GROUNDSTAR
RESOURCES LIMITED

2300, 144 – 4th Avenue SW, Calgary, AB T2Y 3N4
Phone: (403) 265-2549 Fax: (403) 265-2558
Email: info@groundstarresources.com
www.groundstarresources.com

Management's Discussion and Analysis
For the period ended January 31, 2017

This Management Discussion and Analysis ("MD&A") of the consolidated financial position and results of operations is prepared as at March 27, 2017 and should be read in conjunction with the unaudited interim consolidated financial statements of Groundstar Resources Limited (the "Corporation" or "Groundstar") for the period ended January 31, 2017 and the audited consolidated financial statements of Corporation for the year ended April 30, 2016. ***All dollar figures included therein and in this MD&A are quoted in United States dollars ($) unless otherwise noted.***

The consolidated financial statements and the data contained in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements referred to above and additional information relevant to the Corporation's activities can be found on SEDAR at www.sedar.com.

Financial Periods

The year end of the Corporation is April 30th. The financial periods referred to in this MD&A are defined, for clarity purposes, as follows:

Period Reference	Definition
Fiscal 2017	The year ended April 30, 2017
Fiscal 2016	The year ended April 30, 2016
Q3 2017	The period from November 1, 2016 to January 31, 2017
Q3 2016	The period from November 1, 2015 to January 31, 2016

Forward-Looking Statements

This MD&A contains forward-looking statements. Forward-looking statements are statements that relate to future events or to our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continues" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including:

Forward-Looking Statements (Continued)

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing oil and natural gas, and market demand;
- the risks and uncertainties involving geology of oil and gas deposits;
- the uncertainty of reserve estimates;
- the uncertainty of estimates and projections relating to exploration, development and production,
- costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;
- risks in conducting foreign operations (for example, political and fiscal instability or the possibility of civil unrest);
- general economic conditions;
- the effect of acts of, or actions against, international terrorism;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld; and
- the risks enumerated in the sections of this MD&A entitled “Additional Disclosures” and “Risks and Uncertainties”

These risks may cause our actual results or the actual results in our industry, or our levels of activity, performance, or achievement, to be materially different from any projected future results, levels of activity, performance or achievements that are expressed or implied in these forward-looking statements. These forward-looking statements are based on the estimates and opinions of our management at the time they are made. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Readers of this MD&A are cautioned not to rely on these forward-looking statements. Except as required by applicable law, we do not intend to update any of the forward-looking statements in this MD&A to conform these statements to actual results.

Groundstar Resources Limited’s Audit Committee and Board of Directors have reviewed and approved the audited consolidated financial statements and related MD&A. As a TSX Venture Issuer, the Corporation has elected to file its Certification of the CEO and CFO on Form 52-109FV1. This “Basic Certificate” does not make any representations relating to the establishment and maintenance of controls, procedures and processes that are required in the full form of certificates under National Instrument 52-109. Investors are therefore cautioned and are advised to read the “Notice to Reader” accompanying the certificates filed by the Corporation.

Outlook

The Corporation presently does not have sufficient resources to enable it to meet its existing obligations and commitments. The Corporation needs to raise additional financing to continue operations. In addition, further financing will be needed to develop the Corporation's oil and gas properties. There is no certainty that Groundstar will be successful in raising the financing necessary to continue operations or to further develop its oil and gas properties. These conditions result in a material uncertainty that casts significant doubt about the Corporation's ability to continue as a going concern.

The Corporation will continue to seek appropriate financing initiatives that benefit the Corporation and its shareholders as well as continue to review other opportunities for the sale or farm-out of existing resource interests.

Canada

The Corporation continues to evaluate acquisition opportunities which meet the Corporation's corporate growth strategy throughout the Canadian basin. The Corporation is focusing on conventional light oil and have built and continue to build an inventory of low risk, high productivity prospects in areas of existing infrastructure and year round access. The Corporation's prospect inventory is characterized by wells which are quick to cash flow and quick to payout.

