

**GEOROX RESOURCES INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEARS AND QUARTERS ENDED ENDED**  
**DECEMBER 31, 2016 AND 2015**

**GENERAL**

The following Management Discussion and Analysis ("MD&A") prepared as of December 31, 2016, and dated April 11, 2017, is provided for the purpose of reviewing the results for the quarter ended December 31, 2016 and is intended to assist in the full understanding of the trends and significant changes in the global financial condition and results of operations as at December 31, 2016 and year ended December 31, 2015. This discussion and analysis of the performance, financial condition and future prospects of Georox Resources Inc. (the "**Corporation**" or "**Georox**") should be read in conjunction with the Corporation's audited financial statements for the year ended December 31, 2016 together with the notes thereto.

Petroleum and natural gas reserves and volumes are converted to a common unit of measure on a basis of six thousand cubic feet (Mcf) of gas to one barrel (bbl) of oil. BOEs may be misleading, particularly if used in isolation. The forgoing conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms to the Canadian Securities Regulators' National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities. For the purpose of this MD&A, oil is defined to include the following commodities: light and medium oil and primary heavy oil.

Amounts are shown in Canadian dollars unless otherwise stated. All production volumes disclosed herein are sales volumes.

**BASIS OF PRESENTATION**

Georox prepares its financial statements in accordance with International Financial Reporting Standards ("**IFRS**").

***Forward Looking Statements***

*This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts that address activities, events or developments that Georox expects are forward looking statements. The Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions which the Corporation is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Management's assessment of future plans and operations, capital expenditure requirements, methods of financing and the ability to fund financial liabilities, changes in royalty rates and the timing and impact of accounting policies may constitute forward-looking statements under applicable laws and necessarily involve risks including and without limitation, risks associated with oil and gas exploration, development and exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations imprecision of reserve estimates, environmental risks, competition from, other producers, the inability to fully realize the benefits of acquisitions, delays resulting from, or inability to obtain, required regulatory approvals and ability to access sufficient capital from internal and external sources. Readers and investors are cautioned that such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include market prices, exploration and exploitation successes, continued availability of capital and financing and general economic, market or business conditions.*

*Although the Corporation believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realised. The use of any of the words "anticipate", "believe", "continue", "estimate", "expect", "may", "will", "forecast", "project", "plan", "should" and similar expressions are intended to identify forward-looking information. These statements are subject to certain risks and uncertainties*

and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The risks associated with these forward-looking statements include, but are not limited to, the following:

- *Fluctuations in oil production levels;*
- *Volatility in market prices for gas, liquids and oil*
- *Uncertainties associated with estimating reserves;*
- *Well production and decline rates;*
- *Changes in the general economic conditions in Canada and Worldwide;*
- *The effects of weather conditions;*
- *The ability of Georox to obtain financing including equity and debt, and*
- *Actions taken and policies by governmental or regulatory authorities including changes to tax laws, incentive programs, royalty calculations and environmental regulations.*

Additional information related to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com), and on the Corporation's website at [www.georoxresources.com](http://www.georoxresources.com).

### **General Risk Factors**

The continuation of the Corporation as a going concern is dependent upon the ability of the Corporation to obtain necessary equity or other financing to continue exploring its oil and gas properties and to attain sufficient profitable operations.

### **DESCRIPTION OF BUSINESS**

Georox is a Canadian natural resources corporation presently engaged in the acquisition, exploration and development of oil and gas properties in Western Canada.

The Corporation was incorporated on April 14, 2003, under the *Canada Business Corporations Act* ("CBCA"). The Corporation's shares initially began trading on the TSX Venture Exchange under the trading symbol "ORR" on March 29, 2005 and on the Frankfurt Exchange under the trading symbol "OF6" on June 21, 2006. On August 25, 2008, the Corporation's name was changed to "Georox Resources Inc." and the TSX Venture Exchange trading symbol changed to "GXR".

