



**Hunter Oil Corp.**

**Management's Discussion & Analysis**

**Year Ended December 31, 2019**

## **DATE AND BASIS OF INFORMATION**

Hunter Oil Corp. (the "Company") is incorporated in British Columbia, Canada and is engaged in the business of acquiring and developing crude oil and natural gas properties.

The Company's head office is located at Suite 940, 1040 West Georgia Street, Vancouver, British Columbia, V6E 4H1, Canada. Common shares of the Company are listed on the TSX Venture Exchange under the symbol "HOC" and quoted on the Over the Counter marketplace ("OTCQB") under the symbol "HOILF." Additional information relating to the Company can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

Until August 31, 2018, the Company was engaged in the operation of crude oil and natural gas properties in the Permian Basin in eastern New Mexico, United States. On that date, the Company closed a Purchase and Sale and Share Purchase Agreement with Pacific Energy Development Corp. ("Purchaser") in which certain subsidiaries of the Company sold (the "Transaction") substantially all the Company's oil and gas operations and related assets (the "Assets") located in the Permian Basin, eastern New Mexico. The Purchaser also agreed to assume all retirement obligations associated with the Assets.

The Company is actively seeking to locate, evaluate and where advisable negotiate to acquire interests in oil and gas properties, or pursue other business opportunities in the oil and gas industry. There is no guarantee that the Company will be able to identify suitable oil and gas prospects, or that the Company will be able to negotiate acceptable terms for any prospects that it identifies. The TSX Venture Exchange may transfer the Company to the NEX, a separate board of the Exchange, if the Company fails to meet ongoing minimum listing requirements.

## **Liquidity and Going Concern**

The consolidated financial statements were prepared on the basis that the Company will continue to operate as a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the twelve-month period following the date of these consolidated financial statements. The Company has an accumulated deficit of \$120.1 million and a working capital of \$1.0 million as at December 31, 2019.

Although the Company has no current operations nor remaining assets, the board of directors is actively seeking a transaction(s) whereby it will continue as a going concern. Therefore, the financial statements were presented on a going concern basis of accounting.

The consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

## **Basis of Presentation**

The following Management's Discussion and Analysis ("MD&A") is dated February 21, 2020, and should be read in conjunction with the Company's consolidated financial statements and related notes for the year ended December 31, 2019, as well as the consolidated financial statements and related notes, and MD&A for the year ended December 31, 2018. The referenced consolidated financial statements have been prepared by management and approved by the Company's Board of Directors. Unless otherwise noted, all financial information presented herein has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All financial information is in US dollars, unless otherwise indicated.

## **Non-IFRS Financial Measures**

Certain financial measures in this MD&A, namely netback, lifting costs and EBITDA, are not prescribed, do not have a standardized meaning defined by IFRS and, therefore, may not be comparable with the calculation of similar measures by other companies.

EBITDA is a non-IFRS measure that refers to income (loss) before interest, income taxes, depletion, depreciation, amortization, accretion and other non-cash items that impact the income statement such as stock-based compensation and gains or losses from asset sales, foreign currency translations and impairments.

Netbacks are non-IFRS measures used by the Company as key indicators of performance and are not intended to represent operating profit nor should they be viewed as an alternative to cash flow provided by operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS. A netback is a per barrel or thousand cubic feet (mcf) computation determined by deducting royalties, production expenses, transportation and selling expenses from the oil or gas sales price to measure the average net cash received from the barrels or mcf sold. Lifting costs are non-IFRS measures that include all production costs necessary to produce oil or gas, excluding severance taxes.

Please refer to the Abbreviations and Definitions section at the end of this document which lists abbreviations and definitions commonly referred to in the energy business and which may be used in this MD&A.

## **BUSINESS OVERVIEW**

### **Overview of Year Ended December 31, 2019**

**Crude Oil Business Segment.** The Company has one reportable business segment, development of crude oil and natural gas properties. Following the sale of substantially all the Company's oil and gas properties pursuant to the Transaction, the Company's operations consist primarily of activities and expenses related to evaluating future potential asset acquisitions.

