MONTANA

EXPLORATION CORP

Management's Discussion and Analysis

For the Three Months Ended March 31, 2017 and 2016

Forward Looking Statements

This MD&A contains forward-looking statements. These statements relate to future events or future performance of the Company. When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "predict", "seek", "propose", "expect", "potential", "continue", and similar expressions, are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Company's current views with respect to certain events, and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance, or achievements to vary from those described in this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated, or expected. Specific forward-looking statements in this MD&A, among others, include statements pertaining to the following:

- factors upon which the Company will decide whether or not to undertake a specific course of action;
- expectations regarding the Company's ability to raise capital;
- commodity prices;

With respect to forward-looking statements in this MD&A, the Company has made assumptions, regarding, among other things:

- the impact that increasing competition plays in the Company's ability to acquire, develop and produce petroleum and natural gas reserves on an economic basis or at all;
- the Company's ability to obtain additional financing on satisfactory terms or at all;
- the Company's ability to obtain exploration and development services and equipment on an economic basis or at all; and
- the Company's ability to attract and retain qualified personnel.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- general economic conditions;
- volatility in global market prices for petroleum and natural gas;
- competition;
- liabilities and risks, including environmental liability and risks, inherent in petroleum and gas operations;
- the availability of capital; and
- alternatives to and changing demand for petroleum products.

Furthermore, statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitable in the future.

The forward–looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. These statements speak only as of the date of this MD&A. The Company does not intend and does not assume any obligation, to update these forward-looking statements to reflect new information, subsequent events or otherwise, except as required by law.

Basis of Presentation

The financial results discussed below include the results of Montana Exploration Corp. ("Montana" or "the Company") and its wholly-owned subsidiaries Alberta Selecta Corporation, ANG Holding Corp., ANG Holding

(U.S.) Corp., Montana Land & Exploration, Inc., AltaCanada Energy Partnership, Gale Force Petroleum Inc, GFP Texas Inc. (U.S.) and GFP Central USA Inc. (U.S.).

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Company's condensed interim consolidated financial statements for the three months ended March 31, 2017 and 2016. This discussion is based on information available to and is dated May 30, 2017. The reporting currency is the Canadian dollar. Production and reserve numbers are stated before deducting crown, state and lessor royalties. The accompanying condensed interim consolidated financial statements of Montana have been prepared by management and approved by the Company's Audit Committee and Board of Directors. These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 31, Interim Financial Reporting. Additional information relating to Montana can be found on the SEDAR website at www.sedar.com.

New information has been obtained about facts and circumstances that existed as of the acquisition date of Gale Force Petroleum Inc. ("Gale Force") that would have affected the measurement of the amounts recognized as of September 18, 2015 and forward. The Company's working interest in one of its properties was decreased by the arbitration award of some of its working interest to another party. This new financial information has been reflected in this MD&A. Please refer to Note 15 in the Company's condensed interim consolidated financial statements for the three months ended March 31, 2017 and 2016 for further information and the accounts affected.

On August 3, 2016 a five for one share consolidation was completed. These financial and operating results for the three months ending March 31, 2017 and 2016 are prepared on the basis of the post-consolidation number of common shares outstanding.

Use of Non-GAAP Financial Measures

This Management's Discussion and Analysis and the accompanying report to shareholders and financial statements contain the following:

"*Cash flow used in operations before changes in non-cash working capital and cash interest paid"* - "Cash flow used in operations before changes in non-cash working capital and cash interest paid" should not be considered an alternative to, or more meaningful than "cash flow used in operating activities" as determined in accordance with generally accepted accounting principles ("GAAP") as an indicator of the Company's performance. Cash flow used in operations before changes in non-cash working capital and cash interest paid has no standard definition under IFRS or GAAP, and therefore may not be comparable with the calculation of similar measures for other entities. Management uses cash flow used in operations before changes in non-cash working capital and cash interest paid to analyse operating performance and leverage and considers cash flow used in operations before changes in non-cash working capital and cash interest paid to be a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments and to repay debt. The reconciliation between cash flow used in operating activities and cash flow used in operations before changes in non-cash working capital and cash interest paid is as follows:

	Three months ended March 31,	
	2017	**2016**
Cash flow used in operating activities	(1,347,534)	(639,276)
Less: Cash interest paid	14,312	-
Less: Changes in non-cash working capital	739,184	7,291
Cash flow used in operations before changes in non-cash working capital and cash interest paid	**(594,038)**	**(631,985)**

"Net debt" – "Net debt is a non-GAAP measure. Net debt is defined as the total of current and long term promissory notes, the current portion of decommissioning liabilities and working capital deficiency.

Management believes this measure is a useful supplementary measure of the total amount of current and long-term debt.

"Operating netback" - This term does not have any standardized meaning prescribed by IFRS and therefore might not be comparable with the calculation of a similar measure for other companies. It is a term utilized by the Company to evaluate the operating performance of petroleum and natural gas assets. The term operating netback is defined as petroleum and natural gas revenues plus gas processing income less royalties and operating expenses plus (minus) the realized gain (loss) on derivative contracts, if applicable.

