

**Samoth Oilfield Inc.**  
**Management's Discussion and Analysis**

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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, 2020. 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 26, 2021.

**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
mdbl	thousand barrels	mcf/d	thousand cubic feet per day
mdbl	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

The outbreak of COVID-19 pandemic has negatively impacted economic conditions around the world. The decrease in oil demand, combined with other macro-economic factors, has resulted in significantly lower oil and liquids prices further driving economic uncertainty. Natural gas prices have also been volatile but in recent months the forward pricing curve has been strengthening.

Management believes the long term outlook for the natural gas industry in Alberta is positive, however the near term remains uncertain. 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, 2020	Three months ended October 31, 2019	Year ended October 31, 2020	Year ended October 31, 2019
Sales volumes (mcf)	4,656	1,963	20,165	22,171
Daily sales volumes (mcf/d)	51	21	55	61
Revenue	\$8,196	\$(226)	\$34,117	\$17,032
Royalties	\$(1,016)	\$(3,764)	\$4,383	\$750
Production cost	\$44,087	\$54,562	\$152,611	\$145,002
Net loss	(94,315)	\$(278,644)	\$(227,309)	\$(865,029)
Net loss per share – basic and diluted	\$(0.003)	\$(0.008)	\$(0.007)	\$(0.026)
Total assets	\$328,224	\$514,681	\$328,224	\$514,681
Total liabilities	\$431,635	\$390,783	\$431,635	\$390,783
Deficit	\$(4,048,384)	\$(3,821,075)	\$(4,048,384)	\$(3,821,075)
Weighted average number of shares outstanding – basic	32,967,222	32,977,222	32,967,222	32,904,756
– diluted	33,126,465	32,977,222	33,126,465	33,550,936

### Quarterly Financial Summary

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

\$000's Except for per share amounts	Oct. 31 2020	Jul. 31 2020	Apr. 30 2020	Jan. 31 2020	Oct. 31 2019	Jul. 31 2019	Apr. 30 2019	Jan. 31 2019
Total revenues, net of royalties	\$8.6	\$6.5	\$3.7	\$10.9	\$3.4	\$8.6	\$4.9	\$0.9
Net loss	\$(94.4)	\$(54.2)	\$(59.4)	\$(19.3)	\$(278.6)	\$(56.8)	\$(145.4)	\$(384.2)
Net loss per share: basic and diluted	\$(0.003)	\$(0.002)	\$(0.002)	\$(0.001)	\$(0.007)	\$(0.002)	\$(0.005)	\$(0.012)

### Results of Operations

Field Level Cash Flow \$000's	Three months ended October 31, 2020	Three months ended October 31, 2019	Year ended October 31, 2020	Year ended October 31, 2019
Natural gas revenue (recovered)	\$8.2	\$(0.2)	\$34.1	\$18.6
Royalties (recovered)	(1.0)	(3.8)	4.4	(0.8)
Production and transportation	44.1	54.6	152.6	145.0
Field level cash flow	\$(34.9)	\$(51.0)	\$(122.9)	\$(127.2)

<b>Operating Netback (\$ / mcf) \$000's</b>	<b>Three months ended October 31, 2020</b>	<b>Three months ended October 31, 2019</b>	<b>Year ended October 31, 2020</b>	<b>Year ended October 31, 2019</b>
Natural gas revenue (recovered) per mcf	\$1.8	\$(0.10)	\$1.7	\$0.7
Royalties (recovered)	(0.2)	(1.9)	0.2	-
Production and transportation	9.5	27.8	7.6	6.7
<b>Netback (\$/mcf)</b>	<b>\$(7.5)</b>	<b>\$(26.00)</b>	<b>\$(6.1)</b>	<b>\$(6.00)</b>

<b>Expense Analysis (\$'s)</b>	<b>Three months ended October 31, 2020</b>	<b>Three months ended October 31, 2019</b>	<b>Year ended October 31, 2020</b>	<b>Year ended October 31, 2019</b>
General and administrative	\$26,058	\$41,585	\$71,918	\$433,012
Production and transportation	44,087	50,602	152,611	145,002
Finance expense	4,125	3,530	4,125	3,530
Impairment	28,389	37,235	28,389	37,235
Share-based compensation	-	155,000	-	277,000

