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## **Management’s Discussion and Analysis For the nine-month period ended January 31, 2018**

This Management Discussion and Analysis (“MD&A”) of the consolidated financial position and results of operations is prepared as at April 3, 2018 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, 2018 and the audited consolidated financial statements of Corporation for the year ended April 30, 2017. ***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](http://www.sedar.com).

### **Financial Periods**

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

| <b>Period Reference</b> | <b>Definition</b>                                    |
|-------------------------|--|
| Fiscal 2018             | The year ended April 30, 2018                        |
| Fiscal 2017             | The year ended April 30, 2017                        |
| Q3 2018                 | The period from November 1, 2017 to January 31, 2018 |
| Q3 2017                 | The period from November 1, 2016 to January 31, 2017 |

### **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.

## **Going Concern**

This MD&A and 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. Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due.

The Corporation reported a net loss of \$353,899 (\$540,942 – 2017) and generated negative cash flow from operating activities of \$66,162 (\$257,595 – 2017) for the nine-month period ended January 31, 2018 and has a working capital deficiency of \$1,812,896 (\$1,341,996 – April 30, 2017) and a shareholders' deficiency of \$1,664,881 (\$1,189,252 – April 30, 2017) as at January 31, 2018. Subsequent to the second quarter there has been no production from the Corporation's operating wells and the Corporation's share of the cost of a workover to bring three of the wells back on production is approximately \$14,000. The Corporation does not presently have the necessary cash to pay this amount. Subsequent to the quarter the Corporation failed to make December 2017 interest payments due on its term loans and they are in default. The lenders of the term loans (Note 9) have not called their loans or taken other steps to enforce their security but they could do so at any point in time, which would result in the Corporation being pushed into bankruptcy or a receivership situation.

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. As at the date of these financial statements, the Corporation is in discussion with several groups which may provide a financing solution to the Corporation. There is no certainty that these discussions will be successful. See the discussion below under the title Financial Condition / Liquidity and Capital Resources.

## **Outlook**

Management and the Corporation 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. As at the date of this MD&A the Corporation is in discussion with several groups which may provide a financing solution to the Corporation. There is no certainty that these discussions will be successful.

## **Canada**

The Corporation continues to evaluate potential financing opportunities.

Saskatchewan – The production associated with the Neilburg area Nil barrels of oil per day (“bopd”) has declined relative Q2 2017 (30 bopd). This was the result of all of the wells in the Neilburg area being shut-in for the quarter. Management is working with the operator of this property to resolve this situation and anticipate that a workover of most of these wells will occur in the third quarter of 2018 with full production resuming either in that quarter or the fourth quarter. Subsequent to the third quarter there has been no production from the Corporation's operating wells and the Corporation's share of the cost of a workover to bring three of the wells back on production is approximately \$14,000. The Corporation does not presently have the necessary cash to pay this amount.

## **Egypt**

The Corporation is still in the process of resolving the dispute with a joint venture partner in Egypt. In the past two years, 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.

## **Discussion of Operations and Financial Results**

### **Fiscal 2018 Select Financial and Operating Data**

#### **Financial**

|                                  | Three months ended |           | Nine months ended |            |
|----------------------------------|--------------------|-----------|-------------------|------------|
|                                  | January 31,        |           | January 31,       |            |
|                                  | 2018               | 2017      | 2018              | 2017       |
| Revenues, net of royalties       | \$ -               | \$ 79,698 | \$ 18,975         | \$ 193,568 |
| Expenses                         | 63,414             | 457,079   | 372,874           | 734,510    |
| Net loss                         | 63,414             | 377,381   | 270,328           | 540,942    |
| Loss per share – basic & diluted | (0.00)             | (0.01)    | (0.01)            | (0.01)     |
| Capital expenditures             | -                  | 179,347   | -                 | 196,790    |
| Total assets                     | 321,890            | 593,328   | 321,890           | 593,328    |
| Total liabilities                | 1,986,771          | 1,499,938 | 1,986,771         | 1,499,938  |
| Total non-current liabilities    | 81,805             | 77,053    | 81,805            | 77,053     |