### **OVERALL PERFORMANCE**

Revenues from operations were \$590,226 for December Q4, 2016 with royalty expenses of \$48,118. The Corporation recorded a loss for the fourth quarter of (\$676,442), 2016 as compared to a loss of (\$1,914,980) for Q4, 2015. The loss for the quarter arose partly because of a reduction of production volumes and third party facility charges resulting in increased operating costs. In addition the increase in the loss was due to an increase in financing expense arising out of the revaluation of the warrants issued to the lender and increased interest occurring due to the triggering of the default clause of 19% interest. The increase in revenue in Q4 over Q3, 2016 is due to the volatility in commodity prices and higher production than in Q3. The Corporation's average selling price for Q4 was \$43 Cdn per boe. Operationally, repairs and maintenance have been severely hampered because of wet weather, the resultant muddy roads and the freezing of the flowline at Pouce Coupe due to the extreme winter weather in Q3 and Q4, 2016. At Silverdale the operator did well optimization and upgraded pumps in anticipation of water disposal tie ins to occur in 2017. At Red Earth most of the wells were tied into solution gas from the gas production of the Red Earth property. However 2016 was a year of huge challenges due to the continued low oil prices and reduced capital spending which affected volume production.

Working capital for the year ended December 31, 2016 was (\$6,513,005) as compared to the year ended December 31, 2015 of (\$5,826,095). The Corporation's default in all the loan covenants led to the triggering of the default clause increasing interest to 19% to the outstanding loan balance.

**NON – IFRS MEASURES**

The financial data presented herein has been prepared in accordance with IFRS. The Corporation has also used certain measures of financial reporting that are commonly used as benchmarks within the oil and natural gas production industry in the following MD&A discussion. The measures are widely accepted measures of performance and value within the industry, and are used by investors and analysts to compare and evaluate oil and natural gas exploration and producing entities. Most notably, these measures include “operating netback”, “funds flow from (used in) operations”.

Operating netback is a benchmark used in the crude oil and natural gas industry to measure the contribution of oil and natural gas sales and is calculated by deducting royalties and operating expenses (production, severance and transportation expenses) from revenues. Management utilizes this measure to analyze operating performance.

Funds from operations is cash flow from operating activities before changes in non-cash working capital and certain other items, and is used to analyze operations, performance and liquidity. The Corporation considers funds flow from (used in) operations a key measure as it demonstrates the Corporation’s ability to generate the cash flow necessary to fund future growth through capital investment and to repay debt. The Corporation’s calculation of funds flow from operations may not be comparable to that reported by other companies.

These measures are not defined under IFRS and should not be considered in isolation or as an alternative to conventional IFRS measures. These measures and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of another entity. When these measures are used, they are defined as “Non IFRS” and should be given careful consideration by the reader as non-IFRS financial measures do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

**NOTE REGARDING BOES AND MCFs**

In this MD&A, barrels of oil equivalent (“boe”) are derived by converting gas to oil in the ratio of six thousand cubic feet (“Mcf”) of gas to one barrel (“bbl”) of oil (6 Mcf: 1 bbl) and one thousand cubic feet of gas equivalent (“Mcfes”) are derived by converting oil to gas in the ratio of one bbl of oil to six Mcf (1 bbl: 6 Mcf). Boes and Mcfes may be misleading, particularly if used in isolation. A boe conversion of 6 Mcf of natural gas to 1 bbl of oil, or a Mcfe conversion ratio of 1 bbl of oil to 6 Mcf of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. Given that the value ratio based on the current price of oil as compared to natural gas is significantly different from the energy equivalency of 6:1 utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

**SELECTED FINANCIAL INFORMATION**

Quarter Ended	December 31, 2016 \$	December 31, 2015 \$
Petroleum Revenues (Gross)	1,885,044	\$ 2,415,664
Funds From Operations	(644,188)	633,257
Net Income/(Loss) from Operations	(1,725,137)	(2,876,637)
Per share – Basic and diluted	(0.10)	( 0.07)
Total Assets	7,627,893	8,529,723
Total Current liabilities	(6,857,313)	(6,069,819)
Weighted average common shares after consolidation	19,463,267	13,584,645

	Dec 31, 2016 \$	Sept 30, 2016 \$	June 30, 2016 \$	Mar 31, 2016 \$	Dec 31, 2015 \$	Sept 30, 2015 \$	June 30, 2015 \$	Mar 31, 2015 \$
Revenue	590,226	485,219	474,244	335,355	444,876	560,119	854,584	556,085
Net Profit/(Loss)	(676,442)	(309,426)	(368,072)	(371,197)	(1,914,980)	(221,380)	(325,577)	(424,702)
Net Profit (Loss) per Share	(0.03)	(0.01)	(0.02)	(0.01)	(0.06)	(0.01)	(0.01)	(0.01)

Over the past eight quarters, the Corporations's oil and gas sales have fluctuated due to changes in production, movement in CDN\$ WTI benchmark price and the oil differentials. The fluctuation was also due to a decrease in production due to natural declines and lack of capital expenditure. Net loss has also fluctuated due to depletion, impairment, share based compensation and administrative expenses.