"BOE" is a term utilized by the Company in relation to reserves or production to combine the volumetric measures of natural gas, light petroleum, heavy petroleum and natural gas liquids ("NGLs") to a common "barrel of oil equivalent" term of measurement. Natural gas volumes have been converted at the ratio of 6,000 cubic feet of natural gas to one BOE and this conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Light petroleum, heavy petroleum and NGLs have been converted at the ratio of one barrel of these liquids to one BOE. Use of the terms BOE and amounts per BOE without reference to the underlying commodity may be misleading. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio on a 6:1 basis may be misleading as an indication of value.

Going concern

The Company's condensed interim consolidated financial statements have been prepared using International Financial Reporting Standards applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

For the three months ended March 31, 2017, the Company continued to have negative cash flow from operating activities before changes in non-cash working capital and cash interest paid of $594,038 (three months ended March 31, 2016 - $631,985), reported a loss of $425,163 (three months ended March 31, 2016 - $894,406), and has net debt (defined as the total of the current and long term promissory notes, the current portion of decommissioning liabilities and working capital deficiency) of $7,843,697 (year ended December 31, 2016 - $9,228,608) and an accumulated deficit of $79,446,930 (year ended December 31, 2016 - $79,021,767). Continuing negative cash flows from operations have reduced the ability of the Company to develop its assets and address its working capital deficiency, and have added layers of challenge to achieving other corporate goals. These issues and larger macro-economic factors have made it extremely difficult to access external financing for asset development. Certain promissory notes are past due and in default. Holders of these notes have the right to pursue remedies available under the general security agreements associated with the notes. One of the Company's joint venture partners has initiated legal action seeking payment of invoices and liquidated damages of $329,037. The Company does not dispute the amount owing. Judgements were awarded by the Courts for $332,524 on December 7, 2016. Payment arrangements are under negotiation, and payments of approximately $110,000 have been made to May 30, 2017. All amounts have been fully accrued in the March 31, 2017 trade and other payables balance.

On February 12, 2016, the Company received an abandonment order on one of its wells in the State of Montana. The estimated abandonment obligations for this well and certain other wells which the Company intends to abandon within the next year of $142,283 has been moved from non-current to current liabilities on the condensed interim consolidated statement of financial position. A plan has been initiated and work is scheduled to begin as soon as weather permits in the State of Montana.

The matters and conditions noted above indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Company has conceived an overriding financing plan designed to stimulate economic oil and gas activity on the Company's lands and associated additions to reserves, production and cash flow while at the same time reducing indebtedness over a reasonable period to return the Company to positive cash flow with a minimal amount of debt. The financing plan includes a combination of joint venture activities where funds are invested directly in exploration and production, and also new equity to fund the Company's ongoing general and administrative expenses and to reduce debt. The Company has continued to borrow monies from the Company's controlling shareholder and where possible has sought to defer payments on amounts owing and to exchange debt for shares. The Company currently has no bank indebtedness. The Company may also seek to sell non-core assets.

The Company has undertaken the following specific actions:

a) New Equity: Continued seeking financing through new equity, in order to fund activity on its significant asset base and to pay outstanding trade payables, advances from shareholders and promissory notes.

b) Joint Venture: Worked with several parties, on a best-efforts basis, to assist the Company with seeking a joint venture partner to undertake an oil exploration and development program in the Shaunavon oil cash-generating unit ("CGU") located in the State of Montana and to drill oil and natural gas targets on the Company's lands in accordance with the Company's earning provisions with a large Montana-based utility. An acceptable joint arrangement would include an equalization payment in recognition of the Company's investment to date, and also a defined drilling commitment. Fees are contingent on closing of a successful arrangement. The Company has successfully negotiated two such joint venture arrangements to date.

c) Utility Agreement: Executed an agreement (the "Utility Agreement") ratified by the Board of Directors on November 30, 2015 whereby Montana became the strategic drilling partner of a utility company in the State of Montana. The Utility Agreement is a farm-in that covers approximately 315,000 acres in Blaine and Hill Counties in the State of Montana, including the rights to develop the shallow Eagle gas zone and to pursue the Shaunavon oil prospect and all other zones throughout the acreage. Under the terms of the Utility Agreement, the Company is required to drill a minimum of ten wells throughout the farm-in acreage within 12 months of the spud date of the first well, of which at least six wells must be Eagle gas wells. The first well was spudded on October 25, 2016. Following the initial drilling program, the Company has continual drilling rights throughout the farm-in Acreage as long as each new well spuds within 90 days of completion of the prior well. The Company also has an arrangement with its partner to receive and review interpretations of the partner's 3D seismic data, which covers over 250 square miles, including the farm-in acreage. The Company concentrated on the seismic data during 2016, and has generated an inventory of prospects and locations that it has begun to pursue. The Company will act as the operator of the drilling program. Montana drilled and cased the first well under the Utility Agreement at Tiger Ridge 14-17-31N-19E.