#### **Operations**

|                            | Q3 2018 | Q2 2018  | Variance |
|----------------------------|---------|----------|----------|
| Revenues                   | \$ -    | \$ 8,744 | (8,744)  |
| Revenues per bbl           | -       | 36.18    | (36.18)  |
| Royalties                  | -       | 6,801    | (6,801)  |
| Royalties per bbl          | -       | 28.14    | (28.14)  |
| Operating expenses         | -       | 12,049   | (12,049) |
| Operating expenses per bbl | -       | 49.86    | (49.86)  |
| Total production (bbls)    | -       | 242      |          |
| Production per day (bbls)  | -       | 3        |          |

#### **Revenue**

The Corporation did not received oil sales, in Q3 2018 compared with \$79,698 in the same period of Fiscal 2017. Production was stopped given the fact that the companies producing properties were shut in for the quarter pending the completion of necessary workovers.

These shut-ins also resulting in a reduction in the Corporations year to date results. The Corporation has received oil sales, net of royalties, of \$18,975 in Fiscal 2018 compared with \$193,568 in the same period of Fiscal 2017. Production in Fiscal 2018 (704 net barrels) was lower relative to Fiscal 2017 (6,745 net barrels).

#### **Royalties**

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In Saskatchewan, crown royalties are strongly impacted by price changes and volumes. At the low volumes of actual production changes in prior period accrual can result in royalty numbers that are at odds with the change in production and revenue. Such is the case for the first two quarters of fiscal 2018.

### Operating expenses

Operating expenses has decreased to NIL in Q3 2018 because of properties were shut in for the quarter.

### Non-Direct Operations Expenses and Financial Result

#### General and Administrative Expenses

| Nine months ended January 31,                                  | 2018       | 2017       |
|--|------------|------------|
| Accounting, audit and legal                                    | \$ 86,183  | \$ 151,321 |
| Listing and filing fees, transfer agent and investor relations | 10,500     | 8,166      |
| Management and consulting fees                                 | 131,946    | 81,806     |
| Office and miscellaneous                                       | 20,494     | 50,006     |
|  | \$ 249,124 | \$ 291,299 |

The Corporation's Q3 Fiscal 2018's management and consulting fees increased relative to Q2 Fiscal 2017 as a consequence of the Corporation's increased efforts to raise capital and to locate and exploit attractive development opportunities. The year to date results were similarly impacted.

### Depletion and Depreciation

Depletion and depreciation expense fell from \$27,023 in Q3 2017 to \$116 in Q3 2018. Similarly, for the nine-months ended January 31, depletion and depreciation expense fell from \$61,149 in 2017 to \$6,368 in 2018. These drops were caused by much lower production resulting from the well shut-ins discussed above.

### Stock Based Compensation

This was reduced from \$1,595 in Q3 2017 to \$Nil in Q3 2018 and for the nine-months ended January 31, from \$8,441 in 2017 to \$1,602 in 2018. These amounts were reduced by the steadily reducing price at which options have been issued over the past several years and by the fact that there have been no recent grants of options.

### Tax and Tax Related Items

During nine-months ended January 31, 2018, the Corporation recorded an increase to its shareholder indemnity liability of \$54,260 as the Corporation was unable to meet the spending requirements in connection with the flow-through shares that were raised in December 2016.

During 2017, the Corporation recorded an increase to its accrual for PartXII.6 tax and shareholder indemnities of \$59,240 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. At April 30, 2016, the Corporation reported that it had estimated a shortfall in expenditures of C\$315,434 and had accrued Part XII.6 tax of \$36,924 (included in accounts payable and accrued liabilities) and a shareholder indemnity at that time of \$95,723. In preparation for and during a Canada Revenue Agency audit of the flow through shares, which occurred in the fourth quarter of the 2017 fiscal year, the Corporation became aware that it had underestimated the

shortfall in spending and thus accrued the above additional amounts.