### Liquidity

As at October 31, 2020, the Company had working capital of \$151,664 (October 31, 2019 - \$406,459) and an accumulated deficit of \$4,048,384 (October 31, 2019 - \$3,821,075). During the year ended October 31, 2020 the Company had a net loss of \$227,309 (October 31, 2019 - \$865,029) and negative cash flows from operations of \$211,265 (year ended October 31, 2019 - cash flows of \$67,400). These considerations in conjunction with the risk management disclosures in Note 13 create a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The Company 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, the sale of property and equipment that has previously been fully impaired and its ability to raise funds through equity offerings or the exercise of outstanding stock options.

### 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.

### Prepays and deposits

	<b>October 31, 2020</b>	<b>October 31, 2019</b>
Prepays	\$13,966	\$15,492
Deposits	15,000	-
	<b>\$28,966</b>	<b>\$15,492</b>

## Share Capital

### 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, 2020		October 31, 2019	
	Amount	Number of Shares	Amount	Number of Shares
<b>Common shares</b>				
Balance, beginning of year	\$3,287,398	32,967,222	\$2,994,603	31,447,222
Stock options exercised	-	-	76,500	1,520,000
Contributed surplus allocated on exercise of stock options	-	-	216,295	-
<b>Balance, end of year</b>	<b>\$3,287,398</b>	<b>32,967,222</b>	<b>\$3,287,398</b>	<b>32,967,222</b>

## Share-based Compensation

Pursuant to the Company's stock option plan, the Company may reserve a maximum of 10% of the total issued and outstanding listed common shares with the exercise price and term to be determined by the Board of Directors on the date of issuance of the options. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants or employees will not exceed 2% of the issued and outstanding common shares.

On December 21, 2018, the Company issued 1,874,833 common share purchase options, granted to directors and officers of the Company. The options are exercisable at a price of \$0.05 per share for a period of 5 years from the date of grant.

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

	Year ended October 31, 2020		Year ended October 31, 2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding options, beginning of year	3,266,722	\$0.07	3,411,889	\$0.07
Granted	-	-	1,874,833	\$0.05
Cancelled	-	-	(500,000)	\$0.05
Exercised	-	-	(1,520,000)	\$(0.05)
<b>Outstanding options, end of year</b>	<b>3,266,722</b>	<b>\$0.07</b>	<b>3,266,722</b>	<b>\$0.07</b>
<b>Exercisable options, end of year</b>	<b>3,266,722</b>	<b>\$0.07</b>	<b>3,266,722</b>	<b>\$0.07</b>

For the year ended October 31, 2019, the following assumptions were used in the Black-Scholes calculation:

A risk free-rate of 1.96%, volatility of 192.7%, expected life of five years, dividend yield of 0% and forfeiture rate of 0%.

A summary of the options outstanding and exercisable at October 31, 2020 is as follows:

Exercise Price	Number of Options	Remaining Contractual Life (years)
\$0.10	1,071,889	1.2
\$0.055	720,000	3.0
\$0.05	1,020,000	3.1
\$0.08	3,266,722	2.5

A summary of the options outstanding and exercisable at October 31, 2019 is as follows::

Exercise Price	Number of Options	Remaining Contractual Life (years)
\$0.10	1,071,889	2.2
\$0.055	720,000	4.0
\$0.05	1,020,000	4.1
\$0.08	3,266,722	3.5

During the year ended October 31, 2020, share-based payments expense of \$nil was recognized (year ended October 31, 2019 - \$277,000).

#### Off-Balance Sheet Arrangements

As at October 31, 2020, the Company had no off-balance sheet arrangements.

