

# Samoth Oilfield Inc. Management's Discussion and Analysis

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## Advisories

This Management Discussion and Analysis (MD&A) should be read in conjunction with the audited financial statements and the notes contained therein of Samoth Oilfield Inc. ("Samoth" or the "Company") for the year ended October 31, 2016. The Company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Company trades on the Toronto Stock Exchange (Venture) under the symbol SCD. Additional regulatory information relating to Samoth can be found at the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com).

This MD&A was prepared effective February 9, 2017.

## Forward-Looking Information

Certain information in the MD&A, other than statements of historical fact, may include forward-looking information that involves various risks and uncertainties. Forward-looking statements may contain words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", and similar expressions and statements relating to matters that are not historical facts. These may include, without limitation, statements based on current expectations involving a number of risks and uncertainties related to pipeline and facilities construction and maintenance services associated with the oil and gas and industries and utility services and the domestic and worldwide supplies and commodity prices of oil and gas.

In particular, forward looking information includes material assumptions regarding expected production information, compliance with regulatory requirements, and future considerations regarding the Company's exploration and development programs. The forward-looking information is based on those assumptions as noted in each section, which are based, in turn, on the information available to management as at the date of this report. The reader is cautioned that material assumptions used in the preparation of such information may prove to be incorrect and should carefully consider the assumptions presented, even though at present, such assumptions are believed to be reasonable. Also, events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. Additional information regarding some of these risk factors may be found under "Risk factors". The Company assumes no obligation to update forward-looking information should circumstances or management's estimates or opinions change as a result of new information or future events. The reader is cautioned not to place undue reliance on this forward-looking information.

## Abbreviations

### Oil and Natural Gas:

bbl	barrels	mmcf	million cubic feet
mbbl	thousand barrels	mcf/d	thousand cubic feet per day
mmbbl	million barrels	mmcf/d	million cubic feet per day
bbl/d	barrels per day	GJ	gigajoule
API	American Petroleum Institute	bcf	billion cubic feet
mcf	thousand cubic feet	tcf	trillion cubic feet

### Other:

boe	barrel of oil equivalent converting six mcf of natural gas to one barrel of oil (6:1) unless otherwise stated.
boe/d	barrels of oil equivalent per day
bopd	barrels of oil per day
mboe	thousands of barrels of oil equivalent
GORR	non-convertible gross overriding royalty
NPV	net present value

## Overview

Samoth's producing assets are the Garrington and Willesden Green Properties.

**Garrington** - This gas property is located approximately 35 miles west of Red Deer, Alberta in Townships 36 to 37, Range 5 W5M where 3 wells are producing. The property consists of five zones, three wells of which are currently producing from the Edmonton Formation. Samoth owns working interests ranging from 70% to 82.5% in these producing wells. The underlying mineral rights of the producing wells are Crown and the wells are operated by Samoth.

**Willessden Green** - This gas property is located approximately 15 miles east of Rocky Mountain House, Alberta in Township 39, Ranges 5 to 6 W5M. The property consists of three gas wells, two of which are currently producing from the Edmonton Formation. Samoth owns working interests ranging from 43.04% and 42.74% in these producing wells. The underlying mineral rights are Crown and the wells are operated by Samoth.

Management believes that there are meaningful opportunities for future development of these assets once natural gas markets improve, however, the near term outlook remains uncertain.

## Outlook

Management believes the long term outlook for the natural gas industry in Alberta is positive, however the near term remains uncertain with 2017 expected to be very similar to 2016. Although natural gas prices have remained historically low, management is closely monitoring the industry. Future expansion plans through additional drilling or acquisitions depend largely on the price of natural gas. Should economic conditions and opportunity present themselves in a favorable manner, management has a plan in place to react quickly and prudently.