The Corporation was not able to spend C\$812,997 of the flow through funds raised in 2012 and 2013 and as a result, the Corporation is exposed to costs for indemnification of the subscribers for certain tax losses they incur as a result. The Corporation has estimated and accrued a potential indemnity liability in the amount of \$297,557 at July 31, 2017. In addition, the Corporation has accrued \$100,480 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 ("CRA") and these amounts become known to the Corporation. Subsequent to the end of the second quarter management has been advised by various shareholders that they are now receiving such communication from CRA and they have forwarded copies of same to the Corporation. These communications were as expected by the Corporation and have not resulted in a change to management's estimate of the ultimate potential indemnity liability. Hence, no adjustment to this liability was made in the quarter. During the three-month period 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 was confirmed by the Canada Revenue Agency audit which happened in the fourth quarter. At the time of issuing flow through shares, the flow through share premium is recognized and recorded as a tax and relate item liability. The premium liability is derecognized through other income when qualifying expenditures are renounced to the investor and incurred by the Corporation.

#### **Net Loss**

The net loss for Q3 2018 and for the nine months of Fiscal 2018 was \$63,008 and \$353,899, respectively, as compared to a loss of \$377,381 and \$540,492 during the same periods in 2017. The largest factor in this reduction was much lower oil sales (\$25,143 versus \$198,734) primarily as a result of lower production volume (704 bbls versus 6,745 bbls in 2017). In addition to lower revenue, the Corporation's shareholder indemnity expense and increased interest expense also contributed to the increase in losses.

## Exploration and evaluation assets

| <b>Cost</b>                               | <b>Total (Canada)</b> |          |
|---|-----------------------|----------|
| As at April 30, 2016                      | \$                    | 147,778  |
| Additions                                 |                       | 21,905   |
| Foreign exchange                          |                       | (822)    |
| <hr/>                                     |                       |          |
| As at January 31, 2018 and April 30, 2017 | \$                    | 168,861  |
| <hr/>                                     |                       |          |
| <b>Accumulated impairment</b>             | <b>Total</b>          |          |
| As at April 30, 2016                      | \$                    | 120,530  |
| Impairment                                |                       | 47,284   |
| Foreign exchange                          |                       | 1,047    |
| <hr/>                                     |                       |          |
| As at January 31, 2018 and April 30, 2017 | \$                    | 168,861  |
| <hr/>                                     |                       |          |
| <b>Carrying value</b>                     | <b>Total</b>          |          |
| As at April 30, 2017                      | \$                    | -        |
| <b>As at January 31, 2018</b>             | <b>\$</b>             | <b>-</b> |

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 Corporation's 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 impaired the remaining balance of its E&E assets in Canada in the 2017 fiscal year.

For the nine-month period ended January 31, 2018, \$nil (2017 - \$nil) were transferred to property, plant and equipment – development and production assets.

## Property and equipment

| <b>Cost</b>                   |           | <b>Total</b>     |
|-------------------------------|-----------|------------------|
| As at April 30, 2016          | \$        | 2,465,706        |
| Additions                     |           | 174,468          |
| Disposals                     |           | (165,308)        |
| Foreign exchange              |           | (147,073)        |
| As at April 30, 2017          | \$        | 2,327,793        |
| Additions                     |           | -                |
| Disposals                     |           | -                |
| Foreign exchange              |           | 38,297           |
| <b>As at January 31, 2018</b> | <b>\$</b> | <b>2,366,090</b> |

| <b>Accumulated depletion, depreciation and impairment</b> |           | <b>Total</b>     |
|---|-----------|------------------|
| As at April 30, 2016                                      | \$        | 2,143,619        |
| Depletion and depreciation                                |           | 73,064           |
| Foreign exchange  |           | (123,031)        |
| <b>As at April 30, 2017</b>                               | <b>\$</b> | <b>2,093,652</b> |
| Depletion and depreciation                                |           | 6,368            |
| Foreign exchange  |           | 36,250           |
| <b>As at January 31, 2018</b>                             | <b>\$</b> | <b>2,136,270</b> |

| <b>Carrying value</b>         |           | <b>Total</b>   |
|-------------------------------|-----------|----------------|
| As at April 30, 2017          | \$        | 234,141        |
| <b>As at January 31, 2018</b> | <b>\$</b> | <b>229,820</b> |

\*All property and equipment items pertain to the Corporation's Development and Production assets (D&P)

The calculation of depletion expense includes future development costs of \$6,368 (2016 - \$nil).