Saskatchewan – The production associated with the Neilburg area has increased relative to Q2 2017 with Q3 2017 production averaging 32 bopd relative to 30 bopd in Q2 2017 and 11 bopd in Q1 2017. This increase is mainly attributed to the reactivation of the 4-13 well in Q2 and therefore, an increase in the number of days of production. The Corporation is currently evaluating further consolidation opportunities in the Neilburg area.

Egypt

The Corporation is still in the process of resolving the dispute with a joint venture partner in Egypt. In recent months, the Corporation's efforts have been focused on stabilizing its domestic affairs. It is unknown at this time when, or if, the dispute in Egypt will be resolved.

Selected Financial Data

	Three months ended January 31,		Nine months ended January 31,	
	2017	2016	**2017**	2016
Revenues, net of royalties	**$ 79,698**	$ 48,114	**$ 193,568**	$ 610,759
Expenses	**457,079**	241,864	**734,510**	1,145,500
Net loss	**(377,381)**	(193,750)	**(540,942)**	(534,741)
Net loss per share – basic & diluted	**(0.01)**	(0.01)	**(0.01)**	(0.02)
Capital expenditures	**179,347**	262,227	**196,790**	464,727
Total assets			**593,328**	636,135
Total liabilities			**1,576,991**	1,067,703

Discussion of Operations

Revenue

The Corporation received oil sales, net of royalties, of $79,698 in Q3 2017 compared with $48,114 in the same period of Fiscal 2016. Production in Q3 2017 (2,914 net barrels) was slightly higher relative to Q3 2016 (2,838 net barrels) as a result of the reactivation of the 4-13 well in Q2 of 2017. However, the main driver of this increase in revenue less royalties is the recovery in price received per barrel from $20.01 in Q3 of 2016 to over $29.00 in both of Q2 and Q3 of 2017.

The Corporation has received oil sales, net of royalties, of $193,568 in Fiscal 2017 compared with $610,759 in the same period of Fiscal 2016. Production in Fiscal 2017 (6,745 net barrels) was lower relative to Fiscal 2016 (21,814 net barrels). This was due to the steep natural production declines in the Neilburg area in Q1 and Q2 of 2016. This has resulted in the Corporation undertaking several workovers with its joint venture partner. The 4-13 well has been reactivated and it is hoped that further improvement will be achieved. Stronger prices at the beginning of fiscal 2016 led to the average price received in the first three quarters of fiscal 2016 being $34.57, $5.11 higher than the $29.46 received in the same period of the current year.

Operating Expenses

Operating expenses of $60,779 during Q3 2017 were higher compared to $26,657 in Q2 2017 and $36,886 in Q3 2016. The reason for the increase is primarily the result of workover operations completed or started in Q3 of 2017 in the hopes of increasing production from the Neilburg wells.

Q3 2017 Select Quarterly Operating Data

		Q3 2017		Q2 2017	Q3 2016
Revenues	$	84,864	$	81,998	56,799
Revenues per boe		29.12		29.18	20.01
Royalties		5,166		-	8,685
Royalties per boe		1.77		-	3.06
Operating expenses		60,779		26,657	36,886
Operating expenses per boe		20.86		9.49	13.00
Total production (bbls)		2,914		2,810	2,838

Q3 2017 Select year to date Data

		Fiscal 2017		Fiscal 2016	Variance
Revenues	$	198,734	$	754,095	(555,361)
Revenues per boe		29.46		34.57	(5.11)
Royalties		5,166		143,336	(138,170)
Royalties per boe		0.77		6.57	(5.80)
Operating expenses		99,664		201,960	(102,296)
Operating expenses per boe		14.78		9.26	5.52
Total production (bbls)		6,745		21,814	

Discussion of Financial Results

Going Concern

The Corporation's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the extinguishment of liabilities in the ordinary course of business. See the discussion below under the title Financial Condition / Liquidity and Capital Resources.

Revenue

Revenue increased quarter over quarter as a result of increased production averaging 32 bopd in Q3 2017 relative to 30 bopd in Q2 2017. This increase is mainly attributed to increased efficiencies and the reactivation of the 4-13 well in Q2.

Royalties

For much of 2017, the Corporation's production volumes fell below the threshold needed before royalties are charged. As a result, the Corporation did not record a royalty expense until the third quarter.

Operating expenses

Operating expenses increased quarter over quarter due to workovers and higher oil processing fees.