d) Loans: Secured promissory notes from a significant shareholder and Director (related party) of the Company of $100,000 USD, $160,000 USD and $66,500 USD were received on April 7, 2016, May 12, 2016 and June 22, 2016, respectively, and secured promissory notes were issued with three year terms bearing 10% interest per annum. On July 27, 2016, a short-term, one year note for $400,000 USD was issued bearing a 10% per annum interest rate. In October 2016, a total additional $440,000 USD in one-year term secured promissory notes were made from the same party, at 10% interest per annum.

e) Debt for shares: The Company entered into three agreements to exchange promissory notes and trade and other payables for Common Shares in March 2017. In total, $309,958 in debt was retired in exchange for 1,589,527 common shares. The Company will continue to pursue debt for shares arrangements where mutually agreeable.

f) Drilling farm-out A: In September of 2016, the Company negotiated a five well farm-out joint venture agreement with a company controlled by its largest shareholder, Rioco Partners, Ltd., ("Rioco") whereby Rioco will pay for approximately 100% of the drilling costs of five wells on certain of the Company's lands in the State of Montana. Rioco will earn a 75% working interest in the Company's interest in the wells until Rioco has recovered their capital investment, at which point their working interest will revert to a 50% working interest in the Company's interest, and the Company will then be left with an approximately 50% working interest in the properties. Rioco will also earn a 50% working interest in Montana's interest in the lands comprising the prospect associated with each well drilled, which Rioco has the option to exchange for a 5% gross overriding royalty in each prospect. The goal of this five well project was to test and prove up the geological themes and oil and gas reserves the Company believes to exist on its extensive land base primarily in respect to Shaunavon oil targets and Eagle natural gas targets. Once proven, further investment will be sought to pursue further exploration. The drilling project began in October of 2016. All five wells were drilled in 2016, and the completions were done in early 2017. At May 30, 2017, two of the wells are productive and three will be abandoned.

g) Asset disposition: In November of 2016, the Company exercised its preemptive right to purchase certain assets located in the State of Texas when the partner who operated the property conditionally sold them. The Company negotiated a transaction whereby the Company bought and then immediately re-sold the assets, bundling in its own working interest in the property for sale, and also negotiated a separate deal whereby it settled the Carried Working Interest receivable that has been outstanding since May of 2015 and other receivables associated with the property, and assigned the Judgement awarded in the Texas courts on the 12.5% working interest and a large receivable with little likelihood of collection that had been attributed to yet another party. In so doing, the Company disposed of a non-core asset and received cash for an otherwise illiquid and unsecured asset, and disposed of the need to continue pursuing certain legal matters. Additionally, the Company reduced its decommissioning liability by approximately $100,000 with the disposal of these assets. The Company received consideration of $50,000 USD from the buyer for exercising the pre-emptive right for their benefit, and an additional $150,000 USD for the Company's approximately 6.5% working interest. The transaction closed in January 2017. No reserve or book value was associated with this property. In total, the Company collected a combined $816,198 USD ($1,086,360 CDN) in cash for this series of transactions in November 2016 and January 2017.

h) Drilling farm-out B: On February 23 2017, the Company announced a farm-out agreement which includes new investment of up to $20 million USD in funds to be used primarily for drilling and development of the Company's acreage in the State of Montana. This strategic agreement is with a US-based family office group, an unrelated arm's length third party. The Company is waiting on the advance of funds.

i) Other asset dispositions: The Company is exploring ways of monetizing assets, including but not limited to the disposition of non-core assets, to help create further short-term liquidity.

The Company requires financing for working capital and the exploration and development of its properties and continues to actively seek alternative sources of funds. The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict and there can be no assurance whether financing efforts will be successful or if the Company will attain profitable levels of operation. Without access to further third-party funding, this material uncertainty casts significant doubt about the Company's ability to continue as a going concern. The Company's condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenue and expenses and statement of financial position classifications that would be necessary if the Company is unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Operating and Financial Results Summary