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**Subsidiaries and Operations.** The operations of the Company include Hunter Oil Corp. (the Parent Company) and its wholly-owned subsidiaries. The following table lists the Company's principal operating subsidiaries, their jurisdiction of incorporation, and its percentage ownership of their voting securities as of the date of this report:

Subsidiary Name	Jurisdiction	Ownership 2019	Ownership 2018
Hunter Oil Management Corp.	Florida, USA	100%	100%
Hunter Ventures Corp. (3)	Delaware, USA	0%	100%
Hunter Oil Resources Corp.	Delaware, USA	100%	100%
Hunter Oil Production Corp.	Florida, USA	100%	100%
Ridgeway Arizona Oil Corp. (1)	Arizona, USA	0%	0%
EOR Operating Company (1)	Texas, USA	0%	0%
Milnesand Minerals Inc. (2) (3)	Delaware, USA	0%	100%
Chaveroo Minerals Inc. (2) (3)	Delaware, USA	0%	100%
Hunter Ranch Corp. (3)	Delaware, USA	0%	100%

- (1) Results of discontinued operations included to August 31, 2018. Subsidiaries sold as disposal of discontinued operations.  
(2) Results of discontinued operations. Assets and liabilities of each subsidiary sold as part of discontinued operations.  
(3) Entities formally dissolved during the year ended December 31, 2019.

**OVERALL PERFORMANCE**

**Consolidated Statements of Operations and Comprehensive Loss:**

<i>(In thousands of US dollars)</i>	<b>Three Months Ended</b>		<b>Year Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Expenses				
General and administrative	28	56	210	381
Management fees and consulting	90	126	378	360
Other, net	-	5	-	54
Stock-based compensation	-	176	-	200
Foreign currency translation (gain) loss	(18)	80	(44)	60
Total expenses	<u>100</u>	<u>443</u>	<u>544</u>	<u>1,055</u>
Net loss from continuing operations	<u>\$ (100)</u>	<u>\$ (443)</u>	<u>\$ (544)</u>	<u>\$ (1,055)</u>
Discontinued Operations	(42)	(146)	(70)	(4,661)
Net loss comprehensive loss for the period	<u>\$ (142)</u>	<u>\$ (589)</u>	<u>\$ (614)</u>	<u>\$ (5,716)</u>
Loss per share continuing operations - basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>	<u>\$ (0.09)</u>
Loss per share discontinued operations - basic and diluted	<u>(0.00)</u>	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.38)</u>
Total	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.05)</u>	<u>\$ (0.47)</u>

As previously noted, on August 31, 2018, certain subsidiaries of the Company sold substantially all the Company's oil and gas operations and related assets, for an aggregate total proceeds of \$21.5 million. The Purchaser also agreed to assume all retirement obligations associated with the Assets. As a result of the sale, the results from operations of the Assets have been presented as discontinued operations. A summary of the results of operations up to the close of the Transaction are presented below. All other discussions and references herein to operations and expenses of the Company solely relate to the continuing operations of the Company. Accordingly, all comparative figures have been reclassified to reflect the continuing operations.

**DISCUSSION OF OPERATIONS**

**Discontinued Operations**

A summary of the results of discontinued operations included in the years ended December 31, 2019 and 2018 is presented below.

The results of discontinued operations are as follows:

	Year Ended December 31,	
	<u>2019</u>	<u>2018</u>
<b>Revenues</b>		
Oil and gas sales	\$ -	\$ 1,348
Less: Royalties	-	(302)
<b>Revenues, net of royalties</b>	<u>-</u>	<u>1,046</u>
<b>Expenses</b>		
Operating and production costs	-	639
Workover expenses	-	225
General and administrative	70	2,484
Depreciation and depletion	-	415
Accretion	-	277
Other, net	-	50
Stock-based compensation	-	532
Impairment loss	-	1,011
<b>Total expenses</b>	<u>70</u>	<u>5,633</u>
<b>Net loss from Discontinued Operations</b>	<u>\$ (70)</u>	<u>\$ (4,587)</u>
<b>Loss from Discontinued Operations:</b>		
Results from discontinued operations	\$ (70)	\$ (4,587)
Loss on disposal of assets	-	(74)
<b>Loss from discontinued operations</b>	<u>\$ (70)</u>	<u>\$ (4,661)</u>

