

**WELLSTAR ENERGY CORP.**  
**Management's Discussion and Analysis**  
**("MD&A")**  
**For the year ended January 31, 2015**

The following discussion and analysis of the operations, results, and financial position of the Company for the year ended January 31, 2015 should be read in conjunction with the January 31, 2015 and January 31, 2014 Financial Statements and the related Notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. All amounts are expressed in Canadian dollars unless otherwise noted. This MD&A has been prepared as of June 1, 2015.

Additional Information is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**OVERVIEW**

WellStar Energy Corp. (the "Company") was incorporated under the laws of the Province of British Columbia on August 26, 1985. The common shares are publicly traded on the TSX Venture Exchange under the symbol WSE. The Company is in the business of acquisition, exploration and development of oil and gas properties.

The Company's principal business activity has changed from exploration and development of mineral properties to oil and gas properties.

*North Dakota and Montana Oil and Gas Interests*

During the year ended January 31, 2014, the Company purchased 240 net acres in Billings County, which equates to an 18.75% working interest, in one drill spacing unit from the North Dakota Department of Trust Lands for \$137,146 (US\$126,068) and another 924 net acres within a 22,400 gross acre contiguous land package in Sheridan County Montana from Vaalco Energy (USA), Inc. for \$14,281 (US\$13,120).

The Company is waiting for an economic turnaround before these lands can be explored further, the decrease in the price of oil over the past twelve months as made it difficult for Companies in the oil and gas industry. The Company anticipates that funds from future private placements could be used to expand these properties.

*Acquisition of Nexxtep Resources Ltd.*

In February 2015, the Company completed the acquisition of Nexxtep Resources Ltd. ("Nexxtep") from an arm's length vendor. Nexxtep will operate as a wholly owned subsidiary of the Company.

The assets of Nexxtep primarily consist of operated working interests producing approximately 62 net barrels of oil equivalent per day from approximately 6,000 net acres in Saskatchewan and Alberta. This includes 3,500 net acres in Saskatchewan prospective for the Bakken formation, with current production from 3 wells in the Red River and Winnipeg Sand formations. The Assets also include facilities consisting of a salt water disposal well, 5 x 1,000 barrel oil storage tanks and a fresh water source well.

The Company acquired Nexxtep in consideration for aggregate cash payments of \$1,600,000 (subject to adjustment in certain circumstances), including \$200,000 which was paid at closing, and the issuance by the Company of 4,000,000 warrants (the "Acquisition Warrants"). The balance of the cash payment, being \$1,400,000 (the "Deferred Payment"), is payable by monthly installments of \$10,000 plus applicable interest (starting at 2% and increasing by 2% per annum) beginning on March 1, 2015. In addition, the Company is obligated to pay 20% of the gross proceeds of any future securities offering to the vendors until the Deferred Payment has been fully satisfied. Each Acquisition Warrant will entitle the vendor to purchase one common share at an exercise price of \$0.05 until February 17,

2019. Pursuant to applicable securities laws, the Acquisition Warrants and underlying securities are subject to a hold period which expires June 18, 2015.

The Company plans to use proceeds from future financings to increase the production of these assets.

The continuous disclosure materials of the Company, including its annual MD&A and audited financial statements, Information Circular and Proxy Statement, material change reports and press releases issued by the Company are available through the SEDAR system at [www.sedar.com](http://www.sedar.com).

## **FORWARD LOOKING STATEMENTS**

This MD&A includes forward-looking statements. All statements other than statements of historical facts contained in this MD&A, including statements regarding the future financial position, business strategy, plans and objectives of management for future operations, are forward-looking statements. The words “believe”, “may”, “will”, “estimate”, “continue”, “anticipate,” “intend”, “should”, “plan”, “expect” and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. The Company has based these forward-looking statements on the current expectations and projections about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions as described elsewhere in this MD&A.

Other sections of this MD&A may include additional factors that could adversely affect the business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing business environment. New risk factors emerge from time to time and it is not possible for management to predict all risk factors, nor can the Company assess the impact of all factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Readers should not rely upon forward-looking statements as predictions of future events or performance. The Company cannot provide assurance that the events and circumstances reflected in the forward-looking statements will be achieved or will occur. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance, or achievements. The Company does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments other than as required by securities legislation.

