

# **CANUC RESOURCES CORPORATION**

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

**Six Months ended June 30, 2016**

The following discussion of the results of operations and financial condition of Canuc Resources Corporation ("Canuc" or "the Company") prepared as of August 26, 2016 consolidates Management's review of the factors that affected the Company's financial and operating performance for the three and six months ended June 30, 2016, and factors reasonably expected to impact on future operations and results. This discussion is intended to supplement and complement the Company's Condensed Interim Consolidated Financial Statements ("FS") which have been restated as at and for the periods ended June 30, 2016 and 2015 and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS").

This quarter's FS as well as additional information is available at [www.sedar.com](http://www.sedar.com). All amounts disclosed are in Canadian dollars, unless otherwise stated.

### **COMPANY OVERVIEW**

Canuc is a Canadian based exploration Company with a long term focus on the acquisition, exploration and development of natural resource projects in the Americas. Currently, the Company has oil and gas assets in Texas, USA and is actively pursuing mineral exploration assets in North America. The Company intends to continue to acquire quality natural resource projects in the Americas. Management of the Company has a proven track record in the discovery, resource expansion, permitting and development of resource projects.

The Company notes that although the exploration of its existing projects is prospective, mineral exploration in general is uncertain. As a result, the Company believes that by acquiring additional mineral properties, it is able to better minimize overall exploration risk. Risk factors to be considered in connection with the Company's search for, and acquisition of, additional mineral properties include the significant expenses required to locate and establish mineral reserves; the fact that expenditures made by the Company may not result in discoveries of commercial quantities of minerals; environmental risks; risks associated with land title; the competition faced by the Company; and the potential failure of the Company to generate adequate funding for any such acquisitions. Refer to the "Risks and Uncertainties" section for additional information.

The Company's common shares trade on the TSX Venture Exchange using the ticker symbol "CDA".

### **Going Concern**

The Company is subject to the risks and challenges experienced by other companies at a comparable stage. These risks include, but are not limited to, continuing losses, dependence on key individuals and the ability to secure adequate financing or to complete corporate transactions to meet the minimum capital required to successfully complete the Company's projects and to fund operating expenses. Development of the Company's current projects to the production stage will require significant financing. Refer to the "Risks and Uncertainties" section for additional information.

### **Restatement**

Subsequent to the issuance of the Company's unaudited condensed interim consolidated financial statements, as at June 30, 2015, the Company made a determination that the functional currency for its Midtex subsidiary should be US dollars. Prior to 2015, management had judgmentally determined the functional currency for Midtex to be Canadian dollars. Management, in its determination considered all of the relevant primary and secondary factors however, the deciding factor which led to the change in functional currency was that Midtex became self-sustaining during 2015. Management, in its judgement determined that the switch over date for Midtex should be the beginning of the 2015 fiscal year. The change in functional

**CANUC RESOURCES CORPORATION****Management Discussion & Analysis****for the period ended June 30, 2016**

currency has been applied prospectively since January 1, 2015. The Company also determined that one its non-cash transactions was incorrectly measured. The Company omitted a gain on settlement of certain debt, instead recording the full amount to share capital.

The restatement of the Company's FS includes adjustments to the consolidated statement of financial position, the consolidated statement of income and comprehensive income and consolidated statement of cash flows as set out in the table below:

Changes to the condensed interim consolidated statement of loss and comprehensive (loss) income:

	<b>As previously reported for the three months ended June 30, 2015</b>	<b>Adjustment</b>	<b>Restated for the three months ended June 30, 2015</b>
Depletion	\$ 26,550	\$ (4,729)	\$ 21,821
Foreign exchange	\$ (366)	\$ 3,957	\$ 3,591
Net loss	\$ (35,863)	\$ 772	\$ (35,091)
Currency translation differences	\$ -	\$ (8,904)	\$ (8,904)
Comprehensive loss	\$ (35,863)	\$ (8,132)	\$ (43,995)

Changes to the condensed interim consolidated statement of loss and comprehensive (loss) income:

	<b>As previously reported for the six months ended June 30, 2015</b>	<b>Adjustment</b>	<b>Restated for the six months ended June 30, 2015</b>
Depletion	\$ 45,750	\$ (8,057)	\$ 37,693
Foreign exchange	\$ (4,816)	\$ (11,575)	\$ (16,391)
Gain on settlement of debt	\$ -	\$ (36,000)	\$ (36,000)
Net loss	\$ (90,005)	\$ 55,631	\$ (34,374)
Currency translation differences	\$ -	\$ 39,387	\$ 39,387
Comprehensive (loss) income	\$ (90,005)	\$ 95,018	\$ 5,013