### **General & Administrative**

General and administrative expenses for the years ended December 31, 2019 and 2018, were as follows:

	Year Ended	
	2019	2018
Accounting and tax	\$ 11	\$ 94
Insurance	9	37
Legal	91	77
Office & General	59	47
Public company reporting	31	67
Travel and accomodation	9	59
<b>Total General and Administrative Expenses</b>	<b>\$ 210</b>	<b>\$ 381</b>

General and administrative expenses decreased approximately \$0.17 million to \$0.21 million for the year ended December 31, 2019, when compared to the same twelve months in 2018. The decrease was related to the reduced level of management and overhead in 2019 as compared to 2018 which included administrative costs prior to the sale of the Company's discontinued operations. General and administrative expenses were \$0.03 million and \$0.06 million for the quarters ended December 31, 2019 and 2018, respectively.

### **Stock-Based Compensation**

Stock-based compensation expense is a non-cash expense that is based on the fair values of stock options granted and amortized over the vesting periods of the options. During the year ended December 31, 2019 the Company did not recognize any stock based compensation.

During the year ended December 31, 2018, the Company recognized approximately \$0.07 million in stock-based compensation expense (being the aggregate of all stock-based compensation between continuing and discontinued operations) on the options that vested during the year. The compensation expense was based on the estimated fair value of the options on the grant date in accordance with the fair value method of accounting for stock-based compensation. In addition, the Company entered into agreements to cancel certain outstanding stock options in connection with the Transaction. The cancellation constitutes a share-based payment and as a result any cash payments made in excess of the previously vested and expensed stock-based compensation were expensed. The Company recorded an expense of \$0.02 million in relation to cash settlements of stock options in excess of their fair value, as at the settlement date, for the year ended December 31, 2018. As the settlement related to the sold operations, these amounts have been included in discontinued operations.

### **Foreign Exchange Gain (Loss)**

The Company's functional currency and presentational currency, as determined under International Accounting Standard ("IAS") 21, *The Effects of Changes in Foreign Exchange Rates*, is the United States dollar. All of the Company's operating expenses and capital expenditures are paid in the United States dollar except for the revenue and expenses of the Canadian parent company and all historical equity issuances of the Canadian parent which are denominated in Canadian dollars. There will continue to be an impact from currency translation and exchange gains and losses, but we believe this translation will have a small impact on our financial results. The average Canadian/US dollar exchange rate was \$0.75 and \$0.77 for the years ended December 31, 2019 and 2018 respectively.

**Earnings before Interest, Taxes, Depreciation, Depletion and Amortization (EBITDA) Reconciliation**

<i>(In thousands of US Dollars)</i>	<b>Three Months Ended</b>		<b>Year Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net comprehensive loss	\$ (142)	\$ (589)	\$ (614)	\$ (5,716)
<i>Adjustments:</i>				
Loss from discontinued operations	42	146	70	4,661
Financing costs and other, net	-	5	-	54
Stock-based compensation	-	176	-	200
Foreign currency translation (gain) loss	-	80	-	60
<b>EBITDA</b>	<b>\$ (100)</b>	<b>\$ (182)</b>	<b>\$ (544)</b>	<b>\$ (741)</b>

**LIQUIDITY AND CAPITAL RESOURCES**

The Company had unrestricted cash balances of \$1.1 million and \$1.7 million, as of December 31, 2019 and 2018 respectively. Following the sale of its discontinued operations, the Company has \$1.0 million of working capital available as of December 31, 2019.

The Company has sufficient cash to fund its current operations; however, the Company anticipates that additional property acquisitions or business development will require additional funding. The Company will consider all available sources of financing to develop such projects, including equity, bank and mezzanine debt, asset sales and joint venture arrangements.