	Three months ended October 31, 2016	Three months ended October 31, 2015	Year ended October 31, 2016	Year ended October 31, 2015
Sales volumes (mcf)	-	-	-	6,402
Daily sales volumes (mcf/d)	-	-	-	17.5
Revenue	\$-	\$-	\$-	\$7,262
Royalties	\$-	\$776	\$-	\$14,952
Production cost (recovered)	\$(14,053)	\$(7,011)	\$57,374	\$48,913
Net income (loss)	\$43,201	\$(7,081)	\$44,108	\$(130,202)
Net income (loss) per share – basic and diluted	\$0.001	\$(0.000)	\$0.001	\$(0.001)
Total assets	\$1,080,691	\$1,068,953	\$1,080,691	\$1,068,953
Total liabilities	\$374,389	\$416,660	\$374,389	\$416,660
Deficit	\$(2,660,172)	\$(2,704,280)	\$(2,660,172)	\$(2,704,280)
Weighted average number of shares outstanding				
- basic	31,447,222	21,940,236	31,348,861	21,487,933
- diluted	32,401,976	21,940,236	32,267,222	21,487,933

## Quarterly Financial Summary

The following table summarizes the Company's quarterly results for the past eight fiscal quarters:

<b>\$000's Except for per share amounts</b>	<b>Oct. 31 2016</b>	<b>Jul. 31 2016</b>	<b>Apr. 30 2016</b>	<b>Jan. 31 2016</b>	<b>Oct. 31 2015</b>	<b>Jul. 31 2015</b>	<b>Apr. 30 2015</b>	<b>Jan. 31 2015</b>
Total revenues, net of royalties (recovered)	\$-	\$-	\$-	\$-	\$(0.8)	\$(6.0)	\$(5.1)	\$4.2
Net income (loss)	\$43.2	\$7.8	\$(12.5)	\$5.6	\$(7.1)	\$(25.6)	\$(66.5)	\$(31.0)
Net income (loss) per share: basic and diluted	\$0.001	\$0.000	\$(0.000)	\$0.000	\$(0.000)	\$(0.001)	\$(0.003)	\$(0.001)

## Results of Operations

<b>Field Level Cash Flow \$000's</b>	<b>Three months ended October 31, 2016</b>	<b>Three months ended October 31, 2015</b>	<b>Year ended October 31, 2016</b>	<b>Year ended October 31, 2015</b>
Natural gas revenue	\$-	\$-	\$-	\$7.3
Royalties	-	0.8	-	15.0
Production and transportation (recovered)	(7.4)	(7.0)	57.4	48.9
Field level cash flow	\$(7.4)	\$6.2	\$(57.4)	\$(56.6)

<b>Operating Netback (\$ / mcf) \$000's</b>	<b>Three months ended October 31, 2016</b>	<b>Three months ended October 31, 2015</b>	<b>Year ended October 31, 2016</b>	<b>Year ended October 31, 2015</b>
Natural gas revenue per mcf	\$-	\$-	\$-	\$1.1
Royalties	-	0.1	-	2.3
Production and transportation (recovered)	-	(1.1)	-	7.6
Netback (\$/mcf)	\$-	\$1.0	\$-	\$(8.8)

<b>Expense Analysis (\$'s)</b>	<b>Three months ended October 31, 2016</b>	<b>Three months ended October 31, 2015</b>	<b>Year ended October 31, 2016</b>	<b>Year ended October 31, 2015</b>
General and administrative	\$5,416	\$16,468	\$91,350	\$77,554
Production and transportation (recovered)	(7,448)	(7,008)	57,374	48,913
Finance expense	2,243	989	1,164	3,957
Impairment (recovered)	(3,067)	(1,097)	(4,469)	(4,387)
Depreciation	4,995	-	18,314	-

## Liquidity

As at October 31, 2016, the Company had working capital of \$573,311 (October 31, 2015 - \$503,873) and an accumulated deficit of \$2,660,172 (October 31, 2015 - \$2,704,280). During the year ended October 31, 2016, the Company had a net income of \$44,108 (year ended October 31, 2015 - net loss of \$130,202) and negative cash flows from operations of \$51,821 (year ended October 31, 2015 - negative cash flows of \$290,264). These considerations create a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern. The Company however, has no secured debt and does not expect to undertake any such obligations in the near future. The Company's ability to continue as a going concern is dependent upon cash flows from field operations and the sale of property and equipment that has previously been fully impaired

## Capital Resources and Commitments

Samoth does not have any commitments for capital expenditures and does not foresee any requirements of such in order to maintain its production capacity.