Operating Results:	Three months ended March 31, 2017		Three months ended March 31, 2016	
Natural gas (mcf/d)	362		616	
Oil and NGLs (bbl/d)	23		7	
Oil equivalent (BOE/d)	**84**		**110**	
Natural gas (mcf)	32,604		56,015	
Oil and NGLs (bbl)	2,093		620	
Oil Equivalent (BOE)	**7,527**		**9,956**	
% natural gas	**72**		**94**	
Average natural gas price ($/mcf)	2.56		1.71	
Average oil and NGLs price ($/bbl)	42.46		40.91	
Average total price ($/BOE)	**23.06**		**12.19**	
Financial Results:	**$**	**$/BOE**	**$**	**$/BOE**
Petroleum and natural gas sales	172,179	22.88	121,656	12.22
Processing fee income	1,376	0.18	4,172	0.42
Royalties	(32,836)	(4.36)	(25,517)	(2.56)
Operating expenses	(145,117)	(19.28)	(161,571)	(16.23)
Operating netback	**(4,398)**	**(0.58)**	**(61,260)**	**(6.15)**
General and administrative expense	(489,639)	(65.05)	(553,657)	(55.61)
Interest expense	(83,904)	(11.15)	(45,394)	(4.56)
Unrealized foreign exchange gain	25,016	3.32	72,578	7.29
Net foreign exchange loss	(24,294)	(3.23)	(3,275)	(0.33)
Corporate netback	**(577,219)**	**(76.69)**	**(591,008)**	**(59.36)**
Depletion, depreciation and amortization	(26,275)	(3.49)	(2,772)	(0.28)
Lease expiries	(57,081)	(7.58)	(130,474)	(13.11)
Reversal of (impairment) of exploration and evaluation assets	776	0.10	(23,843)	(2.39)
Impairment of property, plant and equipment	-	-	(110,051)	(11.05)
Accretion	(27,874)	(3.70)	8,709	0.87
Stock-based compensation	-	-	(44,967)	(4.52)
Loss on settlement of debt	(39,738)	(5.28)	-	-
Gain on disposition of assets	302,248	40.16	-	-
Net loss before income taxes	**(425,163)**	**(56.48)**	**(894,406)**	**(89.84)**
Capital expenditures ($)	**17,652**		**88,820**	
# of gross wells	**-**		**-**	
# of net wells	**-**		**-**	
Net debt ($)	**7,843,697**		**7,703,021**	
Outstanding common shares	**59,053,455**		**49,790,875**	
Weighted average outstanding common shares:				
Basic	**56,400,074**		**49,790,875**	
Diluted	**56,400,074**		**49,790,875**	

The Company concentrated its efforts in 2015 on consolidating its land position and enhancing its prospective lands and associated seismic base, and finding ways to enhance liquidity and manage its working capital deficiency. These efforts resulted in acquiring the ownership interests of a former partner, restoring the Company to a nearly 100 percent working interest in its core holdings. The Company also closed an acquisition which improved the Company's cash position, and completed a farm-in transaction with a large US based utility that materially increased the Company's effective land position in the Shaunavon play and gave it access to a significant 3D seismic data base. The farm-in has a number of attractive elements including favorable long-term earning provisions and cooperative terms that require the utility to pay for the tie-in of new commercial gas wells. These wells will in turn support the utility's gas distribution and power businesses.

With its exploration and evaluation position firmly established, the Company focused in 2016 on deepening its understanding of the seismic data available, and actively sought development and financing opportunities within its holdings. In September 2016, the Company finalized a farm-out agreement with its largest shareholder and immediately began a successful five well drilling program on certain of its lands. In November, the Company participated in a co-operative asset sales process which, through a series of transactions, resulted in the disposal of certain discounted and impaired assets in exchange for $816,198 USD ($1,086,360 CAD). Of these funds, $150,000 USD was received in January 2017 on the closing of the last of the transactions. In December of 2016, the Company issued a rights offering, which also closed in January of 2017. A total of 7,673,053 shares were issued, for gross proceeds of $1,496,245.

The Company has a broad financial plan, as described previously, which intends to move the Company through its current challenges and toward cash self-sufficiency. The Company continues to address its working capital issues incrementally.

Production Summary

	Three months ended March 31, 2017			Three months ended March 31, 2016		
	Canada	**USA**	**Total**	Canada	USA	Total
Natural gas (mcf/d)	213	149	**362**	263	353	616
Oil and NGLs (bbl/d)	1	23	**23**	1	6	7
Total (BOE/d)	**36**	**48**	**84**	45	65	110

The Company's average daily sales volumes for the three months ended March 31, 2017 relative to the three months ended March 31, 2016 were down by 24.0 percent. The most significant production drop is in gas production in the USA. The Company has shut-in certain gas production due to lack of maintenance capital.

Oil production in the US operating segment is up, due to the drilling activity in late 2016, which resulted in two new oil wells coming on production in February of 2017. The Company has an approximately 25% working interest in the two wells, which at May 30, 2017 are averaging combined gross daily production of about 79 bbls/day (net 20 bbls/day). One of the wells is producing steadily, while the other was shut-in intermittently during the first quarter due to access issues relating to the wet spring weather. As of May 30, 2017, the access has been upgraded and the well will be on continuous production shortly. Production in the three months ended March 31, 2017 was 72 percent natural gas, and in the three months ended March 31, 2016 it was 94 percent natural gas.

Oil production in the US operating segment comes from three cash generating units ("CGUs"): Shaunavon Oil, in the State of Montana, Pine Mills, in the State of Texas, and a minor property in the State of Tennessee. In July of 2016, a dispute over the title of the Pine Mills property was partially resolved through binding arbitration, resulting in a prospective adjustment to the volumes, revenues and operating expenses received on the Pine Mills property since its purchase in September of 2015 through the Gale Force acquisition. The results presented here have been adjusted to only reflect the Company's new reduced working interest. In January of 2017 the Pine Mills asset was sold, so it is contributing volumes for January only in the current period.