### Netback

Total production and sales for the three months ended December 31, 2016 and 2015 was 11,188 and 11,631 boes, with a production decrease in 2016 of 443 boes in Q4. Average netback for the three months in Q4 and Q3 2016 were \$17 and \$14 respectively. The overall netback per boe was \$13 in 2016 as compared to \$25 in 2015. Operating netback declined in comparison to the prior year and is a direct result of the significant decrease in commodity prices in the Cdn\$ WTI benchmark price and a reduction in volume production due to a lack of capital expenditure.

### Royalties

Total royalties are the combination of royalties paid on crown lands, royalties paid on freehold lands, and gross overriding royalties. However, the overall corporate royalty rates under the Alberta Royalty Framework ("ARF") are sensitive to both commodity prices and production levels. Therefore royalty rates and royalty under ARF will fluctuate with commodity prices, well production rates, production decline of existing wells and performance and locations of new wells drilled. Royalty expense for Q4 was \$4.30 per boe in 2016 as compared to Q4 \$1.77 per boe in 2015. The average rate of royalty expense per boe in 2016 and 2015 were \$2.91 and \$2.97 with no significant change.

In 2016, the provincial government of Alberta announced the Modernized Royalty Framework ("MRF") that came into effect on January 1, 2017. The MRF will result in the modernization and simplification of the royalty structure with changes to the royalty framework for wells drilled after the effective date. No changes will be made to the royalty structure of wells drilled prior to January 1, 2017 for a ten year period. In addition, wells drilled prior to January 1, 2017 can early opt in to the MRF as long as the well represents additional capital and it can be demonstrated that the well would not have been drilled otherwise in 2016. Georox continues to assess the impact of the changes to the royalty structure and the Corporation expects that the MRF will not have a significant impact on its operations.

### Operating Cost

All activities associated with operating the wells and facilities are included in the operating expenses. They include such items as gathering, processing and treating, compression, hauling, lifting, treating and production storage. The average operating cost per boe generated expenses for Q4 of 2016 is \$31 as compared to Q4 of 2015 of \$72 per boe. The average overall cost for the years 2016 and 2015 per boe were \$28 and \$10 respectively. In 2016 the average operating cost increased due to higher expenditure made for repairs and maintenance and general well servicing and water disposal. Additional expenses incurred due to chemical squeeze, hot oil usage and the tie ins of the wells to solution gas. Operating costs tended to fluctuate from month to month depending on the amount of well servicing required to maintain production levels. Management continues to monitor operating costs to minimize expenses where possible. Operation expenses per boe are impacted by production volumes.

### Transportation Costs

Transportation cost represents 16 % of total revenue in Q4 and Q3 of 2016 and on a per boe basis it was \$8.14 as compared to \$7.65 per boe in Q3 of 2016. The overall average of 16% and 15% represent the cost increase as a percentage of sales for the years 2016 and 2015. The increase in cost in 2016 is largely due to higher volume of fluids being transported overall with some fixed costs remaining the same.

Transportation costs are incurred to move marketable crude oil to selling points. Transportation costs included clean oil trucking and hauling, treating and processing fees, gathering and transmission and compression fees. Changes have been made and there has been a small reduction in trucking costs due to system modifications and up grades in the facilities. The transportation costs are dependent on a variety of factors such as the method of transportation, the distances covered, the rates charged by the carriers, quantities shipped, cost of fuel, the type of service offered, as well as ownership of the transportation facilities.

### **General and Administrative**

The general and administrative cost for Q4 and Q3, 2016 are \$158,278 and \$110,464. In Q4, 2016 the cost was higher due to increase in staff consulting, office expenses including rent, salaries and computer software. The rest of the cost reflects the cost of managing the Corporation's properties and associated activities and includes , office rent, legal, transfer agent fees, reserve evaluation fees, , audit and accounting and other professional fees. Georox continually directs significant efforts to maintaining or reducing its controllable costs. Administrative costs represent 25% of sales in 2016 as compared to 32% of sales in 2015. The increase in 2015 was due to the large uncollectible amount that was written off. In Q4 and Q3, 2016 administrative costs per boe were \$14 and \$11.00. In Q4, 2016 administrative costs were higher due to more consultants being hired to resolve issues of the waterflood and other engineering problems.