Changes to the condensed interim consolidated statement of cash flows:

	As previously reported June 30, 2015		Adjustment	Restated June 30, 2015
Net loss	\$	(90,005)	\$ 55,631	\$ (34,374)
Depletion	\$	45,750	\$ (8,057)	\$ 37,693
Gain on settlement of debt	\$	-	\$ (36,000)	\$ (36,000)
Accounts receivable	\$	35,771	\$ (7,149)	\$ 28,622
Accounts payable and accrued liabilities	\$	5,888	\$ (3,102)	\$ 2,786
Impact of Foreign exchange on cash	\$	-	\$ (1,323)	\$ (1,323)

All cumulative adjustments have been reflected in the December 31, 2015 deficit balance of \$(57,036,046), which prior to the restatement would have been \$(56,898,505).

This MD&A incorporates these changes into the analysis provided below.

### Overview

The Company's mineral exploration efforts have not commenced commercial production and, accordingly, the Company is dependent upon debt and/or equity financings and the optioning and/or sale of resource or resource-related assets for its funding. However, the Company's oil and gas assets are producing net income at this time. The recoverability of the carrying value of exploration and evaluation projects, and ultimately the Company's ability to continue as a going concern, is dependent upon this oil and gas income growing and upon exploration results which indicate the potential for the discovery of economically recoverable reserves and resources, the Company's ability to finance exploration of its projects through debt or equity financings and the optioning and/or sale of resource or resource-related assets for its funding.

### HIGHLIGHTS

- On June 9, 2016 the Company entered into a letter of intent to merge with Santa Rosa Silver Mining Corp. "Santa Rosa", a privately held Ontario corporation. The Company will complete the merger by issuing one (1) common share for each two (2) Santa Rosa common shares or on some other ratio once finally approved. The merger is subject to approval by the TSX venture exchange and any other requisite consents, acceptances and/or approvals including but limited to all regulatory and non-regulatory bodies.
- During the quarter the Coody Morales well continued to be shut in due to some repairable down hole problems. However, because of the low gas prices, management decided to shut the well in temporarily until such time that gas prices improve.
- Production from the Thompson wells represented 95% of Canuc revenues during the period ended June 30, 2016 (June 30, 2015-65%), \$nil on the Coody Morales well, (June 30, 2015-29%) and the Walker Buckler wells represented 5% (June 30, 2015-6%)
- The biggest issue for Midtex continues to be depressed natural gas prices. The average price received for 2016 was \$1.87 per mcf of gas produced.

## **OIL AND GAS ASSETS**

### **Midtex Project, Texas**

In July 2011, the Company completed the acquisition of Midtex Oil & Gas Corporation ("Midtex"), a private Ontario corporation, and a 100% working interest in a gas and oil well located on the leased property held by Midtex (collectively the "Midtex Assets"). At the time, an officer and 2 directors had ownership interests in Midtex and received 40% of the 360,000 common shares issued for the purchase of Midtex. As this was a related party transaction, an independent committee of the Board of Directors met, and upon receipt of the independent engineer's report, agreed on a valuation of \$720,000 for Midtex.

The Midtex Assets included a producing gas well and undeveloped acreage located on the east half of Section 66, Block 4, T&P Ry. Co. Survey, Stephens County, Texas; north central Texas. The undeveloped acreage could accommodate an additional 3 to 4 wells, which could intersect 2 or 3 known productive gas horizons. This acreage, while having low pressure gas zones, benefited from a low pressure gas pipeline which bisects the property making the gas immediately saleable without constructing capital intensive transportation facilities. A second producing gas well was completed in late August 2011. Production from both wells began to decline sharply in late 2012 and in 2013 production was negligible. The first well was capped and the repair work was completed in Q1 2014 on the second well.

The Midtex project was expanded in 2012 and the Company is now an investor in two parcels of leased land in north-central Texas. The Company has a 20% working interest (16% net revenue interest) in the 2,000 acre Thompson project located in Stephens County Texas and a 15% working interest (12% net revenue interest) in the 14,574 acre Walker Buckler lease located in Shackelford County Texas.