During the third quarter of Fiscal 2017, the Corporation, as part of a joint operation, drilled an oil well in the Pierson area of Manitoba. These expenditures allowed the Corporation to meet its flow-through spending commitments for the 2016 year. The Corporation's joint interest partner opted to buy 100% of the Corporation's working interest in the well at a loss to the Corporation of \$16,518.

Subsequent to the second quarter there has been no production from the Corporation's operating wells and the Corporation's share of the cost of a workover to bring three of the wells back on production is approximately \$14,000. The Corporation does not presently have the necessary cash to pay this amount. The carrying value of these properties have not been written down as it is anticipated that upon completion of a workover they will return to production. Should such a workover not be completed, the carrying value of these properties will be impaired..

## **Contractual Obligations and Commitments**

### **Term Loans**

The Corporation executed a loan agreement (the “Loan Agreement”) with a lender (the “Lender”) under which it borrowed \$203,375,000 (C\$250,000). The Loan Agreement provides that interest on the funds advanced shall be payable monthly with the principal repayable on December 15, 2017, subject to an extension of an additional twelve months with the consent of the Lender. However, the interest payment due December 1, 2017 has not been paid and the loan is technically in default. 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, and as per an amending agreement dated August 25, 2017, the lender will receive a carried interest of 10% of the Corporation’s interest in the Corporation’s next capital project, such carried interest to have a value (to be agreed by the Lender and the Corporation) of at least C\$25,000. In addition, pursuant to the Loan Agreement, the Corporation has provided security in all of its assets to the Lender as collateral for the loan pursuant to a general security agreement.

In connection with the Loan Agreement, the Corporation paid a finder’s fee in the amount of 5% (\$9,150) 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.

On August 25, 2017 the Corporation announced that it has executed a loan agreement (the “Loan Agreement”) with a private Alberta-based lender (the “Lender”) which allowed the Corporation to borrow an amount of up to CDN\$100,000 to fund its general working capital requirements and to further operations on its properties. The Loan Agreement provided that the funds advanced shall be repayable over a term of sixty days, starting on August 25, 2017, subject to an extension of an additional thirty days with the consent of the Lender. In consideration of the loan amounts provided under the Loan Agreement, the Company shall pay interest in the amount of 10% per annum on all amounts borrowed. In addition, pursuant to the Loan Agreement, the Company has provided security in all of its assets to the Lender as collateral for the loan pursuant to a general security agreement. The Lender is a private company which is owned and controlled by Mr. Dale Hammons, a director of the Company. Mr. Hammons recused himself from all deliberations regarding the establishment of the Loan Agreement. The Company anticipated servicing the amounts owing under the Loan Agreement through revenue generated by its operating activities. However, there has been no production from the Corporation’s wells in the third quarter of 2018. This loan was not repaid when due nor was the December 2017 interest payment made. This loan is in default as at the date of these financial statements.

The lenders of the term loans have not called their loans or taken other steps to enforce their security but they could do so at any point in time, which would result in the Corporation being pushed into bankruptcy or a receivership situation.

On November 6, 2017 the Corporation loaned from PI Financial Corp. CDN\$20,000 to fund its general working capital requirements. In connection with the Loan Agreement, the Corporation paid a finder’s fee in the amount of 8% (\$1,600).

### **Prior Flow Through Share Offerings – See Tax and Tax Related Items 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 (\$0.015 per FTS). The Corporation was committed to spend this amount on eligible expenditures by December 31, 2017. This amount was not spent within the required time period and accordingly an additional \$54,260 has been accrued as an indemnity amount.

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The Corporation has accrued penalties and interest totaling \$220,613 (2017 - \$219,655) relating to other tax matters which is included in accounts payable and accrued liabilities as at April 30, 2017 and 2016.