## Outstanding Share Data

### Authorized:

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares issuable in series. No preferred shares have currently been issued.

### Issued and outstanding:

	October 31, 2016		October 31, 2015	
	Amount	Number of Shares	Amount	Number of Shares
<b>Common shares</b>				
Balance, beginning of year	\$2,980,203	31,267,222	\$2,248,953	21,517,222
Stock options exercised	14,400	180,000	-	-
Warrants exercised	-	-	731,250	9,750,000
Balance, end of year	\$2,994,603	31,447,222	\$2,980,203	31,267,222

## Warrants

A summary of warrants activity in the year is as follows:

	Year ended October 31, 2016			Year ended October 31, 2015		
	Amount	Number of Warrants	Weighted Average Exercise Price	Amount	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, beginning of year	\$5,000	200,000	\$0.05	\$248,750	9,950,000	\$0.05
Expired warrants	(5,000)	(200,000)	\$0.05	-	-	-
Exercised	-	-	-	(243,750)	(9,750,000)	\$0.05
Outstanding warrants, end of year	\$-	-	-	\$5,000	200,000	\$0.05
Exercisable warrants, end of year	\$-	-	-	\$5,000	200,000	\$0.05

## Stock options

On November 6, 2013 the Company issued 1,000,000 common share purchase options, of which all have been granted to directors and officers. The options are exercisable at a price of \$0.055 per share for a period of ten years from the date of grant.

A summary of stock option activity in the year is as follows:

	Year ended October 31, 2016		Year ended October 31, 2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding options, beginning of year	2,071,889	\$0.08	2,071,889	\$0.08
Exercised	(180,000)	(0.06)	-	-
Outstanding options, end of year	1,891,889	\$0.08	2,071,889	\$0.08
Exercisable options, end of year	1,891,889	\$0.08	2,071,889	\$0.08

A summary of the options outstanding and exercisable at October 31, 2016 is as follows:

Exercise Price	Number of Options	Remaining Contractual Life (years)
\$0.10	1,071,889	5.2
\$0.06	820,000	7.0
\$0.08	1,891,889	

During the year ended October 31, 2016, share-based payments expense of \$nil was expensed (October 31, 2015 - \$nil).

## Income Taxes

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to loss before income tax. Income tax rates changed from 25.67% in 2015 to 27.00% in 2016 due to an increase in provincial income tax rates. These differences result from the following:

	Year ended October 31, 2016	Year ended October 31, 2015
Income (loss) for the year before income taxes	\$44,108	\$(130,202)
Combined federal and provincial statutory rate	27.00%	25.67%
Expected income tax expense (recovery)	11,909	(33,423)
Difference resulting from:		
Effect of difference in tax rates and rate changes	-	(52,923)
Non-deductible expenses	-	-
Change in unrecognized deferred tax assets	(11,909)	86,351
Income tax expense recorded	\$ -	\$ -

Deferred tax assets have not been recognized in respect of the following items:

	Year ended October 31, 2016	Year ended October 31, 2015
Deductible temporary differences	\$1,513,098	\$1,499,371
Tax losses	1,132,841	1,190,677
	\$2,645,939	\$2,690,048

At October 31, 2016, the Company had non-capital losses of \$1,132,841 (October 31, 2014 \$1,190,677) available to reduce future taxable income. The Company's tax losses expire between 2017 and 2036. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

### Off-Balance Sheet Arrangements

As at October 31, 2016, the Company had no off-balance sheet arrangements.