General and Administrative Expenses

For the nine month period ended January 31,		2017		2016
Accounting, audit and legal	$	**151,321**	$	265,597
Listing and filing fees, transfer agent and investor relations		**8,166**		34,726
Management and consulting fees		**81,806**		74,878
Office and miscellaneous		**50,006**		97,887
	$	**291,299**	$	473,088

In 2017, the cost control measures that the Corporation has implemented have helped reduce the general and administrative expense by a significant margin. The Corporation continues to seek further reductions to the general and administrative expense.

Other Expenses

During 2017 the Corporation recorded an increase to its accrual for PartXII.6 tax and shareholder indemnities of $59,640 and $215,014 respectively. The Corporation raised capital through the issuance of flow through shares in 2012 & 2013 and provided an indemnity to the subscribers for additional taxes payable if the Corporation was unable to, or failed to, renounce the qualifying expenditures as agreed. Previously, the Corporation reported that it had estimated a shortfall in expenditures of C$315,723 and had accrued Part XII.6 tax of $41,093 and a shareholder indemnity at that time of $95,723. In preparation for and during a Canada Revenue Agency audit of these years the Corporation became aware that it had underestimated the shortfall in spending and thus accrued the above amounts. The Corporation was not able to spend C$812,997 of the flow through funds raised for these two years. The Corporation is exposed to costs for the indemnification of the subscribers. The Corporation has estimated and accrued a potential liability in the amount of $311,988 at January 31, 2017. In addition, the Corporation has accrued $100,733 for Part XII.6 tax, penalties and interest related to the Flow Through shares. The accrued amount

for the indemnity is subject to measurement uncertainty due to the tax filing positions of the subscribers, their tax rates and the amount of personal taxes that may be payable and the interpretation of the indemnity agreement, which will not be known until potentially affected subscribers are reassessed for their tax positions by the Canada Revenue Agency and these amounts become known to the Corporation. During the year ended April 30, 2016, $2,200 was paid to a director and officer of the Corporation in relation to the balances owing in connection with the shareholder indemnity liability. The above estimate of shortfall and accrual for Part XII.6 taxes have been confirmed by the Canada Revenue Agency audit which happened subsequent to quarter end. See subsequent events.
The Corporation also raised C$575,000 and C$222,000 through the issuance of flow through shares in December 2014 and 2015 respectively. It met its' obligation to incur a corresponding amount of qualifying expenditures by December 31, 2015 and 2016 respectively

Exploration and evaluation assets

Cost		**Egypt**		**Canada**		**Total**
As at April 30, 2015	$	7,263,160	$	99,220	$	7,362,380
Additions		-		50,470		50,470
Foreign exchange		-		(1,912)		(1,912)
As at April 30, 2016	$	7,263,160	$	147,778	$	7,410,938
Additions		-		10,945		10,945
Foreign exchange		-		(1,061)		(1,061)
As at January 31, 2017	$	7,263,160	$	157,662	$	7,420,822
Accumulated impairment		**Egypt**		**Canada**		**Total**
As at April 30, 2015	$	7,263,160	$	-	$	7,263,160
Impairment		-		113,890		113,890
Foreign exchange		-		6,640		6,640
As at April 30, 2016	$	7,263,160	$	120,530	$	7,383,690
Impairment		-		36,324		36,324
Foreign exchange		-		808		808
As at January 31, 2017	$	7,263,160	$	157,662	$	7,420,822
Carrying value		**Egypt**		**Canada**		**Total**
As at April 30, 2016	$	-	$	27,248	$	27,248
As at January 31, 2017	$	-	$	-	$	-

E&E assets consist of the Corporation's evaluation projects and are pending the determination of technical feasibility and commercial viability based on proven or probable reserves.

On April 5, 2016, the Corporation entered into a farm-in agreement (the 'Agreement') giving the Corporation the right to explore and develop land in the Huxley area of Alberta. Under the terms of the Agreement the Corporation was required to drill a test well by December 31, 2016. If the Corporation failed to do so, the Corporations right to develop this area would expire. No such well was drilled and accordingly, the right to develop the area did expire. As a result, the corporation has impaired the remaining balance of its E&E assets in Canada in the current quarter.