Revenue Summary

			Three months ended March 31, 2017			Three months ended March 31, 2016
$	**Canada**	**USA**	**Total**	Canada	USA	Total
Natural gas	47,519	34,295	**81,814**	40,568	54,637	95,205
Oil and NGLs	206	86,196	**86,402**	215	22,587	22,802
Royalty income – oil & liquids	2,450	-	**2,450**	2,565	-	2,565
Royalty income – gas	1,513	-	**1,513**	1,084	-	1,084
Natural gas processing	1,037	339	**1,376**	1,454	2,718	4,172
Total	**52,725**	**120,830**	**173,555**	45,886	79,942	125,828
Average Sales Price:						
Natural gas ($/mcf)	2.56	2.55	**2.56**	1.74	1.70	1.71
Oil and NGLs ($/bbl)	54.43	42.17	**42.46**	35.64	41.67	40.91
Total, excluding processing revenue ($/BOE)	**15.94**	**28.13**	**22.88**	10.94	13.10	12.22

The Company's total sales and processing revenue for the three months ended March 31, 2017 of $173,555 is 37.9 percent higher than in the three months ended March 31, 2016 of $125,828. The most significant contributor to this change, despite a similarly significant drop in sales volumes, is the increase in revenue relating to higher oil volumes. The increase in oil sales in the US operating segment almost completely explains the increase in revenues, period over period.

Overall, gas prices have increased by approximately 49.5 percent relative to the three months ended March 31, 2016. This certainly helped buoy revenues up in light of the decreased volumes. Gas processing revenue has continued its gradual decline as third party gas volumes decrease through the Company's gathering assets.

Royalty expenses

			Three months ended March 31, 2017			Three months ended March 31, 2016
$	**Canada**	**USA**	**Total**	Canada	USA	Total
Crown, State and Federal	51	490	**541**	(2)	-	(2)
Freehold and other	3,023	29,272	**32,295**	3,968	21,551	25,519
Total	**3,074**	**29,762**	**32,836**	3,966	21,551	25,517
Average royalty rate (percent)	**5.9**	**24.7**	**19.1**	8.9	27.9	21.0

Royalties include obligations to governments (net of government incentive reductions), freehold owners, and gross overriding royalties. Royalties can fluctuate from quarter to quarter based on a number of factors including commodity prices and the extent to which the Company has hedged its exposure to commodity prices, the extent to which the Company can realize on refundable crown royalty credits and foreign currency fluctuations. As a result, the absolute amount of royalty expense incurred in a period may not correlate directly with average sales volumes for the same period.

The Company's royalty rate for the three months ended March 31, 2017 in the US operating segment was 24.7 percent, and the corporate rate for the three months was 19.1 percent. In the US, the royalty rates remain fairly stable period over period. Royalties in the US tend to be a fixed percentage for each lease. The royalty percentage rate in the US operating segment has seen a drop due to the sale of the Pine Mills property in Texas, which was subject to significantly higher royalty rates than the properties in the State of Montana. In the Canadian operating segment, royalty percentages can often vary with revenue, so it is not surprising to see a wider range of royalty rates, and lower rates overall when revenues are down.

Operating expenses

			Three months ended March 31, 2017			Three months ended March 31, 2016
$	**Canada**	**USA**	**Total**	Canada	USA	Total
Operating	60,734	84,383	**145,117**	70,801	90,770	161,571
Operating ($/BOE)	**18.73**	**19.70**	**19.28**	17.43	15.40	16.23

The Company's operating costs per BOE for the three months ended March 31, 2017 have increased by 18.8% compared to the three months ended March 31, 2016. On an absolute basis, costs have decreased in both operating segments, however the drop in production and sales volumes results in fixed operating costs being spread over fewer barrels, thereby driving up the unit cost even as the absolute values fall.

In the US operating segment, costs can be expected to continue to drop in the coming periods relative to 2016, as the Pine Mills property was subject to very high operating costs, and it has been sold.

Operating netback

			Three months ended March 31, 2017			Three months ended March 31, 2016
$/BOE	**Canada**	**USA**	**Total**	Canada	USA	Total
Petroleum and natural gas revenue	15.94	28.13	**22.88**	10.94	13.10	12.22
Processing income	0.32	0.08	**0.18**	0.36	0.46	0.42
Royalty expense	(0.95)	(6.95)	**(4.36)**	(0.98)	(3.66)	(2.56)
Operating expenses	(18.73)	(19.70)	**(19.28)**	(17.43)	(15.40)	(16.23)
Operating netback	**(3.42)**	**1.56**	**(0.58)**	(7.11)	(5.50)	(6.15)

The Company's overall operating netback per BOE for the three months ended March 31, 2017, increased by $12.02 compared to the three months ended March 31, 2016.

Operating netbacks continue to be poor, however some improvement is observable in the current period. Overall, prices have enjoyed a period of decreased volatility in 2016 and early 2017, particularly for oil. The Company is exposed to price risk and overall softness in prices has been a detriment. As a low working interest non-operator on almost all of its Canadian properties, the Company is not able to shut in the uneconomic production as the operator and other joint venture partners hold the majority vote.