In February 2013, the Thompson 40 #2 well intersected the same reservoir as the initial Thompson 40 well and commenced production in March 2013. The Thompson "A" well, to the north of the Thompson 40, was drilled in March 2013 and intersected the same horizon as the Thompson 40. In July 2013, the Thompson "B" well was spudded to the east of the Thompson "A" and was successful, commencing production later in the month. In February 2014, the Thompson 40 #5 well was drilled and it was also successful, commencing production in March of 2014. Drilling was initiated on the Thompson C well in June 2014 and intersected the same horizons as the other Thompson wells and came on stream in September 2014. The Thompson C well has performed admirably so far, but production has not been as strong as that of the other Thompson wells.

In December of 2015, all of the Company's wells were reviewed for impairment. Gas prices were declining all through 2015 (and into 2016) and as of the date of this MD&A, have not recovered. Management in its judgement, determined that the low prices were likely to be prolonged and as such, an impairment assessment was required and an impairment charge \$569,731 was taken to the consolidated statement of (loss) income and comprehensive (loss) income.

The \$569,731 impairment charge relates to both the oil and gas property (\$205,340) and oil and gas interests (\$364,391). The oil and gas property consists of the Coody Morales well. At the end of 2015, management decided to shut in this well due to low gas prices. This decision contributed to the impairment charge as management was not able to predict when gas prices would rise and accordingly, was unable to predict the well's value in use. This well is a good producer which will generate strong cash flow for many years. Upon the recommencement of production, the well may be written up reversing some of the impairment charges taken.

Management's estimates of value in use for the oil and gas interests considered the remaining production life of each well and production curves. Management also estimated future gas prices by taking the last known sales price for gas for each well and estimating gas price increases that were deemed to be reasonable. Management also determined a reasonable discount rate to assess each well's current value. Sensitivity analysis was run to assess the impact of variables such as discount rate and gas price increase rates. As noted above, \$364,391 was written off to the consolidated statement of (loss) income and comprehensive (loss)

income. Unlike the oil and gas property, the write-down of the oil and gas interests are not reversible and therefore, no future write-up is possible.

**Outlook**

Due to the continued success encountered on the Thompson lease, the operator, Marjac Oil Company Inc., has informed Canuc that additional wells are planned for the undeveloped acreage in 2016 but not until natural gas prices begin to improve.

**SELECTED QUARTERLY INFORMATION**

Set forth below is a summary of selected unaudited financial information for the past eight quarters:

Three Months Ending	2016		2015				2014	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
<b>Revenue</b>	26,351	26,001	50,436	60,578	73,067	64,537	139,031	153,659
<b>Comprehensive income (loss)</b>	(144,643)	324	(511,785)	(64,372)	(35,863)	(54,142)	100,205	50,932
<b>Basic and diluted</b>	(0.01)	(0.00)	(0.07)	(0.01)	(0.00)	(0.01)	0.01	0.01

**Quarter ended June 30, 2016**

The Company reported oil and gas revenues of \$26,351 and \$52,352 for the three and six month period ended June 30, 2016 as compared to \$73,067 and \$137,604 for the 2015 comparative periods. For the three months ended June 30, 2016 compared to June 30, 2015, revenue declined by \$46,716 or 64% whereas for the six-month period of June 2016 compared to June 2015, revenue declined by \$85,252 or 62%. Management attributes the decline to gas prices which continue to be soft and significantly lower than those experienced on average during the first six months of 2015.

Operating oil and gas income expressed as a percentage of net sales after deducting royalties was 72% for the three months ended June 30, 2016 compared to 38% for the comparative 2015 period. The percentage increase was in large, due to significantly lower operating costs and no depletion. For the six-month period ending June 30, 2016, operating oil and gas income expressed as a percentage of net sales after deducting royalties was 65% as compared to 20% for the period ended June 30, 2015. This increase is again due to lower operating costs and no depletion charges during the period.

The Company generated a comprehensive loss of \$144,643 and \$144,319 for the three and six months ended June 30, 2016 respectively as compared to the comprehensive (loss) income of \$(43,995) and \$5,013 for the 2015 comparable periods. Noted below are the other significant line items which would have impacted net income or loss.

Management fees have increased three months on three months from \$27,366 to \$52,105 principally due to ongoing work on the Reverse Take Over (RTO) transaction with Santa Rosa which has required more management time when compared to the prior period. The same holds true for the six months ended June 30, 2016 which increased from \$49,763 to \$63,105 respectively.