### Related Party Transactions

#### (a) Related party loans payable

On December 19, 2014, the related party loan payable of \$20,000 was fully repaid. The director's loan bore interest at 0% and was unsecured, due on demand with no set terms of repayment.

#### (b) Key management personnel compensation.

The Company has determined key management personnel to be the Chief Executive Officer and Chief Financial Officer and board of directors. Compensation paid to key management personnel was:

	October 31, 2016	October 31, 2015
Management compensation	\$15,000	\$15,000
Total	\$15,000	\$15,000

#### (c) Purchase of equipment

On December 15, 2015, the Company entered an agreement with a Company related due to common directors, to purchase certain mobile well site office and accommodation units, for aggregate cash consideration of \$419,559, of which \$400,000 was paid as a deposit as of October 31, 2015. The Company has also entered into an agreement to lease these units back to the vendor at market rates, for a lease term of eighteen months, with additional month to month rentals based on mutual agreement between the parties. During the year, the agreement was executed to purchase the above mentioned assets and has entered into a month to month rental agreement.

### Summary of Significant Accounting Policies

#### Statement of compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board

#### Basis of measurement

These accompanying financial statements have been prepared on the historical cost basis except for certain financial assets that are measured at fair value.

### *Estimation uncertainty*

The timely preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements as well as the reported amounts of revenues, expenses, and cash flows during the period. Actual results could differ from these estimates.

The calculation of decommissioning obligations includes estimates of the ultimate settlement amounts, inflation factors, discount rates and timing of settlement. The impact of future revisions to these assumptions on the financial statements of future periods could be material.

Share-based compensation is based on estimates of the expected future life of options granted, estimated forfeiture rate on options issued, and the future volatility of the underlying stock during the period.

Valuation of the warrants is based on estimates of the relative value of the common shares, expected future life of the warrants, and the future volatility of the underlying stock during the period.

The Company follows the asset/liability method for calculating deferred taxes. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction.

### *Financial instruments*

All financial assets are classified as fair value through profit or loss, available-for-sale, loans and receivables or held-to-maturity. All financial liabilities are classified as other financial liabilities or at fair value through profit or loss. All financial instruments are measured as fair value on initial recognition, with measurement in subsequent periods being dependent on the instrument's classification. Financial instruments classified at fair value through profit or loss are measured at fair value with changes in fair value recorded in the statement of loss. Financial assets classified as available-for-sale are measured at fair value with changes in fair value recognized in other comprehensive income. Financial instruments that are classified as held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. The Company has classified marketable securities as fair value through profit or loss. Cash and cash equivalents and trade and other receivable are classified as loans and receivables and trade and other payables and related party loan payable as other financial liabilities. The Company accounts for the purchase or sale of a financial asset at the trade date which is the date the Company commits to buy or sell the financial asset. Transaction costs related to financial assets or financial liabilities other than those classified as fair value through profit or loss will be capitalized to the initial carrying value of the financial asset or liability.

### *Equipment*

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost consists of the purchase price, plus costs directly attributable to putting the asset in use and where applicable, an estimate of the costs of removing the item and site restoration.

Depreciation is calculated over the depreciable amount, which is the cost of asset less its residual value. Depreciation is not calculated for assets under construction until work is completed and the assets are put into use. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of the assets as follows:

Well site accommodations - 10 years

The useful lives, depreciation methods and residual values are reviewed at each reporting date for consistency with the expected pattern of economic benefits from the assets.

### *Share capital*

The Company records proceeds from share issuances net of share issue costs. Proceeds, and issue costs, from unit placements are allocated between shares and warrants issued according to their relative fair value. The fair value of the warrant is determined using the Black-Scholes Option Pricing Model, while the fair value of the share is based on the market value at the time of issuance. The relative value of the share component is credited to share capital and the relative value of the warrant component is credited to warrants. Upon exercise of the warrants, consideration paid by the warrant holder together with the amount previously recognized in warrants is recorded as an increase to share capital. For those warrants that expire, the recorded value is transferred from reserve for warrants to contributed surplus.