## ***RISK FACTORS RELATING TO OIL AND GAS INDUSTRY***

There are many risk factors facing companies involved in the oil and gas industry. Risk Management is an ongoing exercise upon which the Company spends a substantial amount of time. While it is not possible to eliminate all the risks inherent to the industry, the Company strives to manage these risks, to the greatest extent possible. The following risks are most applicable to the Company.

### **Volatility of Prices of Oil and Gas**

The demand for, and price of, oil and gas is highly dependent on a variety of factors, including international supply and demand, the level of consumer demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. Geographic location and a lack of infrastructure may also result in any oil and gas produced being sold at a discount to world market prices for oil and gas. International oil prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future.

A material decline in the price of oil and gas may have a material adverse effect on the Company's business, financial condition, ability to pay dividends and results of operations. The performance of an oil and gas exploration and production company's share price may, but will not necessarily, exhibit a correlation with the price of oil and gas.

## **Environmental**

As the Company will be involved in oil and gas exploration, it is subject to extensive environmental and safety legislation and this legislation may change in a manner that may require stricter or additional standards than those now in effect, a heightened degree of responsibility for companies and their directors and employees and more stringent enforcement of existing laws and regulations. There may also be unforeseen environmental liabilities resulting from oil and gas activities which may be costly to remedy. The extent of potential liability, if any, for the costs of abatement of environmental hazards cannot be accurately determined and, consequently, no assurances can be given that the costs of implementing environmental measures or meeting any liabilities in the future will not be material to the Company or affect its business or operations.

## **Title of Assets**

Although the Company conducts title reviews in accordance with industry practice prior to any purchase of resource assets, such reviews do not guarantee that an unforeseen defect in the chain on title will not arise and defeat our title to the assets. If such a defect were to occur, our entitlement to the production from such assets could be jeopardized.

## **Competition**

A number of other oil and gas companies operate, and are allowed to bid for exploration and production licences and other services, in the country in which the Company operates, thereby providing competition to the Company. Larger, foreign-owned companies, in particular, may have access to greater resources than the Company, may be more successful in the recruitment and retention of qualified employees, and may conduct their own refining and petroleum marketing operations, which may give them a competitive advantage.

## **Financing**

Historically, the Company has raised funds through equity and debt financing and the exercise of options and warrants to fund its operations. The market price of oil and gas resources is highly speculative and volatile. Instability in prices may affect the interest in resource properties and the development of and production from such properties. This may adversely affect the Company's ability to raise capital to acquire and explore resource properties.

## **RESULTS OF OPERATIONS**

### Selected Information

|                                 | January 31, 2015 | January 31, 2014 | January 31, 2013 |
|---------------------------------|------------------|------------------|------------------|
| Loss before other items         | \$ (709,790)     | \$ (775,738)     | \$ (445,493)     |
| Net and Comprehensive loss      | (723,606)        | (788,896)        | (457,455)        |
| Loss per share                  | (0.05)           | (0.07)           | (0.05)           |
| Total assets                    | 320,030          | 213,941          | 123,710          |
| Total liabilities               | 1,107,952        | 1,415,656        | 790,674          |
| Working capital<br>(deficiency) | (642,427)        | (1,362,258)      | (672,229)        |

Fiscal Year Ended January 31, 2015 Compared With Fiscal Year Ended January 31, 2014

The Company incurred a total loss of \$723,606 for the year ended January 31, 2015 when compared with a loss of \$788,896 for the year ended January 31, 2013. Consulting fees and shareholder information and communication increased by \$159,051, and \$58,074 respectively, while professional fees and travel, trade shows and promotion decreased by \$194,430 and \$116,831 respectively.

**SUMMARY OF QUARTERLY RESULTS**

The following table sets out selected quarterly financial information of the Company for the most recent eight quarters stated in Canadian dollars in accordance with IFRS:

| Period Ended                     | 31-Jan    | 31-Oct   | 31-Jul    | 30-Apr   | 31-Jan    | 31-Oct   | 31-Jul   | 30-Apr    |
|----------------------------------|-----------|----------|-----------|----------|-----------|----------|----------|-----------|
|                                  | 2015      | 2014     | 2014      | 2014     | 2014      | 2013     | 2013     | 2013      |
| Net Revenue                      | -         | -        | -         | -        | -         | -        | -        | -         |
| Income (loss) before other items | (282,438) | (73,107) | (292,599) | (75,462) | (407,380) | (74,713) | (68,451) | (225,194) |
| Comprehensive (loss)             | (282,438) | (73,107) | (292,599) | (75,462) | (420,538) | (74,713) | (68,451) | (225,194) |
| Basic gain (loss) per share      | (0.02)    | (0.00)   | (0.03)    | (0.00)   | (0.040)   | (0.010)  | (0.010)  | (0.020)   |