There were no evaluation expenses for the three months ended June 30, 2016 and 2015 however for the six months ended June 30, 2016, the Company saw a recovery of \$16,785 mostly from funding that was paid to Nova Scotia several years ago and which was subsequently returned to the Company. This compares to an expense of \$372 in the comparative period.

General and admin costs increased from \$13,294 in the three months ended June 30, 2015 to \$21,575 in the three months ended June 30, 2016. The increase is principally tied to the office move which occurred during May 2016 and an increase in office labour. For the six months ended June 30, 2016, general and admin costs were \$27,349 compared to \$24,445. The increase is for the same reasons as outlined above.

Professional fees increased from \$11,941 for the three months ended June 30, 2015 to \$57,236 for the 2016 comparative period as a result of the RTO transaction with Santa Rosa. For the six months ended June 30, 2016, professional fees increased from \$26,778 to \$53,704. The increase is not as large as compared to the three months to three months noted above. This is due to professional fees being incurred with respect to settlement of debt with the former president which occurred during the first part of 2015.

Shareholder and investor relations remained flat period over period. This meets expectation and no concerted efforts or special measures were taken in any of the quarters.

Stock based compensation is tied to the period in which stock options are issued. During the period ended June 30, 2016, 310,000 options were issued to officers, directors and consultants.

There was a foreign exchange loss for the three months ended June 30, 2016 of \$836 compared to a loss for the comparative period of \$3,591. Foreign exchange gains and losses are directly attributable to the differences in exchange rates between the Canadian and US dollar amounts to be settled in Canadian dollars but denominated in the books and records in USD. For the six months ended June 30, 2016, the Company had a foreign exchange loss of \$6,486 compared to a gain of \$16,391 for the comparative period. The differences are for the same reasons as noted above.

Gain on settlement of debt is tied to the amount of settlements if any, shares to be issued if any and share price. During the three months ended June 30, 2016, the Company entered into settlement arrangements with the former Canuc president, which resulted in a gain on settlement of \$10,800. In the comparative six-month period, a previous settlement was reached with the same individual which resulted in a gain of \$36,000 previously recognized.

## **LIQUIDITY AND CAPITAL RESOURCES**

The activities of Canuc, principally the exploration and acquisition of gold and base metal properties and the acquisition and development of oil and gas properties, are financed through the completion of equity transactions such as equity offerings and the exercise of stock options and warrants. The biggest change in the Company's position is that it has been able to fund the majority of the corporate activities in 2015 and first quarter of 2016 from oil and gas cash flow. The Thompson C drilling, the sixth well on the Thompson Lease, was paid for with cash flow from the Company's existing interests in oil & gas wells. Natural gas prices have been declining since 2014, which has resulted in lower monthly averages in 2016, despite expected higher natural gas volumes. There is no assurance that future cash flows from oil and gas activities will cover the Company's corporate activities.

In the third quarter of 2015 the Company closed a non-brokered private placement through which it financed \$160,000. 3,200,000 Units were subscribed for of which 3,040,000 commons shares and 3,200,000 common share purchase warrants ("Warrants") exercisable at \$0.10 per warrant on or before November 4, 2017 were issued prior to December 31, 2015. During the first quarter of 2016, the remaining 140,000 common shares were issued.

While the Company has growing oil and gas production, it still must utilize its funds obtained from the sale of equity and other financing transactions to maintain its working capital requirements as well as its ongoing exploration programs and operating activities. The Company must raise additional working capital within several months and is currently investigating several financing alternatives. Refer to the "Risks and Uncertainties" section for additional information.

In the future there is no assurance that equity capital will be available to the Company in the amounts or at the times desired by the Company or on terms that are acceptable, if at all.

At June 30, 2016 trade and other payables were \$212,317 (Dec. 31, 2015-\$170,181). The Company's cash position at June 30, 2016 was \$21,650 (Dec. 31, 2015-\$41,072). Accounts receivable were \$34,802 (Dec. 31, 2015-\$54,303). The Company's working capital is in a deficit position both at June 30, 2016 and December 31, 2015 and is not sufficient to pay existing liabilities however, the Company is managing its working capital diligently.