For the nine-month period ended January 31, 2017, $nil (2016 - $nil) were transferred to property, plant and equipment – development and production assets.

Property and equipment

Cost		Office furniture and equipment		Development and production assets (D&P)		Total
As at April 30, 2015	$	4,085	$	2,291,400	$	2,295,485
Additions		-		455,329		455,329
Disposals		-		(215,760)		(215,760)
Foreign exchange		(760)		(65,263)		(66,023)
As at April 30, 2016	$	3,325	$	2,465,706	$	2,469,031
Additions		-		185,845		185,845
Disposals		-		(165,308)		(165,308)
Foreign exchange		-		(66,155)		(66,155)
As at January 31, 2017	$	3,325	$	2,420,088	$	2,423,413

Accumulated depletion, depreciation and impairment		Office furniture and equipment		Development and production assets (D&P)		Total
As at April 30, 2015	$	3,697	$	1,737,286	$	1,740,983
Depletion and depreciation		457		356,506		356,963
Direct write-off		-		237,751		237,751
Impairment reversal		-		(145,250)		(145,250)
Foreign exchange		(829)		(42,674)		(43,503)
As at April 30, 2016	$	3,325	$	2,143,619	$	2,146,944
Depletion and depreciation		-		61,150		61,150
Foreign exchange		-		(53,903)		(53,903)
As at January 31, 2017	$	3,325	$	2,150,866	$	2,154,191

Carrying value		Office furniture and equipment		Development and production assets (D&P)		Total
As at April 30, 2016	$	-	$	322,087	$	322,087
As at January 31, 2017	$	-	$	269,222	$	269,222

The calculation of depletion expense includes future development costs of $nil (2016 - $nil).

At April 30, 2016, the Corporation reviewed its oil and gas assets for indicators of impairment such as changes in future prices, future costs and reserves.

At April 30, 2016, the Corporation tested its CGU for impairment as well as the potential reversal of prior period impairments where indicators were present. The recoverable amounts of the Corporation's CGU, where indicators were present, was estimated using a value in use model based on the net present value of the before tax cash flows from oil and gas proved plus probable reserves estimated by the Corporation's third party reserve evaluators discounted at a rate of 12%.

Impairment reversals are recognized to the extent of the original impairment recorded, but are limited to the net book value that would exist had the original impairment never been recorded, including estimates for depletion. In determining the appropriate discount rate the Corporation considered the acquisition metrics of recent transactions completed on assets similar to those in the specific CGU.

2016
At April 30, 2016, it was determined that impairment reversal triggers, given the value of reserves attributed to the CGU by the Corporation's third party engineers, existed in the CGU and therefore, the following estimates were used in determining whether a reversal to the carrying value of the CGU existed:

Year	CDN Light Sweet Crude 40 API (C$/bbl)	Western Canada Select 20.5 API (C$/bbl)	Exchange Rate ($US/$Cdn)
2016	53.08	38.75	0.780
2017	66.51	54.53	0.830
2018	74.83	62.86	0.870
2019	84.44	70.93	0.900
2020	86.61	72.76	0.900
2021	87.91	73.85	0.900

Prices increase at a rate of approximately 1.5% across all products per year after 2021 until the end of the reserve life.

During the year ended April 30, 2016, the Corporation directly wrote-off $237,751 of costs associated with a dry hole. Offsetting this write-off was a reversal of prior period impairments of $155,705.

Contractual Obligations and Commitments

Term Loan

On November 24, 2016, the Corporation executed a loan agreement (the "Loan Agreement") with a private Alberta-based lender (the "Lender") under which it borrowed $191,875 to fund its general working capital requirements and to further operations on its properties. The Loan Agreement provides that the funds advanced shall be repayable over a term of twelve months, starting on December 15, 2016, subject to an extension of an additional twelve months with the consent of the Lender. In consideration of the loan amounts provided under the Loan Agreement, the Corporation shall pay interest in the amount of 10% per annum on all amounts borrowed. In addition, pursuant to the Loan Agreement, the Corporation will be providing security on all of its assets to the Lender as collateral for the loan pursuant to a general security agreement. The Corporation anticipates servicing the amounts owing under the Loan Agreement through revenue generated by its operating activities.