#### 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 income before income tax. These differences result from the following:

	Year ended October 31, 2020	Year ended October 31, 2019
Loss for the year before income taxes	\$ (227,309)	\$ (865,029)
Combined federal and provincial statutory rate	24.33%	27.00%
Expected income tax recovery	(55,000)	(234,000)
Difference resulting from:		
Effect of difference in tax rates and rate changes	343,000	-
Non-deductible expenses	-	75,000
Change in unrecognized deferred tax assets	(288,000)	159,000
<b>Income taxes</b>	<b>\$ -</b>	<b>\$ -</b>

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

	Year ended October 31, 2020	Year ended October 31, 2019
Property and equipment	\$ 78,000	\$ 336,788
Decommissioning liabilities	72,000	76,000
Non-capital tax losses	454,000	480,001
Valuation allowance	(604,000)	(892,000)
	<b>\$ -</b>	<b>\$ -</b>

At October 31, 2020, the Company had non-capital losses of \$1,974,850 (October 31, 2019 \$1,777,055) available to reduce future taxable income. The Company's tax losses expire between 2029 and 2040. 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.

## Related Party Transactions

### (a) 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 expense for key management personnel was:

	October 31, 2020	October 31, 2019
Management compensation	\$-	\$302,827
Stock-based compensation	-	277,000
<b>Total</b>	<b>\$-</b>	<b>\$579,827</b>

### (b) Sale of equipment

On November 2, 2018, the Company entered into an agreement with a Company related due to common directors, to sell certain mobile wellsite office and accommodation units for consideration of \$344,638 plus GST for a total amount of \$361,870. The company received full payment in cash on November 2, 2018. The exchange amount was agreed to by the parties and resulted in a gain of \$3,330 to the Company.

## Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except as otherwise noted.

### Jointly controlled operations and jointly controlled assets

Some of the Company's petroleum and natural gas properties are jointly controlled assets. The financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

### Property and equipment

Property and equipment consist of oil and gas assets, computer equipment, office equipment, furniture and vehicle. Oil and gas properties are stated at cost, less any accumulated depletion, depreciation and accumulated impairment losses. These properties and equipment include oil and natural gas development and production assets, which represent costs incurred in developing oil and natural gas reserves and maintaining or enhancing production from such reserves. Future decommissioning liabilities related to producing assets are also capitalized to property and equipment.

Oil and gas properties are not depreciated until commercial production commences. The net carrying value of oil and gas assets is depleted using the unit-of-production method based on estimated proven and probable oil and gas reserves. The depletion calculation takes into account the estimated future development costs of the recognized proved plus probable reserves.

Proven and probable reserves are determined by independent engineers in accordance with Canadian National Instrument 51-101. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates of proved and probable reserves used in prior periods that affect the unit-of-production calculations do not give rise to prior year adjustments and are dealt with on a prospective basis.

Values of oil and gas properties are reviewed for impairment at the end of each reporting period for any indication that the carrying value of the asset may not be recoverable. If any such indication of impairment exists, an estimate of the recoverable amount is calculated. Individual assets are grouped, for the purposes of impairment testing, together into the smallest group of assets or group of assets that generates cash flows that are largely independent of the cash flows of other assets or group of assets (the cash generating unit or CGU). A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written-down to its recoverable amount.

The recoverable amount is the greater of the value in use or fair value less costs to sell. Fair value is the amount the asset could be sold for in an arm's length transaction. The value in use is the present value of the estimated future cash flows of the asset from its continued use. The fair value less costs to sell considers the continued development of a property and market transactions in a valuation model. The Company uses the present value of the cash generating unit's estimated future cash flows from both proved and probable reserves in its fair value model. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

Equipment was measured at cost less accumulated depreciation and accumulated impairment losses. Cost consisted 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.

### **Decommissioning liabilities**

The Company provides for future decommissioning liabilities related to its oil and gas operating activities based on current legislation, constructive obligation and industry operating practices. Decommissioning liabilities are recognized as a liability in the period in which they are incurred. Decommissioning liabilities are measured as the present value of management's best estimate of the expenditure required to settle the asset retirement liability at the reporting date using a discount rate. When the liability is initially recognized, an amount equivalent to the provision is capitalized to the cost of the related oil and gas asset. This cost is amortized to expense through depletion and depreciation over the life of the related asset on a unit-of-production basis. Subsequent to initial measurement, the liability is adjusted at the end of each period to reflect the passage of time and changes in the estimated future costs underlying the liability. The increase in the balance due to the passage of time is charged to the statement of net and comprehensive loss whereas increases or decreases due to changes in the estimated future costs are capitalized. Actual costs incurred upon settlement of the decommissioning liability are charged against the liability or expense if greater than the liability.