To the date of this MD&A, the cash resources of the Company are held in cash and its credit and interest rate risk is minimal. Accounts payable and accrued liabilities are primarily short-term and non-interest bearing. The Company has no liquidity risk with financial instruments as it only holds cash. In addition, accounts receivable consist primarily of oil and gas sales in Texas, USA and also of sales tax owing from government authorities in Canada. The Company's use of cash to present occurs principally in two areas, funding of its working capital and funding of its investments in oil and gas interests in Texas. Currently, the Company's operating expenses are averaging approximately \$10,000 per month, excluding non-recurring items and non-cash charges. In the future, should the Company acquire new exploration properties it will be required to raise new capital to fund the purchase of, and activities on, those properties.

At June 30, 2016 the Company's working capital deficit was \$158,618 (Dec, 31, 2015- \$67,519). If natural gas prices continue to decline, repairs and maintenance expenses pertaining to wells continue to occur at such levels or Management increases expenditures at the corporate level, additional equity and/or debt financings will be necessary.

#### PROPOSED TRANSACTIONS

On June 9, 2016 the Company entered into a letter of intent to merge with Santa Rosa Silver Mining Corp. "Santa Rosa", a privately held Ontario corporation. The Company will complete the merger by issuing one (1) common share for each two (2) Santa Rosa common shares or on some other ratio once finally approved. The merger is subject to approval by the TSX venture exchange and any other requisite consents, acceptances and/or approvals including but limited to all regulatory and non-regulatory bodies.

#### TRANSACTIONS WITH RELATED PARTIES

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties). The following is a summary of the Company's related party transactions.

##### Rental Payments and Receipts

For the period ended June 30, 2016 rental receipts of \$22,143 (2015-\$5,551) were received from corporations with common directors.

##### Compensation of key management personnel and directors

The remuneration of directors and key management personnel during the period was as follows:

For the period ended June 30, 2016,	2016	2015
Hubert Mockler, Chairman & CEO	\$ 12,000	\$ 5,000
Robert Lelovic, Chief Financial Officer <sup>2</sup>	38,210	10,000
James Macintosh, CFO <sup>1</sup>	-	24,000
	\$ 50,210	\$ 39,000

<sup>(1)</sup> Mr. Macintosh ceased to be CFO in May 2015

<sup>(2)</sup> Mr. Lelovic replaced Mr. Macintosh May 2015

During the period ended March 31, 2015, a short-term loan payable to the former president of the Company in the amount of \$60,000 was converted to 120,000 common shares resulting in a gain on settlement of \$36,000 and which left \$27,100 still payable. During the quarter ended June 30, 2016, settlement terms for the remaining amount was reached. As a result, a gain on settlement of debt of \$10,600 was recorded.

There remains \$9,500 payable of which approximately \$2,500 will be settled conditionally by the issuance of 10,000 common shares of the Company.

There was \$3,660 in accounts payable at June 30, 2016 (June 30, 2015-\$nil) owed to the Chairman and CEO.

There is \$18,985 payable to the Chief Financial Officer at June 30, 2016 (June 30, 2015-\$5,000).

There is \$1,845 payable to a corporation of which a Director of Canuc is the President (June 30, 2015-\$1,556)

### **CRITICAL ACCOUNTING ESTIMATES**

Significant assumptions about the future that management has made and that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to the following:

- The recoverability of accounts receivable that are included in the FS as at June 30, 2016;
- The inputs used in accounting for share based payment transactions in profit or loss;
- Fair value allocation of Units between common shares and warrants
- Management assumption of no material restoration, rehabilitation and environmental, based on the facts and circumstances that existed during the year; and
- Management's position that there are no income tax considerations required within the June 2016 FS.
- Management's estimates of value in use on its oil and gas property and investments.

The Company's financial instruments are considered level 1.

#### *Critical accounting judgments*

The determination of categories of financial assets and financial liabilities has been identified as an accounting policy that involves judgments or assessments made by Management.

Management also makes judgement about its segments, cash generating units, functional currency, when and if deferred taxes are recoverable and the economic recoverability of its investments in oil and gas producing assets.

### **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Set out below is a comparison, by category, of the carrying amounts and fair values of all of the Company financial instruments that are carried in the financial statements and how the fair value of financial instruments is measured.

#### *Fair values*

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

The following provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.



- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of all the Company's financial instruments approximate the carrying value due to the short term nature of the financial instrument.