While the consolidated financial statements were prepared on the basis that the Company will continue to operate as a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the twelve-month period following the date of these consolidated financial statements, certain conditions and events cast significant doubt on the validity of this assumption. For the year ended December 31, 2019, the Company had negative cash flows from continuing operations of approximately \$0.54 million and, at December 31, 2019, an accumulated deficit of approximately \$120.1 million. The Company also expects to incur further losses during the future development of its business. The Company's ability to continue as a going concern is dependent upon its ability identify a suitable target business or assets to generate profitable operations and to obtain additional funding from loans or equity financings or through other arrangements. Although the Company has been successful in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company.

**QUARTERLY RESULTS OF OPERATIONS AND SELECT FINANCIAL DATA**

**Summary of Quarterly Information:**

**Quarterly Revenue, Loss and Earnings Per Share:**

*(In thousands except per share amounts)*

	2018				2019			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenues (from discontinued operations)	\$ 457	\$ 509	\$ 383	\$ -	\$ -	\$ -	\$ -	\$ -
Net comprehensive loss	\$ (708)	\$ (1,753)	\$ (2,666)	\$ (589)	\$ (267)	\$ (66)	\$ (139)	\$ (142)
Per share - basic	\$ (0.08)	\$ (0.13)	\$ (0.20)	\$ (0.04)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Per share - diluted	\$ (0.08)	\$ (0.13)	\$ (0.20)	\$ (0.04)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.01)

**Selected Annual Information**

The following information is presented from annual information in the Company's audited financial statements for the periods indicated and prepared on the basis of the accounting principles effective for such period, as indicated:

**Three Year Select Financial Data:**

*(In thousands except per share amounts)*

	Year Ended December 31, <sup>(1)</sup>		
	2019	2018	2017
Revenues			
Continuing Operations	\$ -	\$ -	\$ -
Discontinued Operations	-	1,348	1,538
Total Revenues	\$ -	\$ 1,348	\$ 1,538
Net comprehensive loss			
Continuing Operations	\$ (544)	\$ (1,055)	\$ (916)
Discontinued Operations	(70)	(4,661)	(2,270)
Net comprehensive loss	\$ (614)	\$ (5,716)	\$ (3,186)
Net loss per common share - basis and fully diluted			
Continuing Operations	\$ (0.04)	\$ (0.09)	\$ (0.11)
Discontinued Operations	(0.01)	(0.38)	(0.28)
Total net loss per common share	\$ (0.05)	\$ (0.47)	\$ (0.39)
Total assets	\$ 1,275	\$ 1,932	\$ 36,338
Total non-current financial liabilities	\$ -	\$ -	\$ 12,751

<sup>(1)</sup> The selected annual information was prepared in accordance with IFRS. Amounts are denominated in US dollars, which the Company determined under International Accounting Standard (IAS) 21 is its functional currency.

## **Equity Transactions**

There were no equity transactions incurred during the year ended December 31, 2019.

During the year ended December 31, 2018, the Company closed a non-brokered private placement of 5,000,000 common shares of the Company at a price of C\$0.40 per share to raise gross proceeds of C\$2.0 million (USD \$1.54 million). In addition, during the year the Company issued 190,000 shares on the exercise of stock options for aggregate proceeds of \$0.12 million. In addition, the Company declared and paid a capital distribution of \$16.58 million at a price of \$1.25 per share. As of December 31, 2019, and 2018, \$0.03 million of payments remained outstanding due to uncashed payments or returned addresses. These amounts have been included in accrued liabilities as at December 31, 2019.

## **DISCLOSURE OF CONTROLS, PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

As a TSX Venture Exchange issuer, the Company's officers are not required to certify the design and evaluation of operating effectiveness of the Company's disclosure controls and procedures ("DC&P") or its internal controls over financial reporting ("ICFR"). The Company maintains DC&P designed controls to ensure that information required to be disclosed in reports filed or submitted is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In addition, the Chief Executive Officer and the Chief Financial Officer have designed controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Due to its size, the small number of employees, the scope of its current operations and its limited liquidity and capital resources, there are inherent limitations on the Company's ability to design and implement on a cost-effective basis the DC&P and ICFR procedures, the effect of which may result in additional risks related to the quality, reliability, transparency and timeliness of its interim filings and other reports. There have been no changes in ICFR during the year ended December 31, 2019.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any special purpose entities nor is it party to any arrangements that would be excluded from the consolidated balance sheet.