In connection with the Loan Agreement, the Corporation paid a finder's fee in the amount of 5% of the amount advanced under the Loan Agreement to Steeple Capital Partners, a Corporation of which Stephen Hughes, a director of the Corporation, is a significant shareholder and an officer. The TSX Venture Exchange has granted discretionary relief allowing for the payment of this finder's fee given that the finder was specifically commissioned by the Corporation to locate, arrange or acquire this measureable benefit for the Corporation which it would not have otherwise obtained.

Prior Flow Through Share Offerings – See Other Expenses above

Other tax matters

In December 2016, the Corporation completed a private placement (the "Private Placement"), issuing 8,125,000 common shares on a flow-through basis (the "FTS") for total gross proceeds of

$122,005 ($0.02 per FTS). The Corporation is committed to spend this amount on eligible drilling projects by December 31, 2017. To date, none of this amount has been spent.

During the year ended April 30, 2016, the Corporation accrued penalties and interest totaling $217,025 relating to other tax matters which is also included in accounts payable and accrued liabilities as at April 30, 2016.

Financial Condition / Liquidity and Capital Resources

The Corporation is currently making a strong effort to reduce general and administrative expenses and to formulate a strategy which will ensure the Corporation's ability to continue as a going concern. Commodity prices and the natural declines on the Corporation's producing assets have cast significant doubt on the Corporation's ability to continually meet its obligations and commitments without additional financing as discussed below.

The Corporation presently does not have sufficient resources to enable it to meet its existing obligations and commitments. The Corporation needs to raise additional financing to continue operations. In addition, further financing will be needed to develop the Corporation's oil and gas properties. There is no certainty that Groundstar will be successful in raising the financing necessary to continue operations or to further develop its oil and gas properties. These conditions result in a material uncertainty that casts significant doubt about the Corporation's ability to continue as a going concern.

The Corporation reported a net loss of $540,942 for the nine month period ended January 31, 2017 and has a working capital deficiency of $1,179,670 as at January 31, 2017.

The nature of development activities is that they are capital intensive and the nature of oil and gas properties is that the production will naturally decline over time. Internally generated cash flows may be insufficient to fund the type of development that would be necessary to maintain production over the intermediate to longer term.

The Corporation's ability to continue as a going concern is dependent upon the ability to raise capital, the generation of positive cash flow, the maintenance of its existing reserve and production base and the success of a yet to be determined development and exploration program. There is no certainty that such events will occur and that sources of financing will be obtained on terms acceptable to management. Whether and when the Corporation can attain profitability and positive cash flows is also uncertain and as such the Corporation may be unable to realize its assets and discharge its liabilities in the normal course of business including the qualifying expenditure obligations relating to the issuance of flow-through shares. These uncertainties cast significant doubt about the Corporation's ability to continue as a going concern unless the Corporation receives additional capital, debt financing or significant proceeds from the sale or farm-out of assets.

The Corporation will continue to seek appropriate financing initiatives that benefit the Corporation and its shareholders as well as continue to review other opportunities for the sale or farm-out of existing resource interests.

Details of future financial commitments are outlined in the Contractual Obligations and Commitments section above.

The reader is directed to the Corporation's unaudited interim financial statements for the nine months ended January 31, 2017 and its audited financial statements for the year ended April 30,2016.

Quarterly Information

	Net Revenues	Net Expenses	Net Loss	Loss Per Share
Q3 – January 31, 2017	$ 79,698	$ 457,079	$ (377,381)	$ (0.01)
Q2 – October 31, 2016	81,998	168,391	(86,393)	0.00
Q1 – July 31, 2016	31,872	109,043	(77,171)	0.00
Q4 – April 30, 2016	39,472	257,881	(218,409)	0.00
Q3 – January 31, 2016	48,114	241,865	(193,750)	(0.01)
Q2 – October 31, 2015	205,057	475,977	(270,920)	(0.01)
Q1 – July 31, 2015	440,854	427,659	13,195	(0.01)
Q4 – April 30, 2015	138,965	1,820,673	(1,681,708)	(0.06)

Off Balance Sheet Arrangements

The Corporation has no off balance sheet arrangements other than those previously disclosed elsewhere.