### *Share-based payments*

Share-based payments are accounted for using the fair value method whereby compensation expense is recognized according to a graded schedule over the vesting period, with an offsetting entry to contributed surplus. Forfeitures are estimated using a forfeiture rate to estimate the expected percentage of options granted that will be forfeited. The fair value of each option granted is estimated on the date of the grant using the Black-Scholes Stock Option Pricing Model. Upon exercise of the stock option, the consideration received together with amounts previously recognized in contributed surplus are recorded as an increase in share capital. No adjustment is made for stock options which expire unexercised.

### *Decommissioning liabilities*

The Company's decommissioning liabilities are the result of its ownership of oil and natural gas assets, including wells and facilities. The total obligation includes the estimated costs to reclaim and abandon these wells and facilities and the estimated timing of those abandonments when a legal or constructive liability exists and a reasonable estimate can be made. The present value of the Company's decommissioning liabilities is recorded in the period a well or related asset is drilled, constructed or acquired.

Present value is estimated using the estimated future cash outflows to abandon the asset at the risk-free rate of interest. The discounted obligation is initially capitalized as part of the carrying amount of the underlying asset and a corresponding liability is recognized. The increase in the asset is amortized or depleted using the unit of production method. The liability is accreted against income until it is settled or the asset is sold and is recorded as financing expense. The obligations are reviewed regularly by management based upon current regulations, costs, technologies and industry standards.

Decommissioning expenses incurred are charged against the decommissioning liability to the extent of the liability recorded.

### *Provisions*

A provision is recognized when; the Company has a present legal or constructive obligation because of a past event, it is probable that a future outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as a financing expense.

### *Impairment*

#### *Financial assets*

Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency of payments;
- it is probable that the borrower will enter bankruptcy or financial re-organization; or
- significant or prolonged decline in the market value of investments below its cost.

For certain categories of financial assets, such as accounts receivable, the Company assesses for evidence of impairment at the specific asset level.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss or credited against the allowance account.

#### *Non-financial assets*

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes. For the purposes of assessing impairment, assets are grouped into CGUs. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. CGUs are the smallest identifiable group of assets that generate cash flows that are independent of the cash flows of other groups of assets. The determination of CGUs was based on management's judgments in regard to the geographic location of operating divisions, product groups and shared infrastructure.

#### *Leases*

Agreements under which the Company is obligated to make payments to owners in return for the rights to use an asset are accounted for as leases. The Company accounts for its leases as operating leases as the terms of the leases do not transfer substantially all the risks and rewards of ownership. As such, the Company charges their costs to expenses on a straight-line basis over the term of the lease.

#### *(m) Revenue recognition*

Revenue from the sale of petroleum and natural gas is recognized when title passes to the customer based on volumes delivered to customers at contractual delivery points and rates. The Company's revenue is reported after deducting royalty payments to governments and other mineral interest owners. The costs associated with the delivery, including operating, transportation and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

Revenue from rental contracts is recognized in the period in which the rental services have been provided and collectability is reasonably assured. Revenue from rental contracts is measured at fair value net of trade discounts. The Company recognizes revenue when it can be reliably measured, and it is probable that future economic benefits will flow to the Company.

Interest income is recognized as earned.

### *Interest in joint ventures*

A joint venture can take the form of a jointly controlled entity, jointly controlled operation or jointly controlled asset. All joint ventures involve a contractual arrangement that establishes joint control. The Company's joint ventures consist solely of jointly controlled assets.