## **RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2019, the Company incurred expenses from transactions with the two related parties identified below.

The Company is party to a management services agreement with Century Capital Management Ltd., a company controlled by the Company's Executive Chairman. Pursuant to this management services agreement, the Company incurred approximately \$0.24 million and \$0.24 million in management fees, and office expenses during the years ended December 31, 2019 and 2018, respectively. Additionally, in 2018 the Company incurred \$0.25 million as a change of control payment to Century Capital Management Ltd, in connection with the sale of assets of the Company. The Company currently operates under a monthly agreement for \$0.02 million per month.

The Company incurred management consulting fees paid to a company controlled by the CFO of approximately \$0.07 million during the year ended December 31, 2019 (2018 - \$0.02 million).

## **CRITICAL ACCOUNTING ESTIMATES**

Estimates and underlying assumptions are reviewed on an ongoing basis and involve significant estimation uncertainty which have a significant risk of causing adjustments to the carrying amounts of assets and liabilities. Revisions to accounting estimates are recognized in the year in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in the consolidated financial statements are outlined below:

*Deferred income tax assets:* Assessing the recoverability of deferred income tax assets requires significant estimates related to expectations of future taxable income based on forecasted cash flows from operations as well as interpretations and judgements on uncertain tax positions of applicable tax laws. Such judgements include determining the likelihood of tax positions being successfully challenged by tax authorities based on information from relevant tax interpretations and tax laws. To the extent such interpretations are challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability to realize deferred tax assets recorded at the balance sheet date may be compromised. Refer to Note 9 in the Company's consolidated financial statements for the year ended December 31, 2019, for further details.

*Financial instruments:* The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. The fair value of these derivatives is determined using valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data, including quoted commodity prices and volatility. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and, as such, are subject to measurement uncertainty.

*Impairment of assets:* The Company evaluates its assets for possible impairment at the CGU level. The determination of CGUs requires judgement in defining the smallest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs has been determined based on similar geological structure, shared infrastructure, geographical proximity, commodity type, the existence of active markets, similar exposure to market risks, and the way in which management monitors the operations.

The recoverable amounts of CGUs and individual assets have been determined based on the higher of fair value less costs of disposal model and value in-use model. The key assumptions the Company uses in estimating future cash flows for recoverable amounts are: anticipated future commodity prices, expected production volumes, future operating and development costs, estimates of inflation on costs and expenditures, expected income taxes and discount rates. In addition, the Company considers the current environmental, social and governance issues affecting its property interests and operations, including the current legislative and regulatory activity affecting the permitting and approval of its projects and operations. Changes to these assumptions will affect the estimated recoverable amounts attributed to a CGU or individual assets and may then require a material adjustment to their related carrying value.

The decision to transfer exploration and evaluation assets to property and equipment is based on management's determination of a property's technical feasibility and commercial viability based on proved and probable reserves as well as related future cash flows.

Judgements are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgements as to future events and circumstances as to whether economic quantities of reserves will be found to assess if technical feasibility and commercial viability has been achieved.

Judgements are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

*Accrued Liabilities:* The Company estimates and recognizes liabilities for future retirement obligations and restoration of oil and gas development wells. These provisions are based on estimated costs, which take into account the anticipated method and extent of restoration. Actual costs are uncertain, and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new restoration techniques, operating experience and prices. The expected timing of future retirement may change due to these factors.

## **NEW ACCOUNTING STANDARDS**

### *IFRS 16: Leases*

This is the first period for which the Company has applied IFRS 16. The Company has adopted IFRS 16 on a modified retrospective approach. This new standard replaces IAS 17 Leases and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed.

As a result of the sale of the Company's discontinued operations in 2018, the Company has no outstanding lease arrangements other than month to month office leases. As a result, there have been no adjustments to these consolidated financial statements as a result of the transition to IFRS 16 as of January 1, 2019. Comparative figures for 2018 have not been restated as a result of applying the modified retrospective approach.