### **Stock Based Compensation**

Stock based compensation costs are non-cash charges which reflect the estimated value of stock options granted to officers, employees and consultants. The fair value of all stock options granted is recorded as a charge to operations over the period from the grant date to the vesting date of the option. During the year ended December 31, 2016, 1,000,000 (December 31, 2015 – nil) options were granted to directors of the Corporation. All of the options expire in 5 years from the grant date. The 1,000,000 options granted in 2016 vest ¼ immediately, ¼ on April 7, 2017, ¼ on October 7, 2017 and ¼ on April 7, 2018.

During the year ended December 31, 2016, stock-based compensation of \$43,474 (December 31, 2015 - \$9,823) was recorded relating to stock options which vested during the current year.

### **Depletion, Depreciation and Impairment**

Impairment is estimated based on the higher of fair value less costs to sell and value in use. The value in use is derived using the forecasted cash flows related to both proved and probable reserves, with escalating prices and future development costs as estimated in Sproule's report. The recoverable amounts of the CGUS are estimated based on the discount rates of 15%.

On a per boe basis, the rate of depletion, depreciation and impairment ("DDA") was at an average of \$28 per boe in Q4 as compared to \$22 per boe in Q3, 2016. The Corporation used proved and probable reserves under IFRS for the calculation of DDA.

### **Decommissioning Liabilities**

The Corporation estimates the total inflation-adjusted undiscounted amount of cash flow required to settle its asset retirement obligations, before salvage proceeds, at December 31, 2016 to be \$1,563,881 (December 31, 2015 - \$1,603,621). The fair value of the decommissioning liability was calculated using the risk free rates ranging from 0.51% to 2.21% and an inflation factor of 2.0% (December 31, 2015 - 0.48% to 2.04% and 2.0% respectively). Settlement of the obligations will be funded from general corporate funds at the time of retirement. As at December 31, 2016, no funds have been set aside to settle these obligations (December 31, 2015 - \$nil).

## **LIQUIDITY AND CAPITAL RESOURCES**

The financial statements have been prepared on a going concern basis which assumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Corporation are dependent upon its ability to continue to raise adequate financing in the future.

### **Liquidity risk**

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its liabilities when due. As at December 31, 2016, the Corporation does not have sufficient cash equivalent to settle its trade and other payables of \$1,741,306. The Corporation's working capital deficiency at December 31, 2016 was \$6,513,005 and (December 31, 2015 – \$5,826,095). All of the Corporation's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms and are scheduled for payment within one year. Currently, the Corporation is not in compliance with its covenants of its lenders. The Corporation has made an application to do a waterflood program on its Red Earth property and the consultation process is underway. If successful, production can increase. . There are some risks associated with waterflood programs and the Corporation will be weighing all the technical issues prior to proceeding if and when the funds are obtained or become available. During the year ended December 31, 2016, the Corporation closed the private placement of 7,698,333 for aggregate proceeds of \$461,900 at a price of \$0.06 per Unit. Each Unit consisted of one common share and one Common Share purchase warrant. Each Warrant is exercisable at a price of \$0.12 per Common Share for a period of one year. All securities in the Private Placement will be subject to a four month hold period from closing. Agents were paid \$4,800 in finders fees in connection with the Private Placement. The fair value of the 7,698,333 warrants, \$214,963 was determined using the Black-Scholes option pricing model using the following assumptions: Risk-free rate 0.51%- 0.62%; Expected life of 1 year, expected volatility of 159% - 166%.

### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's cash and cash equivalents are exposed to minimal interest rate risk.

The Corporation continues to assess additional petroleum and natural gas projects and plans to raise additional debt or equity amounts as needed to fund development opportunities and acquisitions and to maintain sufficient working capital to meet administrative expenditures.

The Corporation considers its capital structure to be working capital. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Corporation, is reasonable. There were no changes in the Corporation's approach to capital management during the year ended December 31, 2016.

### **Credit Facilities**

The Corporation obtained mezzanine financing in 2014 for its projects and the primary use of capital was to finance the purchase of the Red Earth property. The Corporation restructured and consolidated its credit facilities February 16, 2016. The Corporation's mezzanine financier (the "Lender"), consolidated the Corporation's Senior Lender Facility with the Mezzanine Financing (the "Amended Credit Facility") for a total amended credit facility of \$4,513,421. The Amended Credit Facility has a maturity date of April 30, 2018 and an interest rate of 10% per annum. In the event of default, the interest rate increases to 19% per annum. Repayment is interest only until April 30, 2016 at which time principal repayments of \$25,000 per month commence. Principal repayments increase to:

- \$50,000 per month commencing on the later of:
  - October 31, 2016; and,
  - A pre-determined West Texas Intermediate Crude ("WTI") price threshold for the first 30 days for a consecutive period which price of WTI Crude exceeds US\$45/barrel.
- \$75,000 per month commencing on the later of:
  - April 30, 2017; and,
  - A pre-determined WTI price threshold for the first 30 days for a consecutive period during which the WTI crude exceeds US\$55/barrel.