### **Cash and cash equivalents**

Cash and cash equivalents include balances with banks and other short-term highly liquid investments that can be readily converted to cash without penalty.

### **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### **Financial instruments**

Financial instruments are comprised of cash, trade and other receivables and trade and other payables. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Company has transferred all risks and rewards of ownership.

#### **a. Financial assets**

Classification and Measurement of Financial Assets

The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. There are three measurement categories into which the Company classified its financial assets:

- Amortized Cost: Includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest;

- Fair value through other comprehensive income ("FVOCI"): Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest; or

- Fair Value through Profit and Loss ("FVTPL"): Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss.

This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that meets the amortized cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. On initial recognition of an equity investment that is not held-for-trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. There is no subsequent reclassification of fair value changes to earnings following the derecognition of the investment. However, dividends that reflect a return on investment continue to be recognized in net earnings. This election is made on an investment-by-investment basis. At initial recognition, the Company measures a financial asset at its fair value and, in the case of a financial asset not at FVTPL, including transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are recorded as an expense in net earnings. Financial assets are reclassified subsequent to their initial recognition only if the business model for managing those financial assets changes. The affected financial assets will be reclassified on the first day of the first reporting period following the change in the business model. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

#### Impairment of Financial Assets

The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, The Company measures loss allowances at an amount equal to lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

#### **b. Financial liabilities**

Financial liabilities include trade and other payables. Financial liabilities are classified as current liabilities if payment is due within twelve months; otherwise, they are presented as non-current liabilities.

#### Classification and Measurement of Financial Liabilities

A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable. Financial liabilities at FVTPL (other than financial liabilities designated at FVTPL) are measured at fair value with changes in fair value, along with any interest expense, recognized in net earnings. Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in net earnings. Any gain or loss on derecognition is also recognized in net earnings. A financial liability is derecognized when the obligation is

discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

### **Finance expense**

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

### **Revenue recognition**

Revenue associated with the sale of the Company's crude oil and natural gas is recognized when control passes from the Company to its customer. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism and it is probable that the economic benefits will flow to the Company.

Interest income is recognized when earned.

### **Share-based compensation plan**

The Company has issued options to acquire common shares to directors, officers and employees of the Company. These options are accounted for using the fair-value method which estimates the value of the options at the date of the grant using the Black Scholes option pricing model. The fair value thus established is recognized as compensation expense over the vesting period of the options using the graded method of amortization, with an equivalent increase to contributed surplus. A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest. At the time the stock options are exercised, the fair value of the associated share-based compensation is reclassified from contributed surplus to share capital.

At each reporting date, the Company revises its estimates of the number of options expected to vest. It recognized the impact of the revision of original estimates, if any, in the statement of net and comprehensive loss, with a corresponding adjustment to equity.

### **Income taxes**

Deferred income tax is determined on a non-discounted basis using the liability method and tax rates and laws that have been enacted or substantially enacted at the reporting date. Provision is made for temporary differences at the reporting date between the tax basis of the assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized to the extent that it is probable that the future taxable profit will be available against which the deductible 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.

### **Earnings (loss) per share**

Earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments using the treasury stock method. The Company's potentially dilutive common shares include debentures convertible into common shares and stock options granted to employees and directors. It is assumed that any proceeds obtained on the exercise of any options or warrants would be used to purchase common shares at the average price during the period.

## **Leases**

*Policy applicable from November 1, 2019*

Lessee

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Leases are recognized as a Right-of Use ("ROU") asset and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. These payments are discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments are allocated between the liability and finance costs. The finance cost is charged to net earnings over the lease term. The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company.

