,507 (2015 - \$4,672) of related party transactions incurred during the year ended September 30, 2016 and September 30, 2015. Remuneration of Directors and key management of the Corporation during the year ended September 30, 2016 and 2015:

	2016	2015
Share-based payment	\$ 0	\$269,955
Key management compensation	\$132,000	\$161,960

### **Oil & Gas Future Acquisitions and Mergers**

Management is currently evaluating a number of oil and gas projects in California and Texas.

### **Nature of Operations and going concern**

Silk Road Energy Inc. (the "Company") was incorporated under the laws of the Province of Alberta on November 9, 2010. The Company's principal business activity is the exploration, development and production of petroleum and natural gas assets in Alberta. The address of the registered head office is Suite 1900, 520 - 3<sup>rd</sup> Avenue SW, Calgary, AB T2P 0R3.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the extinguishment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due. The Company reported a net loss of \$386,911 and generated negative cash flow from operating activities of \$445,978 for the year ended September 30, 2016. The nature of development activities is that they are capital intensive and the nature of oil and gas properties is that the production will naturally decline over time. Internally generated cash flows may be insufficient to fund the type of development that would be necessary to maintain production over the intermediate to longer term. The Company's ability to continue as a going concern is dependent upon the ability to raise additional capital, the generation of positive cash flow, the maintenance of its existing reserve and production

base, the success of the development and exploration program and the continued support of its shareholders. There is no certainty that such events will occur and that sources of financing will be obtained on terms acceptable to management. Whether and when the Company can attain profitability and positive cash flows is also uncertain and as such the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. These uncertainties cast significant doubt about the Company's ability to continue as a going concern unless the Company receives additional capital, debt financing or significant proceeds from the sale of assets. The Company will continue to seek appropriate financing initiatives that benefit the Company and its shareholders as well as continue to review other opportunities for the sale or farm-out of existing resource interests. These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue as a going concern and therefore be required to realize its assets and liabilities in other than the normal course of business and potentially at amounts significantly different from those recorded in these financial statements.

### **Basis of Preparation**

#### **a) Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the IFRS Interpretations Committee ("IFRIC") and in effect at October 1, 2016.

The financial statements were authorized for issue by the Board of Directors on January 30, 2017.

#### **b) Basis of measurement**

These financial statements have been prepared on a historical cost basis except for share-based payment transactions and certain financial instruments which are measured at fair value.

#### **c) Functional and presentation currency**

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

#### **d) Use of estimates and judgements**

The preparation of the Company's financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting year. By their nature, these estimates are subject to measurement uncertainty and effect on financial statements or changes in such estimates in future years could be material. The estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to estimates are recognized in the year in which the estimate is revised.

In the process of applying the Company's accounting policies, management has made the following judgements, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements.

*Cash-generating-units ("CGUs") determination*

The determination of CGUs requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risk and materiality. The Company has determined that at September 30, 2016 it has two (September 30, 2015 – two) CGUs being Thornbury and Bashaw.

*Oil & gas reserves*

Oil and gas development and production properties are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with the Society of Petroleum Engineers rules and incorporating the estimated future cost of developing and extracting those reserves. Oil and gas reserves are also used to evaluate impairment of petroleum and natural gas interests. Commercial reserves are determined using estimates of oil and natural gas in place, recovery factors, discount rates and forward future prices. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. There are numerous uncertainties inherent in estimating oil and gas reserves. Estimating reserves is very complex, requiring many judgments based on geological, geophysical, engineering and economic data. These estimates may change, having either a positive or negative impact on the statement of operations and comprehensive loss as further information becomes available and as the economic environment changes.

*Depletion and depreciation*

Depletion of petroleum and natural gas interests is provided using the unit-of-production method and is based on production volumes (before royalties) in relation to total estimated gross proved and probable reserves as determined at year-end by the Company's independent engineers. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil. Calculations for depletion of petroleum and natural gas interests including production equipment and facilities are based on total capitalized costs plus estimated future development costs of proved and probable reserves less the estimated net realizable value of production equipment and facilities after the reserves are fully produced. Exploration and evaluation costs are excluded from depletion calculations.

The calculation of the unit-of-production rate of depletion could be impacted to the extent that actual production in the future is different from current forecast production. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:

- Changes in proved and probable reserves.
- Changes in estimates of future development costs.
- The effect on proved and probable reserves of differences between actual production as compared to forecasts as well as commodity price assumptions.
- Unforeseen operational issues.

#### *Impairment indicators*

The Company assesses its petroleum and natural gas (“P&NG”) interests for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets may not be recoverable. Such indicators include changes in the Company’s business plans, changes in commodity prices, evidence of physical damage and significant downward revisions to estimated recoverable volumes or increases in estimated future development expenditures. The assessment of impairment for P&NG interests involves comparing the carrying value of the CGU with the higher of value in use and fair value less costs to sell. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional supply-and-demand conditions for crude oil, natural gas and liquids.

#### *Decommissioning obligations*

Decommissioning obligations will be incurred by the Company at the end of the operating life of certain facilities and properties. Decommissioning obligations are estimated based on current legal and constructive requirements, technology, price levels and expected plans for remediation and are inflated to the date of decommissioning of the asset and discounted at a risk-free rate. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

#### *Financial instruments*

The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Company may use derivative instruments to manage commodity price, foreign currency and interest rate exposures. The fair values of these financial derivative instruments are determined using valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management’s assumptions rely on external observable market data including quoted commodity prices and volatility, interest rate yield curves and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and as such are subject to measurement uncertainty.