The Amended Credit Facility is secured by a promissory note for \$3,407,000, a \$25,000,000 fixed and floating charge debenture, a general security agreement on the assets of the Corporation and a \$4,000,000

debenture from the Corporation providing a security interest in all present and after-acquired personal property, fixed charges on all the oil and gas assets and a floating charge over all other present and after-acquired real property.

The amendments to the Mezzanine Financing were a substantial modification of terms. As such, the existing Mezzanine Financing was extinguished at its carrying value and the Amended Credit Facility was recognized as a new liability at fair value. The difference between the carrying value of the original debt and the fair value of the modified debt was recorded as a gain on extinguishment of credit facility in the amount of \$14,137 in the statement of loss and comprehensive loss.

#### *Participation fee*

Per the terms of the Amended Credit Facility, the Lender is entitled to a participation fee on the 2017 and 2018 net revenues (defined as total revenues less royalties) up to a cumulative amount of \$500,000. If the Amended Credit Facility is fully repaid by March 31, 2017, the 2018 Participation fee will be cancelled.

#### *Covenants*

The Corporation is subject to the following covenants under the Amended Credit Facility:

- A 1.0:1.0 current ratio;
- A Secured Debt to Trailing Cash Flow at or below:
  - 8.0:1.0 during the quarter ended June 30, 2016;
  - 6.0:1.0 during the quarter ended September 30, 2016
  - 4.0:1.0 during the quarter ended December 31, 2016; and,
  - 3.0:1.0 during the quarter ended March 31, 2017 and thereafter.
- A corporate Licensee Liability Rating (“LLR”) of 1.5 or greater; and,
- Maintain monthly sales production of 140 boe/day commencing April 30, 2016.

At December 31, 2016 and 2015, the Corporation was in breach of all the covenants except for maintaining an LLR of 1.5 or greater. As a result of the breach of covenants, the Corporation accrued interest at 19% from May 2016 to December 2016 amounting to \$278,588 (December 31, 2015 - \$116,830). The Corporation is in breach of principal repayment covenants. The lender has not made demand on the Amended Credit Facility.

#### *Warrants*

Pursuant to the terms of the Amended Credit Facility, the Corporation granted to the lender 1,000,000 Common Share purchase warrants with a term to expiry of 1 year and an exercise price of \$0.05 per Common Share (the “New Warrants”). The terms of the New Warrants include:

- provisions that provide for a cashless exercise by the lender;
- typical adjustment provisions to adjust the number of the New Warrants and the exercise price in the event of any share consolidation, recapitalization, reclassification, or similar transaction or reorganization of share capital; and,
- provisions allowing exercise in the event of any change in control, business combination or other transaction involving the Corporation.

The warrants issued pursuant to the June 9, 2015 amendment to the Mezzanine Financing were cancelled upon the issuance of the New Warrants.

The New Warrants contain a cashless exercise provision. As such, the New Warrants are considered a derivative liability and are required to be fair-valued at each reporting period.

The following table summarized the accounting for the Mezzanine Financing:

	Liability		Derivative liability		Total
Balance, December 31, 2014	\$	-	\$	-	\$ -
Additions		3,225,821		74,179	3,300,000
Accretion		74,179		-	74,179
Derivative gain		-		(70,658)	(70,658)
Addition of unpaid interest		32,023		-	32,023
<b>Balance, December 31, 2015</b>	<b>\$</b>	<b>3,332,023</b>	<b>\$</b>	<b>3,521</b>	<b>\$ 3,335,544</b>
Revaluation of derivative at February 16, 2016		-		10,593	10,593
Extinguishment of original credit facility		(3,332,023)		(14,114)	(3,346,137)
Amended credit facility		4,465,394		48,027	4,513,421
Additions to credit facility		17,027		-	17,027
Principal repayment		(25,000)		-	(25,000)
Unpaid interest added to credit facility		77,006		-	77,006
Accretion		136,636		-	136,636
Revaluation of derivative		-		(18,246)	(18,246)
<b>Balance, December 31, 2016</b>	<b>\$</b>	<b>4,671,063</b>	<b>\$</b>	<b>29,781</b>	<b>\$ 4,700,844</b>

The accretion, interest and revaluation of derivative are charged to finance expense in the statement of loss and comprehensive loss.