When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in the Statements of Loss and Comprehensive Loss if the carrying amount of the ROU asset has been reduced to zero.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability, any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located less any lease payments made at or before the commencement date. The ROU asset is depreciated, on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain re-measurements of the lease liability and impairment losses. Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the Statements of Loss and Comprehensive Loss on a straight-line basis over the lease term. A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will re-measure the lease liability using the Company's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net loss that reflects the proportionate decrease in scope.

ROU assets are assessed for impairment on initial recognition and subsequently on an annual basis, at a minimum. ROU assets subject to leases that have become onerous in nature are adjusted by the amount of any provision for onerous leases.

*Policy applicable before November 1, 2019*

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.

## **New accounting standards adopted in 2019:**

### **Leases**

In January 2016, the IASB issued IFRS 16, "Leases", which specifies how to recognize, measure, present and disclose leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration.

The Company adopted IFRS 16 effective November 1, 2019 using the modified retrospective approach.

On initial adoption, the Company elected to use the following practical expedients permitted under the standard:

- a) Account for leases with a remaining term of less than twelve months as short-term leases; and
- b) Account for lease payments as an expense and not recognize a ROU asset if the underlying asset is of low dollar value.

There were no transitional or subsequent adjustments required in the financial statements as the Company does not have any leases that fall under the scope of the new standard.

## **New accounting standards issued but not yet adopted**

### *Amendments to IFRS 3 Business Combinations*

Amendments to IFRS 3, Business Combinations assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. It amends the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income, and it excludes returns in the form of lower costs and other economic benefits.

These amendments are effective for reporting periods beginning on or after January 1, 2020. The Company has not early adopted this standard and does not believe it will have a material impact when adopted.

### *Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)*

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

These amendments are effective for reporting periods beginning on or after January 1, 2022. The Company has not early adopted this standard and does not believe it will have a material impact when adopted.

### *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date.

These amendments are effective for reporting periods beginning on or after January 1, 2023. The Company has not early adopted this standard and does not believe it will have a material impact when adopted.

## **Risk Management**

The carrying amounts of cash, trade and other receivables and trade and other payables approximate fair value due to the short term nature of these items.

### *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. The balance of trade and other receivables are unsecured and due from one counterparty; therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. During the year ended October 31, 2020, the Company recognized credit losses of \$nil (2019 - \$6,250).

#### *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, 2020, all trade and other payables are due within twelve months or less of the reporting date and the expected cash flows associated with them are equal to their carrying values. 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 all the Company's expenses are denominated in Canadian dollars. As at October 31, 2020 and October 31, 2019, 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 as at or during the years ended October 31, 2020 or 2019.

#### *Pandemics, Natural Disasters Or Other Unanticipated Events*

The occurrence of pandemics, such as the recent outbreak of the novel coronavirus COVID-19; natural disasters, such as hurricanes, floods or earthquakes; or other unanticipated events, such as cyberattacks, fires, terrorist attacks or railway blockades, in any of the areas in which the Company, its customers or its suppliers operate could cause interruptions in the Company's operations. In addition, pandemics, natural disasters or other unanticipated events could negatively impact the demand for, and price of, oil and natural gas which in turn could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. In addition, and without limitation of the foregoing, the Company is also exposed to risks relating to public health emergencies and infectious diseases, including the COVID-19 pandemic, and related government responses, which has had a negative impact on global financial conditions and could have a

material and adverse effect on the Company's business, financial condition and results of operations. The Company cannot accurately predict the impact COVID-19 will have on its ability to execute its business plans in response to government public health efforts to contain COVID-19 and to obtain financing or third parties' ability to meet their contractual obligations with the Company, including due to uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected jurisdictions; and future demand for commodities. In the event that the prevalence of COVID-19 continues to increase (or fears in respect of COVID-19 continue to increase), governments may increase regulations and restrictions regarding the flow of labour or products, and travel bans, and the Company's operations and service providers, and ability to carry out its ongoing business plan, could be adversely affected.

### **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, 2020 and October 31, 2019 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.