Financial Instruments

The Corporation does not use derivatives, hedges or other like financial instruments.

Financial and Capital Risk Management

The Corporation is exposed to financial risk on its financial instruments including cash, restricted cash, accounts receivable and accounts payable and accrued liabilities and the shareholder indemnity liability. The Corporation manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical.

Fair value

The carrying value of these financial instruments approximates fair value primarily due to the short-term maturity of these financial instruments.

The main financial risks affecting the Corporation are discussed below:

Commodity price risk

The ability of the Corporation to develop its interest in its oil and gas exploration blocks is directly related to the market price of oil and gas. The Corporation does not use financial derivatives or physical delivery sales contracts and accordingly, commodity price risk is negligible.

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial instruments on hand at the balance sheet date. The Corporation has informal policies in place to ensure that transactions are made to parties with an appropriate credit history and monitors on a continuous basis the aging profile of its receivables, if any. The majority of the Corporation's financial instruments subject to credit risk are cash and accounts receivable. When joint operations are conducted on behalf of a joint venture partner relating to capital expenditures, the costs of such operations are paid for in advance to the Corporation by way of a cash call by the partner of the operations being conducted. Accounts receivable are presented in the consolidated balance sheet net of any allowances for doubtful accounts. Revenues from oil sales taken in kind are normally collected on the 25th day of the month following the production month. Net revenues where paid by the operator are normally collected in the second month following the production month. The total accounts receivable balance of $46,572 includes $37,854 due from one customer which is not past due as at January 31, 2017. No allowance for doubtful accounts has been established as at January 31, 2017 or April 30, 2016. The credit risk on cash is considered by management to be limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. On a quarterly basis, the Corporation assesses whether there should be any impairment of the financial instruments. There are no material financial instruments that the Corporation considers past due. No impairment of financial assets has occurred as of January 31, 2017.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Corporation's functional currency. The Corporation's management monitors the exchange rate fluctuations on a regular basis and acts accordingly. The Corporation operates in several geographic areas and is exposed to foreign currency risk primarily on the Canadian dollar to United States dollar exchange rate. The Corporation does not use currency derivative instruments to manage the Corporation's exposure to foreign currency fluctuations. At January 31, 2017, the carrying amount of the Corporation's Canadian dollar denominated net monetary assets and liabilities were C$429,390 and C$1,390,053, respectively. Assuming that all other variables remain constant.

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk on its cash and restricted cash as these financial instruments bear interest at rates that fluctuate with the prime rate. Given the nominal value invested in interest-bearing accounts, the risk is immaterial for the Corporation. The Corporation currently does not use interest rate hedges to manage the Corporation's exposure to interest rate fluctuations.

Liquidity risk

Liquidity risk includes the risk that, as a result of the Corporation's operational liquidity requirements:

- The Corporation will not have sufficient funds to settle a transaction on the due date;
- The Corporation will be forced to sell financial assets at a value which is less than what they are worth; or
- The Corporation may be unable to settle or recover a financial asset at all.

The Corporation has an appropriate liquidity risk management framework for monitoring and assessing the Corporation's short, medium and long-term funding and liquidity requirements.

The Corporation's cash requirements and balances are projected based on forecasted operations and capital expenditures. The Corporation plans to meet these requirements through the mix of available funds, equity financing on a required basis, sale or farm-out of assets, project debt financing and cash to be provided by the exercise of warrants and share options in the future. Continuing operations are dependent on the Corporation's ability in the near term to access sufficient capital to complete exploration and development activities, identify commercial oil and gas reserves and to ultimately have profitable operations (see <u>Financial Condition/ Liquidity and</u>

Capital Resources above.)