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (currency fluctuations, interest rates and commodity prices). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

#### *Risks*

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (currency fluctuations, interest rates and commodity prices). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

#### *Credit Risk*

Credit risk is the risk of a financial loss to the Company if a customer is unable to meet its contractual obligations and arises principally from the Company's accounts receivable. The Company currently does not have any revenue producing mineral assets, but does have revenues from oil and gas sales. The Company's receivables are primarily revenues from oil and gas sales and also refundable sales taxes issued by the government of Canada. The Company has not experienced any credit losses in the collection of its receivables.

#### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company has established a standard of ensuring that it has enough resources available to withstand any downturn in the industry. As the natural resource industry is very capital intensive, the majority of our spending is related to capital programs. The Company prepares periodic capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company's goal is to prudently spend its capital while maintaining its credit reputation amongst its suppliers. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

#### *Interest rate risk*

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in certificates of deposit issued by a Canadian chartered bank with which it keeps its bank accounts. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of the Canadian chartered bank.

#### *Foreign exchange risk*

The Company engages in transactions and activities in currencies other than its reported currency. The Company's exploration activities are in the United States of America; ongoing exploration expenses, assets and liabilities are exposed to foreign exchange fluctuations. The Company's revenues and part of its expenses are transacted in US dollars.

*Commodity and equity risk*

The Company is exposed to price risk with respect to commodity and equity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Equity price risk is defined as the potential adverse impact on the Company's comprehensive earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors commodity prices, as they relate to precious and base metals and oil and gas, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depend upon the world market price of precious and base metals and oil and gas. Precious and base metals and oil and gas have fluctuated widely in recent years. There is no assurance that, even if commercial quantities of precious and base metals and oil and gas are produced in the future, a profitable market will exist for them.

*Sensitivity analysis*

Based on Management's knowledge and experience of the financial markets, the Company believes the following assumptions are reasonable for the period ended June 30, 2016: (i), while is subject to floating interest rates, a plus or minus one percentage point change in interest rates would not have a material impact on the Company's reported net loss before comprehensive (loss); (ii), if the US dollar had appreciated/depreciated by 10%, the Company's net loss before comprehensive (loss) would decrease/increase by approximately \$3,500.

**CAPITAL MANAGEMENT**

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company's objective is met by retaining adequate equity to guard against the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements.

The Company considers its capital structure to include cash, cash equivalents and working capital. The Company's working capital deficit is \$158,618 as of June 30, 2016 (Dec, 31, 2015- \$67,519). In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. To assess capital and operating efficiency and financial strength, the Company continually monitors its net cash and working capital.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

**OUTSTANDING SHARE DATA**

As of the date of this MD&A, the Company had 10,186,751 issued and outstanding common shares.

**Warrants Outstanding**

Expiry Date	Exercise Price	Warrants
October 9, 2017	\$1.00	350,000
November 4, 2017	\$0.10	3,200,000
		<b>3,550,000</b>

**Stock Options Outstanding**

Expiry Date	Exercise Price	Options Granted	Options Vested
October 5, 2018	\$0.06	495,000	495,000
May 16, 2019	\$0.10	310,000	310,000
		<b>805,000</b>	<b>805,000</b>

**MANAGEMENT'S RESPONSIBILITY**

Management is responsible for all information contained in this report. The June 30, 2016 unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this report is consistent with that contained in the year end audited consolidated financial statements in all material aspects.

**INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the audited consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the audited consolidated financial statements; and (ii) the audited financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented. In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

**RISKS AND UNCERTAINTIES**

An investment in the securities of the Company is highly speculative and involves numerous and significant risks. Only investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment should undertake such investment. Prospective investors should

carefully consider the risk and uncertainties that have affected, and which in the future are reasonably expected to affect, the Company and its financial position.

**FORWARD-LOOKING STATEMENTS**

Certain statements contained in this discussion, including information as to future activities, events and financial or operating performance of the Company and its projects, constitute forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties that could cause actual events or results to, differ materially from estimated or anticipated activities, events or results implied or expressed in such forward-looking statements. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies.

Generally, forward-looking information can be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, “believes”, or variations of such words and phrases. Forward-looking information may also be identified in statements where certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”.

Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made.

Many factors could cause actual activities and events and the Company’s actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company. These include metal prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions.

These forward-looking statements are made as of the date hereof and the Company disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise. Investors are cautioned that forward-looking statements are not guarantees of future performance and accordingly investors are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein.

August 26, 2016

*Hubert Mockler*

Hubert Mockler  
Chairman and Chief Executive Officer

*Robert Lelovic*

Robert Lelovic  
Chief Financial Officer