Three months ended January 31, 2015 compared with Three months ended January 31, 2014

The Company incurred a total loss of \$282,438 for the three months ended January 31, 2015 when compared with a loss of \$420,538 for the three months ended January 31, 2014. In the current year, consulting fees and interest increased as a result of the convertible debentures issued during the year. The prior year had an increase in professional fees as a result of the acquisition of the US oil and gas properties and a proposed acquisition that did not complete.

**LIQUIDITY AND CAPITAL RESOURCES**

At this time the Company has no operating revenues. Historically, the Company has funded its operations through equity financing and the exercise of stock options and warrants.

The Company is in the resource exploration and development business and is exposed to a number of risks and uncertainties inherent to the resource sector. This activity is capital intensive at all stages and subject to fluctuations in commodity prices, market sentiment, currencies, inflation, and other risks.

Material increases or decreases in the Company liquidity will be substantially determined by the success or failure of its exploration and development activities, as well as its continued ability to raise capital. Currently, the North Dakota asset acquisition will have significant impact on the Company's future cash flows and operations.

At January 31, 2015 the Company had a cash position of \$52,862 and a working capital deficiency of \$642,427. Subsequent to the year ended January 31, 2015, the Company has announced a private placement, see subsequent events section below.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements

## RELATED PARTY TRANSACTIONS

Related party transactions during the year ended January 31, 2015 are as follows:

- i) Incurred \$78,000 (2014-\$78,000) as management fees and \$17,640 (2014: \$17,605) for office services to Andrew Rees, the CEO of the Company.
- ii) Incurred \$15,608 to a law firm in which Russell Murray, a former director of the Company is a partner. (2014 - \$63,307).
- iii) The Company operates its head office in Vancouver from the premises of Barkerville Gold Mine Ltd., a public company with a common director and officer. Barkerville Gold Mines Ltd. provides office space and accounting, office and administrative services to the Company and various other public companies. During the year ended January 31, 2015, the Company paid \$22,700 (2014 - \$39,913) as salaries and wages, and \$9,257(2014 - \$5,759) as rent expense to Barkerville Gold Mines Ltd.

The amounts included in accounts payable and accrued liabilities of \$185,835 (2014 - \$496,587) are unsecured, non-interest bearing and due on demand.

## SUMMARY OF OUTSTANDING SHARE DATA

| Designation of Security | Amount Authorized | As at January 31, 2015 | As at June 1, 2015 |
|-------------------------|-------------------|------------------------|--------------------|
| Common Shares           | unlimited         | 16,137,768             | 16,137,768         |
| Preferred Shares        | unlimited         | -                      | -                  |
| Warrants                | n/a               | 4,713,280              | 8,713,280          |
| Special Warrants        | n/a               | -                      | -                  |
| Stock Options           | 10%               | 117,068                | 1,375,000          |

## SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, 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:

- i) The carrying value and the recoverability of exploration and evaluation assets, which are included in the statements of financial position. The cost model is utilized and the value of the exploration and evaluation assets is based on the expenditures incurred. At every reporting period, management assesses the potential impairment which involves assessing whether or not facts or circumstances exist that suggest the carrying amount exceeds the recoverable amount.
- ii) The recognition of deferred tax assets. The Company considers whether the realization of deferred tax assets is probable in determining whether or not to recognize these deferred tax assets.
- iii) Bifurcation of the convertible debt into its components. The determination of the fair

value of the liability and embedded derivative components utilizes subjective assumptions including estimates of market interest rates, expected stock price volatility and expected life. Changes in the input assumptions can significantly impact the fair value estimates.