The derivative financial liability was measured at fair value using the Black-Scholes valuation model, with the change to the fair value being recorded in finance expense as a gain on the derivative revaluation.

The global credit market crisis, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions have caused significant volatility in commodity prices. Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over supply and demand due to the current state of world economies, the ongoing global conflict and credit and liquidity concerns. This has resulted in an extremely limited ability to execute capital market transactions particularly for junior resources issuers.

#### Going concern

The Financial Statements and this MD&A have been prepared on a going concern basis, which implies the Corporation will continue to realize its assets and discharge its liabilities in the normal course of business. The Corporation generated a net loss of (\$676,442) for Q4, 2016 as compared to (\$309,426) in Q3, 2016. As of December 31, 2016, the Corporation had a working capital deficiency of \$6,513,005 (December 31, 2015 – \$5,826,095), and an accumulated deficit of \$13,528,035 at December 31, 2016 (December 31, 2015 – \$11,788,873). As such, there is material uncertainty related to these conditions that may cast significant doubt on the Corporation's ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. The continuation of the Corporation as a going concern is dependent upon the ability of the Corporation to obtain necessary equity or other financing to continue exploring its oil and gas properties, and/or to attain sufficient profitable operations. The ability of the Corporation to be successful in obtaining financing cannot be predicted at the present time. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Corporation be unable to continue as a going concern.

**OUTSTANDING SHARES****Share capital**

As of May 2, 2016, the Company consolidated its shares on a one to three basis pursuant to a special resolution passed by shareholders on April 30, 2016. All references to common shares, per share amounts, warrants, and options for all periods presented have been retroactively restated to reflect this consolidation.

- (a) Authorized  
Unlimited number of common shares
- (b) Issued

	2016		2015	
	<i>Number of Shares</i>	<i>Amount</i>	<i>Number of Shares</i>	<i>Amount</i>
Balance, beginning of year	15,275,562	\$ 9,864,297	11,865,702	\$ 9,648,089
Shares issued, net of warrant value	7,698,333	246,937	2,496,667	97,397
Shares issued, settlement of debt	-	-	913,193	136,976
Share issue costs		(4,800)		(18,165)
<b>Balance, end of quarter</b>	<b>22,973,895</b>	<b>\$ 10,106,434</b>	15,275,562	\$ 9,864,297

## (c) Stock Options

During the year ended December 31, 2016, 1,000,000 (December 31, 2015 – nil) options were granted to directors of the Corporation. All of the options expire in 5 years from the grant date. The 1,000,000 options granted in 2016 vest ¼ immediately, ¼ on April 7, 2017, ¼ on October 7, 2017 and ¼ on April 7, 2018. The fair value of the options granted of \$89,260 was determined using the Black-Scholes option pricing model.

A summary of the Corporation's option plan as of December 31, 2016 and December 31, 2015 and changes during the years are presented as follows:

	2016		2015	
	<i>Number of options</i>	<i>Weighted average exercise price (\$/share)</i>	<i>Number of options</i>	<i>Weighted average exercise price (\$/share)</i>
Balance, beginning of year	358,333	0.36	491,667	0.36
Granted	1,000,000	0.10	-	-
Expired	(158,333)	0.45	(133,333)	0.54
<b>Balance, end of year</b>	<b>1,200,000</b>	<b>0.14</b>	358,333	0.36

During the year ended December 31, 2016, stock-based compensation of \$43,474 (2015 - \$9,823) was recorded relating to stock options which vested during the current year.

As at December 31, 2016, the following options are outstanding:

<i>Date of Grant</i>	<i>Number outstanding</i>	<i>Number exercisable</i>	<i>Weighted average exercise price</i>	<i>Expiry date</i>
June 10, 2014	200,000	200,000	0.30	June 9, 2019
October 7, 2016	1,000,000	250,000	0.10	October 6, 2021
	1,200,000	450,000	0.13	

(a) Warrants

During the year ended December 31, 2016, the Corporation issued 7,698,333 share purchase warrants in connection with the May 20, 2016 and July 4, 2016 private placement. The warrants are each exercisable for one common share at a price of \$0.12 per common share until April 30, 2018.