Capital management

The Corporation defines capital as total shareholders' equity (deficiency). As at January 31, 2016, the Corporation's total shareholders' deficiency amounted to $(983,663) (April 30, 2016 – $(564,616)) in shareholders' deficiency. The Corporation manages its capital structure to maximize financial flexibility making adjustments in light of changes in economic conditions and risk characteristics of the underlying assets. Each potential investment opportunity is assessed to determine the nature and amount of capital required together with the relative proportions of debt and equity to be deployed to ensure that the Corporation and its subsidiaries will be able to continue as a going concern and to provide a return to shareholders through exploring, appraising and developing its assets. The Corporation's ability to raise additional capital is uncertain. The Corporation does not presently utilize any quantitative measures to monitor its capital and is not subject to any externally imposed capital requirements.

Transactions with Related Parties

For the nine months ended January 31, 2017, the consolidated financial statements include management and consulting fees of $43,550 (2016 - $36,450) that were paid directly or indirectly to officers and directors of the Corporation, legal fees of $27,609 (2016 - $93,677) were paid to a law firm of which our Corporate Secretary is an associate. These amounts were recorded at the exchange amount and reflected in the financial statements as follows:

	2017	2016
General and administrative	**$ 64,755**	$ 130,127
Share issuance costs	**6,404**	-
	$ 71,159	$ 130,127

Included in accounts payable and accrued liabilities as at January 31, 2017 was $25,424 (April 30, 2016 - $23,343) owing in respect of these fees. Key management includes the current Directors, the Chief Operating Officer and Chief Financial Officer. The compensation paid or payable to key management for the nine month periods ended January 31, 2017 and 2016 is as follows:

	2017	2016
Tyron Pfeifer, Chief Operating Officer	**30,411**	21,870
Murray Stodalka, Director	**-**	7,290
Dale Hammons, Director	**-**	7,290
Stephen Hughes, Director	**13,139**	-
Stock-based compensation *	**8,441**	26,205
	51,991	62,655

The management and consulting fees paid to the directors and officers of the Corporation during Fiscal 2017 relate to these individuals ongoing participation in helping to stabilize the Corporation and in developing a strategic plan for the Corporation. This amount includes a finder's fee paid in relation to the Loan Agreement (See Contractual Obligations and Commitments above).

Additional Disclosures

Contingencies

Regulatory

Oil and gas operations are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. The Corporation's operations may require licenses and permits from various governmental authorities in the countries in which it operates. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development of its projects. The political and security situation in some of the jurisdictions where the Corporation operates are unsettled and volatile.

Risk Assessment

There are a number of risks facing participants in the oil and gas industry. Some risks are common to all participants while others are specific to the Corporation. The following are a number of identifiable business risks faced by Groundstar which will evolve and additional risks will emerge periodically. The risks shown are those identified by management at the date of completion of this report and may not describe all of the risks faced by the Corporation.

Substantial Capital Requirements

The Corporation anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As the Corporation's revenues may decline as a result of decreased commodity pricing, it may be required to reduce capital expenditures. In addition, resource price fluctuations and uncertain levels of near term industry activity exposes the Corporation to additional financing risks. There can be no assurance that debt or equity financing, or funds generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's business financial condition, results of operations and prospects.

Third Party Credit Risk

The Corporation may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner.

Outstanding Shares and Other Equity Instruments

The following securities were outstanding as at the date of this report:

Common shares	44,626,150
Preferred shares	400,000
Warrants (1)	795,800
Share options (2)	1,270,000

(1) The outstanding warrants carry a weighted-average exercise price of C$0.07.

(2) The outstanding options carry exercise prices ranging from C$0.05 to C$0.20.

Recent Accounting pronouncements

The Corporation has reviewed the 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' is the first step in the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2018. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The Corporation is currently assessing the impact of this standard.

IFRS 15, "Revenue from Contracts with Customers" which replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years commencing on or after January 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of this amended standard.

IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. The new standard is effective for periods beginning on or after January 1, 2019. The Corporation is currently analyzing the impact of the new standard.

Risks and Uncertainties

The Corporation is currently conducting exploration and evaluation of domestic and international oil and gas business opportunities and has a risk of not finding any asset that may lead to profitable operations. There can be no assurances that the shareholders will realize any profits from their investment in the Corporation and may lose their entire investment. The Corporation's common shares are listed on Tier 2 of the TSX Venture Exchange (the "Exchange"). The long-term viability for the Corporation may depend, in part, on its ability to raise additional investment capital. The Corporation currently has two consultants and maintains liability insurance. If its operations change, Groundstar may add appropriate coverage to cover some of the risks associated with its new business activities. The Corporation carries Directors and Officers liability coverage. Although its insurance program is consistent with industry practice, not all risks may be insured against.