A jointly controlled asset involves contractual arrangements with other participants to engage in joint activities that do not give rise to a jointly controlled entity. These arrangements involve joint control of one or more of the assets acquired or contributed for the purpose of the joint venture. Each venture receives a share of the output from the assets, and bears an agreed upon share of the expenses rather than deriving returns from an interest in a separate entity. The financial statements of the Company include its share of the assets in such joint ventures, together with its share of the liabilities, revenues and expenses arising jointly or otherwise from those operations. All such amounts are measured in accordance with the terms of each arrangement, which are usually in proportion to the Company's interest in the jointly controlled asset.

### *Finance expense*

Finance expense includes the accretion of the discount on its decommissioning obligations.

### *Income taxes*

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The Company follows the asset/liability method for calculating deferred taxes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### *Per share amounts*

Basic income (loss) per common share is computed by dividing the net income (loss) for the year by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share amounts reflect the potential dilution that could occur if stock options or warrants to purchase common shares were exercised and converted to common shares. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or warrants that are in the money are assumed to be used to purchase common shares of the Company at the average market price during the period. When the Company is in a net loss position, the conversion of convertible securities is considered to be anti-dilutive.

## *New accounting standards*

### *IFRS 2 - Share-based Payments*

These amendments clarify the definition of vesting conditions and separately define a performance condition and a service condition. The amendments are effective for a share-based payment transaction for which the grant date was on or after July 1, 2014. There was no material impact on the financial statements as a result of adopting this standard.

### *IAS 24 - Related Party Disclosures*

These amendments clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments only affected disclosure and were effective for annual periods beginning on or after July 1, 2014. There was no material impact on the financial statements as a result of adopting this standard.

### *Accounting standards issued but not yet adopted*

The Company has reviewed the following new and revised accounting pronouncements that have been issued but are not yet effective as of the date of authorization of these financial statements. The Company plans to apply the revised standards on their effective date.

*IFRS 9*, "Financial instruments" will replace *IAS 39* "Financial Instruments: Recognition and Measurement". The new standard includes guidance on recognition and derecognition of financial assets and financial liabilities, extensive changes to *IAS 39*'s guidance on the classification and measurement of financial assets, impairment and hedge accounting. *IFRS 9* is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

*IFRS 11*, "Joint Arrangements" - these amendments provide guidance on the accounting for acquisitions of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combinations accounting in *IFRS 3* 'Business Combinations' and other IFRSs except where those principles conflict with *IFRS 11*. Acquisitions of interests in joint ventures are not impacted by this new guidance. The Company's management does not expect this new standard to have a material impact on its financial statements. The amendments are effective for reporting periods beginning on or after January 1, 2016.

*IFRS 15*, "Revenue from Contracts with Customers" was issued May 2014, which will replace *IAS 11*, Construction Contracts, *IAS 18* Revenue Recognition, *IFRIC 13*, Customer Loyalty Programmes, *IFRIC 15*, Agreements for the Construction of Real Estates, *IFRIC 18*, Transfers of Assets from Customers, and *SIC-31*, Revenue-Barter Transactions involving Advertising Services. *IFRS 15* provides a single, principles-based five-step model that will apply to all the contracts with customers with limited exceptions, including, but not limited to, leases within the scope of *IFRS 9*, *IFRS 10*, Consolidated Financial Statements and *IFRS 11*, Joint Arrangements. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. *IFRS 15* is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company has not yet begun the process of evaluating the impact of this standard on its financial statements.

*IFRS 16*, "Leases" - in January 2016, the IASB issued a new standard on leases. *IFRS 16 - Leases* will require lessees to recognize assets and liabilities for most leases under a single accounting model for which all leases will be accounted for, with certain exemptions. For lessors, *IFRS 16* is expected to have little change from

existing accounting standards (IAS 17 - Leases). IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided the new revenue standard, IFRS 15 has been applied or is applied at the same date as IFRS 16. The Company's management has yet to assess the impact of IFRS 16 on its financial position or results of operations.

## **Risk Management**

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate fair value due to the short term nature of these items. The fair value of related party loan receivable and related party loan payable approximate carrying value as they are due on demand.