In the US operating segment, the Company has divested of the Pine Mills property, which as discussed had very high costs and was wildly uneconomic under previous operatorship. On the properties where the Company is the legal operator, the Company is actively monitoring the economics of its wells, and is shutting in production that is not economic. In certain cases, shutting in the production does reduce variable costs, but fixed costs remain, which continue to contribute to the poor netbacks. Additionally, as discretionary maintenance is deferred to save costs in the short-term, production volume suffers, affecting the netback denominator, and the long term impact is to increase future costs. Certain oil and gas leases require there be production or the lease is cancelled, and the long-term cost of losing those leases must be factored into shut-in decisions as well. As the challenging economic environment drags on for the oil and gas industry, many service costs have actually decreased however, and there is less competition for services, resulting in some areas of cost savings.

The event with the most positive and enduring impact on the US operating results is the addition of the two new producing wells in the Shaunavon CGU. The Company has a 25% working interest in these wells until payout of the 5-well drilling program, and has had certain operational issues with one of the wells due to accessibility in poor weather, but taking a longer view, the wells both prove some of the geological themes the Company has been touting, and also positively impact the Company's operating results and cash flow. This positive cash flow impact should be observable in the coming periods.

General & administrative expenses

		Three months ended March 31, 2017				Three months ended March 31, 2016
$	**Canada**	**USA**	**Total**	Canada	USA	Total
Personnel	81,042	312,340	**393,382**	225,278	121,109	346,387
Administrative	37,614	(18,074)	**19,540**	116,800	5,156	121,956
Shareholder information	11,443	-	**11,443**	20,124	522	20,646
Professional fees	85,912	(18,036)	**67,876**	63,742	2,034	65,776
Gross general and administrative	216,011	276,230	**492,241**	425,944	128,821	554,765
Net general and administrative	216,007	273,632	**489,639**	425,944	127,713	553,657
Net general and administrative ($/BOE)	**66.61**	**63.87**	**65.05**	104.88	21.67	55.61

The Company's net general and administrative costs for the three months ended March 31, 2017 decreased by 12 percent from the same period in 2016.

Personnel costs were slightly higher overall in three months ended March 31, 2017 over same period in 2016 due primarily to severance costs. Personnel costs are generally incurred in the Canadian parent company and allocated to the subsidiaries. The allocation basis has been revised for 2017 to better align costs with the distribution of effort, and this is the basis of the changes between the distribution of costs between the USA and Canada in this analysis. Looking forward into the remainder of 2017, the Company hopes to add additional technical resources pending successful financing and initial drilling success, and additional administrative support if and as required to support scaled operations.

The Company had a significant reduction in the category of administrative spending of $102,416, due in large part to a decrease in the cost of office space leasing and a one-time credit received in the period for past expenses. The Company continues to focus on initiatives to drive down general and administrative costs where possible, encouraging internally generated savings ideas.

Finance expenses

		Three months ended March 31, 2017				Three months ended March 31, 2016
$	**Canada**	**USA**	**Total**	Canada	USA	Total
Interest	81,036	2,868	**83,904**	45,810	(416)	45,394
Accretion of equity component of long term promissory notes	16,535	-	**16,535**	6,169	-	6,169
Accretion of carried working interest	-	-	**-**	-	(30,485)	(30,485)
Accretion of decommissioning liabilities	4,960	6,379	**11,339**	7,562	8,045	15,607
Total	102,531	9,247	**111,778**	59,541	(22,856)	36,685
Total ($/BOE)	**31.62**	**2.16**	**14.85**	14.66	(3.88)	3.68

The Company's finance expenses for the three months ended March 31, 2017 increased by 204.7 percent of the cost for the three months ended March 31, 2016. Interest expense related to the Company's interest-bearing notes for the three months ended March 31, 2017 increased by 76.9 percent of the expense in the three months ended March 31, 2016. This period over period increase in interest expense is due to the higher interest-bearing debt outstanding at March 31, 2017. Over the course of the year in 2016, the Company took out several new loans, and the balance outstanding for the first quarter of 2017 is substantially more than what it was in the first quarter of 2016. In November 2016, the Company settled the then outstanding Carried Working Interest receivable for cash, and therefore there is no further accretion of that long term receivable included in the Company's financing expense.

The Company's finance expenses arise from four different sources as follows:

a) Interest incurred on borrowed funds: At March 31, 2017 the Company had eleven promissory notes totalling $3,267,205 (March 31, 2016 – six notes totalling $1,973,333) outstanding.

b) Accretion of the equity components of the long term promissory notes: During the three months ended March 31, 2017 this amount arose as a result of the accretion of the equity portion of the four long term promissory notes, which were issued in August 2015, April 2016, May 2016 and June 2016. Accretion expense on the long term promissory notes was $16,535 in the three months ended March 31, 2017. In the three months ended March 31, 2016, $6,169 of accretion expense was recorded on the long term promissory notes.

c) Accretion of decommissioning liabilities: The difference between the estimated future cost and current cost of abandoning and reclaiming properties owned by the Company is charged to the condensed interim consolidated statement of comprehensive loss over the useful life of the Company's properties on a property by property basis.

d) Accretion of carried working interest: The carried working interest receivable arose from the Gale Force business combination and was classified as loans and receivables, and was being subsequently measured at amortized cost using an effective interest rate of 15 percent per annum. The undiscounted balance was $1,000,000 USD and any unspent balance would have been refunded to the Company by June 2019. The portion of this discounted loan recognized on the Company's condensed interim consolidated statements of financial position at March 31, 2017 is $nil, as the carried working interest was settled for cash proceeds of $324,464 USD in November 2016. Accretion calculated on the receivable for the three month ended March 31, 2016 was a credit of $30,485.