A summary of changes during the years ended December 31, 2016 and 2015 is as follows:

	December 31, 2016		December 31, 2015	
	Number	Amount	Number	Amount
Balance, beginning of year	1,369,433	\$ 277,103	1,408,487	\$ 195,522
Expired	(1,369,433)	(277,103)	(1,408,487)	(195,522)
Granted	7,698,333	214,963	1,369,433	277,103
Balance, end of period	7,698,333	\$ 214,963	1,369,433	\$ 277,103

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Corporation has no off-balance sheet arrangements.

#### **RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2016, \$66,000 (December 31, 2015 - \$82,143) was expensed for legal services provided by a law firm of which a director of the Corporation is a partner. Included in trade and other payables at December 31, 2016 is \$73,943 (December 31, 2015 - \$61,720) owing to this law firm.

During the year ended December 31, 2016, management, consulting and engineering fees of \$103,500 (December 31, 2015 - \$83,023) included in general and administrative expenses were charged by two officers of the Corporation and by a company controlled by an officer. Included in trade and other payables at December 31, 2016 is \$17,000 (2015 - \$39,838) owing to these officers.

In February 2015, the Corporation received a consent judgement for expenses paid on behalf of a former related company during 2012 and 2013. The judgement detailed that \$177,861 would be paid over the following 12 months. At December 31, 2016, \$43,030 of the amount had been received, therefore the Corporation wrote the receivable down to \$Nil (2015 - \$20,000) which represents the amount they expect to collect in the next 12 months.

The above transactions with related parties are in the normal course of business.

## **DIRECTORS COMPENSATION**

Effective January 1, 2014 the Corporation implemented a cash-settled deferred share unit (“DSU”) plan as a form of compensation for the non-employee Directors. For the year ended December 31, 2016, 356,439 DSU’s were granted (December 31, 2015 – 120,064), with a fair value of \$20,250, (December 31, 2015 - \$16,500) which is included in general and administration expense and in accounts payable and accrued liabilities. As at December 31, 2016, 562,961 DSU’s (December 31, 2015 – 206,522), were vested and outstanding and \$56,000 (December 31, 2015 - \$33,500) is included in trade and other payables.

## **OTHER SIGNIFICANT EVENTS AND COMMITMENTS**

### **3D Seismic Acquisition**

On July 18, 2016 Georox acquired 3D Seismic for its Meekwap property. The 3D Seismic processing was completed in the 3<sup>rd</sup> quarter for a total expenditure of \$61,623.

## **RISKS**

The risks in the oil and gas industry are varied and wide-ranging:

### **Exploration, Development and Production Risks**

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time, and the production there from, will decline over time as such existing reserves are exploited. A future increase in the Corporation’s reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties and prospects. No assurance can be given that the Corporation will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of the Corporation may determine that current markets, terms of acquisitions and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Corporation.

### **Going Concern**

The Corporation's business is capital intensive and additional capital is required on a periodic basis. Specifically, continuing operations, as intended, are dependent on management’s ability to raise required funding through future equity issuances, credit facilities, asset sales or a combination thereof, which is not assured, especially in the current uncertain financial and commodity price environment. The sharp decline in commodity prices during the latter half of 2014 through to the year-ended December 31, 2016 negatively affected the Corporation's ability to access additional capital on terms acceptable to the Corporation, which is required for liquidity purposes and to fund commitments on the Corporation's . The current world-wide economic environment relating to the oil and gas industry has made access to capital challenging for many companies, Georox included. This has resulted in liquidity challenges and unless the Corporation is able to raise additional capital or renegotiate its commitments, it does not anticipate meeting all of its anticipated 2016 and 2017 capital commitments. Furthermore, there is potential that future commodity prices and the world-wide economic environment relating to the oil and gas industry, in general, will remain relatively stagnate in its current position for an extended period of time and Georox will need to negotiate with its creditors to improve payment terms and/or pursue some form of asset sale, equity financing or other capital raising effort in order to fund its operations during the next twelve months. To that end, the Corporation is currently, and will continue, on an ongoing basis, examining alternative sources of capital, including potential debt and equity financing and ways to monetize its assets, including, without limitation, asset sales or swaps, joint ventures, corporate mergers or acquisitions , farmouts or other transactions with industry partners, all with a view to enhance liquidity and meet commitments. The need to raise capital or defer expenditures to fund ongoing operations

creates uncertainty that may cast doubt over the Corporation's ability to continue as a going concern. There is no certainty that these and other strategies will be sufficient to permit the Corporation to continue as a going concern.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field-operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents; shut in of connected wells for various reasons including access issues resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical issues. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

A material change in prices of commodities may affect the Company's borrowings and ultimately affecting the raising of equity capital by the Corporation.