## **FUTURE ACCOUNTING PRONOUNCEMENTS**

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

## **POTENTIAL RISKS AND UNCERTAINTIES**

The resource industry is highly competitive and, in addition, exposes the Company to a number of risks. Resource exploration and development involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. It is also highly capital intensive and the ability to complete a development project may be dependent on the Company's ability to raise additional capital. In certain cases, this may be achieved only through joint ventures or other relationships, which would reduce the Company's ownership interest in the project. There is no assurance that development operations will prove successful.

### **Risks Associated with Financial Assets and Liabilities**

The Company is exposed to financial risks arising from its financial assets and liabilities. Financial risks include market risks (such as commodity prices, foreign exchange and interest rates), credit risk and liquidity risk. The future cash flows of financial assets or liabilities may fluctuate due to movements in market prices and the exposure to credit and liquidity risks. Disclosures relating to exposure risk are provided in detail below

#### **Credit Risk**

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments exposed to concentrations of credit risk are primarily cash and cash equivalents, including restricted cash and accounts receivable.

The Company's receivables mainly consist of amounts due from the Government of Canada in relation to Goods and Services tax refunds.

#### **Liquidity Risk**

Although the Company has no current operations nor operating remaining assets, other than cash, the Board of Directors is actively seeking a transaction(s) whereby it will continue as a going concern. The proposed business of the Company involves a high degree of risk and there is no assurance that the Company will identify an appropriate business for acquisition or investment, and even if so identified, it may not be able to finance such an acquisition or investment within the requisite period. Additional funds will be required to enable the Company to pursue such an initiative and the Company may be unable to obtain such financing on terms which are satisfactory to it. Furthermore, there is no assurance that the business will be profitable. These factors indicate the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

#### **Foreign Exchange Risk**

Substantially all of the Company's assets and expenditures are either denominated in or made with US dollars. As a result, the Company has limited exposure to foreign exchange risk in relation to existing commitments or assets denominated in a foreign currency. The Company has chosen not to enter into any foreign exchange contracts since its Canadian dollar working capital balances are not significant to the consolidated entity.

#### **Additional Financing**

To the extent that external sources of capital, including the issuance of additional common shares, become limited or unavailable, the Company's ability to make necessary capital investments to maintain or expand its oil and gas exploration and development activities will be impaired.

### **Commodity Price Risk**

The Company is exposed to fluctuations in the world commodity prices for its products with a corresponding impact to cash flow. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow production while at the same time replacing continuous production declines from existing properties. When the Company forecasts increased debt levels due to capital expenditures exceeding cash flow, it may enter into oil and natural gas hedging contracts in order to provide stability of future cash flow. The Company engages in derivative financial instruments solely to manage its commodity price risk exposure relative to its actual commodity production and not for speculative purposes. The Company had no derivative contracts in place at December 31, 2019.

### **Dependence on Key Personnel**

The Company has a small management team and the loss of a key individual or the inability to attract suitably qualified personnel in the future could materially and adversely affect the Company's business.

### **Environmental Regulation**

The oil and gas industry is subject to environmental regulation. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of the Company or its properties. Such legislation may be changed to impose higher standards and potentially costlier obligations. The Company endeavors to operate in such a manner to ensure it conforms to the standards and government regulations required for each jurisdiction in which it operates.

### **Foreign Investments**

The Company expects that its oil and gas exploration activities will take place principally outside of Canada for the foreseeable future. As such, the Company's operations are subject to a number of risks over which it has no control. These risks may include risks related to economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability, changes of laws affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, petroleum and export licensing and export duties as well as government control over domestic oil and gas pricing. The Company endeavors to operate in such a manner in order to minimize and mitigate its exposure to these risks. However, there can be no assurance that the Company will be successful in protecting itself from the impact of all of these risks.

### **General Economic Conditions**

There has been a high level of volatility in the world financial markets over the past few years. This volatility has caused investors to become less willing to provide debt or equity financing to most companies and in particular to junior resource companies. This will potentially make completing financings for the Company difficult in the foreseeable future.

### **Market Risks**

The Company is subject to normal market risks including fluctuations in foreign exchange rates and interest rates. While the Company manages its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure.