### *Risks associated with financial assets and liabilities:*

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

#### *Credit risk*

The Company is exposed to credit risk which is the risk that a counterparty will fail to perform an obligation or settle a liability. Virtually all of the Company's accounts receivable are due from joint venture partners in the oil and gas industry. The Company generally extends unsecured credit to these parties and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company's maximum exposure to credit risk on the sale of petroleum and natural gas production is approximately two months of production which is \$nil.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company's financial liabilities are comprised of trade and other payables. As at October 31, 2016, all trade and other payables are due within twelve months or less of the reporting date. The Company manages its risk of not meeting its financial obligations through management of its capital structure and annual budgeting of its revenues, expenditures and cash flows.

#### *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net loss or the value of financial instruments. These risks are generally outside the control of the Company. The objective of the Company is to mitigate market risk exposures within acceptable limits, while maximizing returns.

#### *Foreign exchange rate risk*

The Company is exposed to fluctuations in the exchange rate between the Canadian dollar and the US dollar. Crude oil and natural gas prices are referenced to U.S. dollar denominated prices while the majority of the Company's expenses are denominated in Canadian dollars. As at October 31, 2016 and October 31, 2015, the Company had no financial instruments denominated in foreign currencies, no forward foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies.

#### *Commodity price risk*

The Company is exposed to commodity price movements as part of its normal oil and gas operations. Oil and natural gas prices are impacted by global supply and demand, as well as political and other forces. Prices continue to be volatile and can undergo significant changes in relatively short time periods.

Management continuously monitors commodity prices and initiates instruments to manage its exposure to these risks when it deems necessary. The Company did not enter into any fixed forward contracts or derivative financial instruments during the years ended October 31, 2016 or October 31, 2015 and has no outstanding fixed forward contracts or derivative financial instruments as at October 31, 2016 or as at October 31, 2015.

## **Capital Management**

The Company's capital consists of equity. The Company has no bank debt. The Company's objectives in managing its capital are to maintain adequate levels of funding to support its operations; to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk; to perform development activities on its petroleum and natural gas projects; and to seek out and acquire new projects of merit. Funds are secured through debt financing or equity capital. There can be no assurance that the Company will be able to obtain sufficient capital in the case of operating cash deficits. The Company may, from time to time, invest its capital in short-term, liquid and highly rated financial instruments held with major financial institutions or in marketable securities. The Company does not maintain a formal investing strategy. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust the capital structure, the Company may from time to time, issue shares, obtain debt financing and adjust its capital spending. There were no changes in the Company's approach to capital management from the previous year. The Company does not have any externally imposed capital restrictions.

## **Segmented Disclosure**

The Corporation has one operating segment; oil and gas exploration and production. At October 31, 2016 and October 31, 2015 all of the Corporation's assets were held in Canada.

## **Non-IFRS Measures**

In addition to using financial measures prescribed by IFRS, certain non-IFRS measures are also used in this MD&A. These non-IFRS measures are "operating netback" and "field level cash flow." Operating netback is a benchmark used in the natural gas industry to measure the contribution of natural gas sales subsequent to the deduction of royalties, and production and transportation costs. Field level cash flow refers to oil and gas sales revenue less royalties and less operating expenses. It does not include other income or any of the other company expenses that are used to calculate net loss. Operating netback and field level cash flow are not measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. Management believes that operating netback and field level cash flow are appropriate measures in evaluating the Company's performance. Operating netback and field level cash flow should not be construed as an alternative to net income or cash flow from operating activity (as determined under IFRS) as an indicator of financial performance or to cash flow from operating activities (as determined under IFRS) as a measure of liquidity and cash flow. The Company's method of calculating operating netback and field level cash flow may differ from the methods used by other issuers and, accordingly, the Company's operating netback and field level cash flow may not be comparable to similar measures used by other issuers. These non-IFRS performance measures, operating netback and field level cash flow, do not have any standardized meaning prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other companies. Accordingly, they are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.