Depletion, depreciation and amortization expense

		Three months ended March 31, 2017			Three months ended March 31, 2016	
$	**Canada**	**USA**	**Total**	Canada	USA	Total
Depletion, depreciation and amortization	990	25,285	**26,275**	1,371	1,401	2,772
Depletion, depreciation and amortization ($/BOE)	**0.31**	**5.90**	**3.49**	0.34	0.24	0.28

The Company's depletion, depreciation and amortization ("DD&A") costs per BOE for the three months ended March 31, 2017 increased by 1146 percent compared to the three months ended March 31, 2016.

Depletion costs in the Canadian operating segment have been reduced to zero, and only amortization of office equipment is calculated and reported. The Canadian oil & gas assets, while they remain productive, do not have any remaining book value due to impairments in 2014 and 2015.

Similarly, the depletable base of the US operating segment was reduced significantly due to impairments in 2015, but in late 2016 saw some recovery of previous impairment, and some transfer in of exploration and evaluation assets. As a result of the changes in the estimate of the value of the recoverable proved plus probable reserves that the depletion calculation is based on, the estimated expense has varied considerably.

Lease expiries

		Three months ended March 31, 2017				Three months ended March 31, 2016
$	**Canada**	**USA**	**Total**	Canada	USA	Total
Lease expiries	-	57,081	57,081	-	130,474	130,474
Lease expiries ($/BOE)	**-**	**13.32**	**7.58**	-	22.14	13.11

The Company holds the right to explore undeveloped land with the potential to be developed into productive petroleum and natural gas reserves. When purchased, these rights are recognized as exploration and evaluation assets within the Company's condensed interim consolidated statements of financial position. If the right to explore expires, the Company recognizes this event with a charge to lease expiries in the period it expired. The right to explore undeveloped land does not expire in a uniform manner and accordingly, the Company does not expect lease expiries to be consistent between periods.

The Company maintains a three-month look-forward policy to determine its lease expiries for the current period and therefore the amount of lease expiries includes an estimate of leases the Company expects to expire during the three months ended June 30, 2017.

The US expiries reflect the Company's decision to allow certain leases to expire as they come up for renewal. The Company is renewing the leases viewed as most critical to the development plan, based on the Company's continuing geological and geophysical evaluations.

Impairment of exploration and evaluation assets

		Three months ended March 31, 2017				Three months ended March 31, 2016
$	**Canada**	**USA**	**Total**	Canada	USA	Total
Impairment of exploration and evaluation assets	**-**	**(776)**	**(776)**	-	23,843	23,843
Impairment of exploration and evaluation assets ($/BOE)	**-**	**(0.18)**	**(0.10)**	-	4.05	2.39

The Company recorded an impairment reversal of $776 in the three months ended March 31, 2017. The current reversal relates to lease rental and minimum royalty credits on abandoned wells in the White Bear gas CGU (US operating segment), where the Company has completely ceased operations.

Impairment of property, plant and equipment

		Three months ended March 31, 2017				Three months ended March 31, 2016
$	**Canada**	**USA**	**Total**	Canada	USA	Total
Impairment of property, plant and equipment	**-**	**-**	**-**	34,273	75,778	110,051
Impairment of property, plant and equipment ($/BOE)	**-**	**-**	**-**	8.44	12.86	11.05

The Company assesses whether or not there are indicators of impairment at each period end. When indicators of impairment are identified, the Company assesses the recoverable amount of the applicable CGU based on the greater of fair value less costs of disposal and value in use, as at the reporting date.

The recoverable amount for the Company's Canadian segment CGUs is $nil as there are no economically recoverable reserves in the current pricing environment. The recoverable amount of the US operating segment CGUs is $1,118,877 and is attributable only to the Shaunavon oil CGU in the State of Montana.

Share-based compensation expense

	Three months ended March 31, 2017			Three months ended March 31, 2016		
$	Canada	USA	Total	Canada	USA	Total
Share-based compensation	-	-	-	44,967	-	44,967

Share-based compensation expense is calculated when share options are issued and recognized over the vesting period of the granted options. In July of 2014 the Company issued 1,600,000 share options with a fair value of approximately $1,360,000 of which one third vested upon issuance, one third in July 2015 and one third in July 2016. At March 31, 2017, all of the issued and outstanding share options have fully vested and been fully expensed.

Tax expense

The Company has tax deductions available to reduce future taxable income; however an unrecognized deferred tax asset has not been recorded since the Company cannot demonstrate that it is probable that this asset will be realized. There was no deferred tax recovery recognized for the three months ended March 31, 2017 or 2016.