**Government Regulations**

The Company's oil and gas concessions may be subject to various federal and local governmental regulations. Matters subject to regulation include discharge permits for drilling operations, drilling and abandonment bonds, reports concerning operations, the spacing of wells, and pooling of properties and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and gas wells below actual production capacity in order to conserve supplies of oil and gas. The production, handling, storage, transportation and disposal of oil and gas, by-products thereof and other substances and materials produced or used in connection with oil and gas operations are also subject to regulation under federal and local laws and regulations relating primarily to the protection of human health and the environment. The Company incurs expenditures related to complying with these laws and for remediation of existing environmental contamination. The requirements imposed by such laws and regulations are frequently changed and subject to interpretation, and the Company is unable to predict the ultimate cost of compliance with these requirements or their effect on its operations.

**OTHER MD&A INFORMATION NOT DISCLOSED ELSEWHERE**

**Disclosure of Share Capital**

Authorized capital:

25 million preference shares of no par value;  
 Unlimited common shares of no par value.

Issued and outstanding at February 21, 2020:

13,260,871 common shares.

As at February 21, 2020 the Company has no stock options outstanding. A summary of the stock option activity during the year ended December 31, 2019 and 2018 is as follows:

	<b>Number of Options</b>	<b>Weighted-Average Exercise Price (C\$)</b>
Oustanding, January 1, 2018	-	
Granted	1,250	\$ 0.80
Exercised	(190)	0.80
Cancelled	(1,060)	0.80
Oustanding, December 31, 2018	-	
Oustanding, January 1, 2019	-	
Granted/exercised/cancelled	-	-
Oustanding, December 31, 2019	-	

### **Forward-Looking Statements**

Certain statements contained in this Management's Discussion and Analysis and in certain documents incorporated by reference into this Management's Discussion and Analysis contain estimates and assumptions which management are required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Management's assessment of future operations, drilling and development plans and timing thereof, other capital expenditures and timing thereof, methods of financing capital expenditures and the ability to fund financial liabilities, expected commodity prices and the impact on the Company and the impact of the adoption of future changes in accounting standards may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, the flexibility of capital funding plans and the source of funding therefore; production, marketing and transportation, loss of markets, volatility of commodity prices, the effect of the Company's risk management program, including the impact of derivative financial instruments; currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, the inability to fully realize the benefits of the acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources.

All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar other expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A as the case may be. The Company does not intend, and does not assume an obligation, to update these forward-looking statements, except as required by securities law.

In particular, this MD&A and the documents incorporated by reference include, but are not limited to, forward-looking statements pertaining to the following:

- the quantity of reserves and contingent resources;
- crude oil operations and production levels;
- capital expenditure programs, including drilling programs, asset retirement and abandonment activities and pipeline construction projects, and the timing and method of financing thereof;
- projections of market prices and costs;
- supply, demand and pricing for crude oil;
- expectations regarding the Company's ability to raise capital and to continually add to reserves through acquisitions and development
- drilling inventory, drilling plans and timing of drilling, re-completion and tie-in of wells;
- plans for production facilities construction and completion and the timing and method of funding thereof;
- productive capacity of wells, anticipated or expected production rates and anticipated dates of commencement of production;
- drilling, completion and facilities costs;
- results of various projects of the Company;
- timing of receipt of regulatory approvals;
- timing and effect of production increases and the related effect and timing on operating costs per BOE;

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- ability to lower cost structure in certain projects of the Company;
- growth expectations within the Company;
- timing of development of undeveloped reserves;
- the tax horizon and tax related implications of the Company;
- supply and demand for oil;
- the performance and characteristics of the Company's oil and natural gas properties;
- the Company's acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- the impact of federal and state governmental regulation on the Company, either directly or relative to other oil and gas issuers of similar size;
- realization of the anticipated benefits of acquisitions and dispositions;
- weighting of production between different commodities;
- expected levels of royalty rates, production and workover costs, office field expenses, general and administrative costs, costs of services and other costs and expenses
- benefits or costs related to settlement of financial instruments; and
- treatment under government regulation and taxation, including hydrocarbon taxation regimes

This forward-looking information is based on a number of assumptions and factors, including, but not limited to, the following:

- assumptions set out herein and in the Company's most recently filed Form 51-101F1 oil and gas report;
- stability in the credit markets and continued willingness of lenders to lend capital to issuers such as the Company;
- continuing availability of funds for capital expenditures through internally generated cash and/or equity raises and debt raises;
- stability of political and fiscal regimes in the countries in which the Company operates;
- ability of the Company to hold mineral leases and projects in which it has interests and to find suitable industry partners to assume or share capital expenditure requirements necessary to keep various of the Company's projects in good standing, if and as needed;
- stable future costs;
- availability of equipment and personnel when required for operations;
- future strong demand for oil;
- that the Company will not experience unforeseen delays, unexpected geological, environmental or other natural occurrences, equipment failures, permitting delays or delays in procurement of required equipment or personnel;
- that the Company will not experience labor or contract disputes;
- that the Company's financial condition and development plans and those of its co-venturers will not substantially change;
- the assumptions underlying reserve estimates;
- that indications of early results are reasonably accurate predictors of the prospectiveness of the hydrocarbon bearing strata;
- that environmental and other regulations affecting the Company will not substantially change and that required regulatory approvals will be available when required;
- that expected production from future wells can be achieved as modeled and that declines will match the modeling;
- that rates of return as modeled can be achieved;
- that reserve recoveries are consistent with management's expectations;

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- that additional wells are actually drilled and completed;
- expectations and assumptions regarding future growth, results of operations, production, future capital and other expenditures (including the amounts, nature and sources of funding thereof);
- plans for, and results of, drilling activities; and
- assumptions regarding business prospects and opportunities.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the Company nor any other person assumes responsibility for the outcome of the forward-looking statements. Many of the risks and other factors are beyond the Company's control, which could cause actual results to differ materially from those anticipated in these forward-looking statements as a result of risk factors as set forth, but not limited to, those below and elsewhere in this MD&A:

- volatility in market prices for oil;
- liabilities and risks inherent in oil operations;
- uncertainties associated with estimating reserves;
- competition for capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- incorrect assessments of the recoverability of asset costs and investments;
- geological, technical, drilling and processing problems; and
- governmental, regulatory and taxation regimes.

**ABBREVIATIONS AND DEFINITIONS**

**Crude Oil and Natural Gas Liquids**

**Carbon Dioxide and Natural Gas**

Bbl	barrel	Bcf	billion cubic feet
Bbls	barrels	Mcf	thousand cubic feet
BBls/d	barrels per day	MMcf	million cubic feet
BOEPD	barrel of oil equivalent per day	Mcf/d	thousand cubic feet per day
MMbbls	million barrels	MMcf/d	million cubic feet per day
Mbbls	thousand barrels	Tcf	trillion cubic feet

Boe	Barrel of oil equivalent of natural gas and crude oil on the basis of one boe for six mcf of natural gas and one boe for forty- two gallons of plant products (these conversion factor are an industry accepted norm and is not based on either energy content or current prices).
Contingent resource	Those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable.
EBITDA	Income or loss before income taxes, depletion, depreciation, amortization and accretion and often referred to as 'cash flow from operations'
MBoe	1,000 barrels of oil equivalent
Net revenue	Gross revenue less all taxes, royalties and lease operating expenses.
NI 51-101	National Instrument 51-101 <i>Standards of Disclosure for Oil and Gas Activities</i> adopted by the Canadian Securities Administrators.
Primary recovery	Production in which only existing natural energy sources in the reservoir provide for movement of well fluids.
Permian Basin	A large crude oil and natural gas producing area representing a sedimentary basin dating from the Permian geologic period and covering an area extending from West Texas to eastern New Mexico.
Reserves	Estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations from a given date forward based on (i) analysis of drilling, geophysical and engineering data; (ii) the use of established technology; (iii) specified economic conditions, which are generally accepted as being reasonable, and shall be disclosed; and (iv) a remaining reserve life of 50 years. These definitions and disclosures are in accordance with the definitions, procedures and standards contained in the Canadian Oil and Gas Evaluation (COGE) Handbook and the Canadian Securities Administrators NI 51-101.
\$	United States dollars
C\$	Canadian dollars