### **Global Financial Crisis**

Recent market events and conditions, including disruptions in the international credit markets and to the financial systems, and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions are continuing in 2016 causing a loss of confidence in the broader Canadian and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate. These factors have negatively impacted corporate valuations and will impact the performance of the global economy going forward. Although improved, petroleum prices are expected to remain volatile for the near future as a result of the market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions, regional conflicts and the ongoing global credit and liquidity concerns.

### **Commodity Price Risk**

The nature of the Corporation's operations results in exposure to commodity fluctuations. The Corporation closely monitors commodity prices to determine the appropriate course of action to be taken by the Corporation. A material change in prices of commodities affected the Corporation's borrowings ultimately affecting the raising of equity financing. The Corporation does not hedge commodity price risk and has no physical forward price or financial derivative sales contracts as at or during the year ended December 31, 2016.

### **Operational Dependence**

Other companies operate various producing wells in which the Corporation holds interests except for the two wells that the Corporation operates in the Pouce Coupe property and nine wells in its most recent acquisition of the Red Earth/Otter property. The Corporation has limited ability to exercise influence over the non-operated assets or their associated costs, which could adversely affect the Corporation's financial performance. The Corporation's return on assets operated by others therefore depends upon a number of factors that may be outside of the Corporation's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices. Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase the Corporation's costs, any of which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In order to conduct oil and gas operations, the Corporation will require licenses from various government authorities. There can be no assurance that the Corporation will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

### **Environmental**

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it will be in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Corporation and its operations and financial condition.

### **Substantial Capital Requirements**

The Corporation anticipates making capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future in order to replace reserves. If the Corporation's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. In addition, uncertain levels of near term industry activity coupled with the recent global credit crisis exposes the Corporation to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes including repayment of loan facilities when due or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access sufficient capital for its operations and capital requirements could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

### **Dilution**

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

### **Conflicts of Interest**

Certain directors of the Corporation are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the CBCA. See "Directors and Officers – Conflicts of Interest".

**Recent accounting standards****(a) New standards and interpretations not yet adopted:**

A number of new standards, amendments to standards and interpretations have been issued by the IASB which are not yet effective, and have not been applied in preparing these consolidated financial statements. The Corporation does not expect the amendments to have a material impact on the financial statements.

**(b) IFRS 9 financial instruments**

IFRS 9 addresses requirements for the classification and measurement of financial instruments, impairment methodology and hedge accounting. The IASB set a mandatory effective date for annual periods beginning on or after January 1, 2018. The Corporation continues to assess this new standard, but does not expect it to have a significant impact on the financial statements.

**(c) IFRS 15 revenue from contracts with customers**

IFRS 15 replaces the existing revenue recognition guidance with a new framework to determine the timing and measurement of revenue, providing users of the financial statements more information and relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation continues to assess this new standard, but does not expect it to have a significant impact on the consolidated financial statements.

**IFRS 16 Leases**

IFRS 16 was issued January 2016 and replaces IAS 17 Leases. The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases. The standard is effective for fiscal years beginning on or after January 1, 2019 with early adoption permitted if the Corporation is also applying IFRS 15 Revenue from Contracts with Customers. IFRS 16 will be adopted by the Corporation on January 1, 2019 and the Corporation is currently evaluating the impact of the standard on the financial statements.

**ACCOUNTING ESTIMATES**

Estimates are based on historical experience and on various other assumptions that the Corporation believes to be reasonable. These estimates form the basis of judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. The Corporation's most significant areas of estimation are in relation to recoverability of mineral properties, stock-based compensation expenses, and future tax assets and liabilities. Actual results could differ from those estimates.

The significant accounting policies used by Georox are disclosed in note 2 to the financial statements for the year ended December 31, 2016 and year ended December 31, 2015.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The information provided in this report, including the consolidated financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Corporation's assets are safeguarded and to facilitate the preparation of relevant and timely disclosure information.

### **DIRECTORS:**

Burkhard Franz, Kelowna, BC, Canada  
Daryl Fridhandler, Calgary, AB, Canada  
Lorraine McVean, Calgary, AB, Canada  
Mo Fazil, Calgary, Calgary, AB, Canada  
Mansoor Anjum, Calgary, AB, Canada

### **OFFICERS:**

Daryl Fridhandler, Chairman  
Burkhard Franz, President & CEO

Savi Franz, Chief Financial Officer  
Mansoor Anjum, VP of Finance and Corporate Development

### **OTHER:**

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