## **ADOPTION OF NEW ACCOUNTING STANDARDS**

The following standards, amendments and interpretations have been adopted by the Company as of February 1, 2014. There were no material impacts on the financial statements as a result of the adoption of these standards, amendments and interpretations:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 32 Financial Instruments
- IAS 36 Impairment of Assets

## **Recent Accounting Pronouncements**

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Corporation:

- IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

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

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, and convertible debentures. Cash has been designated as fair value through profit and loss, receivables as loans and receivables, and accounts payable and accrued liabilities and convertible debentures are designated as other financial liabilities. The fair value of these financial instruments approximates their carrying value due to the short-term nature of these instruments, except for cash which is valued at a level 1 fair value measurement.

The Company is exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate, liquidity and other price risk. There has been no change in the way management managed these risks for the year.

### **a) Credit risk**

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The cash is held in a large Canadian financial institution, which has a strong credit rating from a primary credit rating institution. There is nominal risk associated with receivables as this is due primarily from a government agency.

### **b) Interest rate risk**

Interest rate risk consists of two components:

- (a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Due to the short-term nature of the Company's financial instruments, other than the convertible debentures, fluctuations in market rates do not have a significant impact on estimated fair values as of January 31, 2015. The convertible debentures bear interest at fixed rates and are subject to fair value risk. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on the preservation of capital and liquidity

c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they come due. The Company's ability to continue as a going concern is dependent on management's ability to raise the required capital through future equity issuances. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning, and approval of significant expenditures and commitments.

d) Price risk

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

## **SUBSEQUENT EVENTS**

Subsequent to January 31, 2015, the Company entered into the following transactions not disclosed elsewhere in this document:

- a) Granted 1,375,000 stock options to certain directors, senior officers and consultants of the Company to purchase up to 1,375,000 common shares of the Company at \$0.10 per share exercisable in whole or in part for a term of 36 months from the date of grant.
- b) Issued a promissory note for proceeds of \$203,000. The promissory note bears interest at 10% per annum. As part of the promissory note, the Company issued 1,160,000 Bonus warrants during the year ended January 31, 2015 (See Note 8 and 12 to the financial statements).
- c) Announced a non-brokered private placement in the aggregate amount up to \$500,000 consisting of 9% convertible debenture units of the Company (the "CD Units") in the aggregate principal amount of up to \$500,000 (the "CD Unit Offering") and a concurrent placement of up to 6,250,000 equity units (the "Units") at a price of \$0.08 per Unit (the "Unit Offering"), and up to 5,000,000 Flow Through Units (the "FT Units") at a price of \$0.10 per FT Unit (the "FT Unit Offering") for gross proceeds of up to \$500,000 (the "Unit Offering") and the FT Unit Offering together with the CD Offering (the "Offering").

Each CD Unit will consist of \$1,000 in principal amount of 9.0% convertible debentures (the

“Debentures”) maturing in three years, and that number of common share purchase warrants (the “CD Unit Warrants”) equal to one-half of the shares issuable upon conversion of \$1,000 in principal amount of Debentures. The principal and any accrued and unpaid interest under the Debentures will be unsecured and will be convertible at the holder’s option into fully-paid non-assessable common shares of the Company at: (a) with respect to principal, a conversion price equal to the greater of \$0.10, or the “Market Price” of the Company’s common shares as defined under the policies of the TSX Venture Exchange (the “TSX-V”); and (b) with respect to accrued and unpaid interest at the Market Price of the Company’s common shares at the time of settlement. Each CD Unit Warrant will be exercisable for a period of 24 months from the date of issuance at an exercise price of \$0.12 per common share.

Each Unit will consist of one common share (a “Unit Share”) and one half of one common share purchase warrant (a “Unit Warrant”). Each whole Unit Warrant will entitle the holder thereof to purchase one common share at an exercise price of \$0.10 for a period of 24 months following the closing of the Unit Offering.

Each FT Unit will consist of one common share (a “FT Unit Share”) and one half of one common share purchase warrant (a “FT Unit Warrant”). Each whole FT Unit Warrant will entitle the holder thereof to purchase one common share at an exercise price of \$0.12 for a period of 24 months following the closing of the FT Unit Offering.

A Finder’s fee of 8% may be payable in cash and warrants in accordance with the policies of the TSXV.

#### **DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

Additional disclosure concerning the Company’s general and administrative expenses and resource property expenditures is provided in the Company’s audited financial statements for the year ended January 31, 2015 which is available on SEDAR at [www.sedar.com](http://www.sedar.com).