### **Preferred shares**

On July 14, 2014, the Corporation issued 400,000 convertible preferred shares at a price of \$0.92 (C\$1.00) per preferred share for total gross proceeds of \$369,638 (C\$400,000). Between 12 and 30 months after the closing date, the preferred shares could have been converted by the shareholder into common shares of the Corporation. After 30 months, the preferred shares could be convertible by either the shareholder or the Corporation. In the event of a conversion, each preferred share converts into 4 common shares. The preferred shares have a cumulative dividend rate of 10% per year. In addition, the holder of the preferred shares was to have received a 25% carried interest in a well in Alberta if it was drilled, the Corporation was unable to raise the financing for the well and it was not drilled and the land expired. At January 31, 2018 the cumulative unpaid preferred share dividend is \$66,889. This and any dividends that cumulate in the future must be paid before any amount is distributable to common shareholders.

The Corporation has become aware of a potential lawsuit for return of the subscription amount paid for preferred shares in 2014 in the amount of \$325,400 (C\$400,000). The Corporation's management consider this potential lawsuit to be without merit and accordingly have made no allowance for it. No legal action has been commenced in this regard as of April 3, 2018.

### **Financial Condition / Liquidity and Capital Resources**

The Corporation has made 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. However, commodity prices and natural declines on the Corporation's producing assets have left the Corporation with an inability 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 \$353,899 (\$540,942 – 2017) and generated negative cash flow from operating activities of \$66,162 (\$257,595 – 2017) for the nine-month period ended January 31, 2018 and has a working capital deficiency of \$1,812,896 (\$1,341,996 – April 30, 2017) and a shareholders' deficiency of \$1,664,881 (\$1,189,252 – April 30, 2017) as at January 31, 2018. Subsequent to the second quarter there has been no production from the Corporation's operating wells and the Corporation's share of the cost of a workover to bring three of the wells back on production is approximately \$14,000. The Corporation does not presently have the necessary cash to pay this amount. Subsequent to the quarter the Corporation failed to make December 2017 interest payments due on its term loans and they are in default. The lenders of the term loans (Note 9) have not called their loans or taken other steps to enforce their security but they could do so at any point in time, which would result in the Corporation being pushed into bankruptcy or a receivership situation.

The lenders of the term loans have not called their loans or taken other steps to enforce their security but they could do so at any point in time, which would result in the Corporation being pushed into bankruptcy or a receivership situation.

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 are 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 financial statements for the nine-month period ended January 31, 2018 and the audited financial statements for the year ended April 30, 2017 for further particulars of matters discussed herein.

### **Quarterly Information**

|                       | <b>Net Revenues</b> | <b>Net Expenses</b> | <b>Net Loss</b> | <b>Net Per Share</b> |
|-----------------------|---------------------|---------------------|-----------------|----------------------|
| Q3 – January 31, 2018 | \$ -                | \$ 63,008           | \$ (63,008)     | \$ 0.00              |
| Q2 – October 31, 2017 | 1,943               | 166,241             | (164,298)       | 0.01                 |
| Q1 – July 31, 2017    | 15,899              | 121,929             | (106,030)       | 0.00                 |
| Q3 – January 31, 2017 | 79,698              | 457,079             | (377,381)       | 0.01                 |
| Q2 – October 31, 2016 | 81,998              | 168,391             | (86,393)        | 0.01                 |
| Q1 – July 31, 2016    | 31,872              | 109,043             | (77,171)        | 0.01                 |
| Q4 – April 30, 2016   | 39,472              | 257,881             | (218,409)       | 0.00                 |
| Q3 – January 31, 2016 | 48,114              | 241,865             | (193,750)       | 0.01                 |

### **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 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 are normally collected on the 25<sup>th</sup> day of the month following the production month. The total accounts receivable balance of \$53,604 includes accounts receivable due from one company of \$51,429 which were mostly current as at January 31, 2018. Offsetting this amount, is accounts payable of \$84,284 payable to the same company for a net amount owing of \$32,856. This amount remains outstanding. No allowance for doubtful accounts has been established.