The Corporation is subject to several risk factors including, but not limited to: foreign exchange and currency risks; general risks related to foreign operations such as political, economic, regulatory and other uncertainties as they relate to both foreign investment policies and energy policies;

governments exercising from time to time significant influence on the economy to control inflation; developing environmental regulations in foreign jurisdictions; discovery of new oil and natural gas reserves; commodity prices; that the Corporation anticipates substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the long-term for which it may require additional financings to implement its business plan.

Principal Business Risks

The Corporation's business and results of operations are subject to a number of risks and uncertainties which are outlined under the heading "Risk Factors" in the AIF for the year ended April 30, 2014 and also including, but not limited to the following:

Crude Oil and Natural Gas Development

Exploration, development, production of oil and natural gas involves a wide variety of risks which include but are not limited to the uncertainty of finding oil and gas in commercial quantities, securing markets, commodity price fluctuations, exchange and interest rate exposure and changes to government regulations, including regulations relating to prices, taxes, royalties and environmental protection. The oil and gas industry is intensely competitive and the Corporation competes with a large number of companies with greater resources.

The Corporation's ability to obtain reserves in the future will depend not only on its ability to develop its current properties but also on its ability to acquire new prospects and producing properties. The acquisition, exploration and development of new properties also require that sufficient capital from outside sources will be available to the Corporation in a timely manner. The availability of equity or debt financing is affected by many factors many of which are beyond the control of the Corporation.

Foreign Operations

There are a number of risks associated with conducting foreign operations over which the Corporation has no control, including political instability, potential and actual civil disturbances, ability to repatriate funds, changes in laws affecting foreign ownership and existing contracts, environmental regulations, oil and gas prices, production regulations, royalty rates, income tax law changes, potential expropriation of property without fair compensation and restriction on exports.

Addition of Reserves and Resources

The Corporation's future crude oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on the Corporation successfully discovering and developing or acquiring new reserves and resources. The addition of new reserves and resources will depend not only on the Corporation's ability to explore and develop properties but also, in the case of reserves, on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Corporation's exploration, development or acquisition efforts will result in the discovery and development of commercial accumulations of oil and natural gas.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of reserves, including many factors beyond the control of the Corporation. Estimates of reserves depend in large part upon the reliability of available geological and engineering data and require certain assumptions to be made in order to assign reserve volumes. Geological and engineering data is used to determine the probability that a reservoir of oil and/or natural gas exists at a particular location, and whether, and to what extent, such hydrocarbons are recoverable from the reservoir. Accordingly, the ultimate reserves discovered by the Corporation may be significantly less than the total estimates.

Exploration Risks

The exploration of the Corporation's properties may from time to time involve a high degree of risk that no production will be obtained or that the production obtained will be insufficient to recover drilling and completion costs. The costs of seismic operations and drilling, completing and operating wells are uncertain to a degree. Cost overruns can adversely affect the economics of the Corporation's exploration programs and projects. In addition, the Corporation's seismic operations and drilling plans may be curtailed, delayed or cancelled as a result of numerous factors, including, among others, equipment failures, weather or adverse climate conditions, shortages or delays in obtaining qualified personnel, shortages or delays in the delivery of or access to equipment, necessary governmental, regulatory or other third party approvals and compliance with regulatory requirements.

Subsequent Events

During February and March of 2017, Canada Revenue Agency conducted an audit of the Corporation's flow through programs for the 2012, 2013 and 2014 Flow Through Share offerings. This audit confirmed that the Corporation had underspent the 2012 and 2013 Flow Through Share offerings by a total of C$812,997 and that the Corporation had met its $575,000 commitment for the 2014 year. Further, the audit confirmed $100,733 liability for Part XII.6 tax, penalties and interest related thereto. Accordingly, the Corporation made the accruals for shareholder indemnity discussed above under Other Expenses. The Corporation is currently in discussion with Canada Revenue Agency and the final amount of shareholder indemnity is unknown.