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, 2018.

#### *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, 2018, the carrying amount of the Corporation's Canadian dollar denominated net monetary assets and liabilities were C\$113,177 and C\$1,717,408 respectively.

#### *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 further discussion in note 2).

#### *Capital management*

The Corporation defines capital as total shareholders' equity (deficiency). As at January 31, 2018, the Corporation's total capital resources amounted to a shareholders' deficiency totaling

\$(1,664,881) (April 30, 2017 – \$(1,189,252)). 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, 2018 the consolidated financial statements include management and consulting fees of \$130,694 (2017 - \$43,550) that were paid directly or indirectly to officers and directors of the Corporation, legal fees of \$3,365 (2017 - \$27,609) were paid to a law firm in which our Corporate Secretary is an associate. These amounts were recorded at the exchange amount and reflected in the financial statements as follows:

|                            | <b>2018</b>       | <b>2017</b>      |
|----------------------------|-------------------|------------------|
| General and administrative | <b>\$ 134,059</b> | <b>\$ 64,755</b> |
| Share issuance costs       | <b>-</b>          | <b>6,404</b>     |
|                            | <b>\$ 134,059</b> | <b>\$ 71,159</b> |

The compensation paid or payable to key management for the six-month periods ended January 31, 2018 and 2016 is as follows:

|  | <b>2017</b>   | <b>2017</b> |
|--|---------------|-------------|
| Tyron Pfeifer, Chief Operating Officer | <b>4,005</b>  | 30,411      |
| Stephen Hughes, Director               | <b>73,380</b> | 13,139      |
| Stock-based compensation               | <b>1,602</b>  | 8,441       |
|  | <b>78,987</b> | 51,991      |

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).

During fiscal 2017 2,000,000 flow-through shares at C\$0.015 per share (2016 1,000,000 flow-through shares at \$0.04 (C\$\$0.05) per share) were subscribed to by and issued to directors.

## **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, and/or production volume 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.

#### *Potential Litigation*

The Corporation has become aware of a potential action for the return of the subscription amount paid for the preferred shares in 2014. This C\$400,000 amount is equivalent to \$325,400 USD at January 31, 2018. The Corporation's management consider this potential action to be without merit and accordingly have made no allowance for it. No legal action has been commenced in this regard as of the date hereof

## **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 <sup>(1)</sup>      | 555,000    |
| Share options <sup>(2)</sup> | 1,010,000  |

(1) The outstanding warrants carry a weighted-average exercise price of C\$0.05.

(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 seeking additional financing and business opportunities and has a risk of not finding any solution 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 depends, 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;

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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 three-month period 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**

The corporation announced that it has closed on a non-brokered private placement of a maximum of \$70,000 aggregate principle amount of convertible debenture units (the "Convertible Debenture Units" or "CDUs") at a price of CAD\$1,000 per Convertible Debenture Unit. The Company issued a total of \$35,000 principle amount of CDUs. Each CDU consists of a debenture in the principal amount of CAD\$1,000 (the "Convertible Debenture") and bear interest at 12% and include warrants (the "Warrants") exercisable into 50,000 common shares in the capital of the Company (the "Offering"). Each Warrant will be exercisable to acquire one common share in the capital of the Company (each, a "Warrant Share") at an exercise price of \$0.05 per Warrant Share for a period of two years following the Closing Date.

The Convertible Debentures will bear interest from the Closing Date at 12.0% per annum, payable semi-annually on June 30 and December 31 of each year and will expire on the date that is two years from the closing date (the "Maturity Date"), will be secured by the assets of the Company and be subordinate to any existing secured parties of the Company. The Convertible Debentures are convertible into common shares in the capital of the Company ("Debenture Shares") at the option of the holder at any time prior to the close of business on the earlier of: (i) the last business day immediately preceding the Maturity Date; and (ii) the date when the Common Shares are consolidated, at a pre consolidation price of \$0.02 per Common Share (the "Conversion Price"), subject to adjustment in certain events.