Provision for Decommissioning Liabilities

	Canada	USA	Total
At January 1, 2016	**1,916,836**	**1,627,940**	**3,544,776**
Additions	-	22,177	22,177
Change in estimates and discount rates	98,752	25,569	124,321
Accretion	24,114	29,522	53,636
Abandonment costs incurred	(93,698)	(2,940)	(96,638)
Exchange differences	-	(49,365)	(49,365)
At December 31, 2016	**1,946,004**	**1,652,903**	**3,598,907**
Dispositions	-	(101,201)	**(101,201)**
Accretion	4,961	6,378	**11,339**
Abandonment costs incurred	(65,872)	(9,835)	**(75,707)**
Exchange differences	-	(14,970)	**(14,970)**
At March 31, 2017	**1,885,093**	**1,533,275**	**3,418,368**

In connection with the sale of the Company's Pine Mills property in Texas, certain decommissioning liabilities with a present value of $101,201 are no longer the Company's responsibility at March 31, 2017. As previously disclosed, the Company has a modest abandonment program underway, and has addressed its immediate responsibilities in Alberta. Preliminary work has begun in the State of Montana as well, and is planned to continue once weather conditions are ideal.

Capital Expenditures

	Three months ended March 31, 2017			Three months ended March 31, 2016		
$	Canada	USA	Total	Canada	USA	Total
Exploration and evaluation	-	17,652	17,652	-	31,648	31,648
Development and production	-	-	-	-	57,172	57,172
Total	-	17,652	17,652	-	88,820	88,820

Some minor capital expenses were incurred during the three months ended March 31, 2017. These expenses comprise of lease acquisition costs for undeveloped land in the exploration and evaluation asset category. There were no current period development and production expenditures. The Company's recent drilling program was accomplished by way of a farm-in, and all capital expenses related to this program were on the account of the partners.

Liquidity and Capital Resources

		March 31, 2017	December 31, 2016
Promissory notes (current liabilities)	(a)	**559,031**	**780,801**
Promissory note (long-term liabilities)	(b)	**544,599**	**532,615**
Promissory note (current liability, related party)	(c)	**2,163,575**	**2,182,593**
Total		**3,267,205**	**3,496,009**
Less current portion		**2,722,606**	**2,963,394**
Non-current portion		**544,599**	**532,615**

a) Promissory notes (current liabilities)

Promissory notes, totalling $559,031 at March 31, 2017 (December 31, 2016 - $780,801), bear interest at the National Bank of Canada prime rate plus 2.5% per annum. Interest on the notes may, at the election of the Company, be paid by the issuance of common shares priced at the prevailing fifteen-day weighted average share trading price. The principal amount of these notes and interest thereon was due and payable in 2013. Holders of the promissory notes have the right to pursue remedies available under the general security agreement associated with the promissory notes.

On January 30, 2017 one of the promissory notes was paid out in full for cash proceeds of $72,000 consisting of $57,688 in principal and interest of $14,312. On March 14, 2017, another of the promissory notes was paid in full in exchange for 1,071,026 shares of the Company at a deemed price of $0.195 per common share. The total owing of $208,850 consisted of $164,082 in principal and $44,768 in accrued interest. The fair value of the common shares on March 14, 2017 had increased to $0.22 per common share, resulting in a loss on settlement of debt of $26,776.

Unpaid interest of $135,350 has been included in trade and other payables at March 31, 2017 (December 31, 2016 - $156,932). Total interest expense for the three months ending March 31, 2017 was $10,790 (three months ended March 31, 2016 - $12,070).

b) Promissory notes (long-term liabilities)

On August 18, 2015, the Company issued a $200,000 USD ($259,420 CDN) promissory note bearing interest at a rate of 10% per annum to be paid annually to a major shareholder and director (related party). The note matures and shall be payable on August 18, 2018. The fair value of the promissory note was estimated using discounted cash flows and is being accreted up to the principal amount on maturity, using an effective interest of 24%. The difference between the fair value and the initial carrying amount of $101,000 is considered a capital contribution, and was recorded, net of deferred tax of $27,000, in contributed surplus. Accretion of $7,834 has been recorded for the three months ended March 31, 2017 (three months ended March 31, 2016 - $6,169). Unpaid interest of $43,103 has been included in trade and other payables at March 31, 2017 (March 31, 2016 - $16,868). Interest expense for the three months ended March 31, 2017 was $6,528 (three months ended March 31, 2016 - $6,847).

In the second quarter of 2016, the Company issued three additional promissory notes on the same terms as above: bearing interest at a rate of 10% per annum to be paid annually, to the same major shareholder and director (related party), for three year terms. Additionally, the promissory notes are secured by a mortgage, assignment of production, security agreement and financing statement. The fair value of the promissory notes were estimated using discounted cash flows and are being accreted up to the principal amount on maturity, using an effective interest rate of 24%. The Company issued promissory notes on April 7, 2016 for $100,000 USD ($128,840 CDN); on May 12, 2016 for $160,000 USD ($207,040 CDN) and on June 22, 2016, for $66,500 USD ($84,781 CDN). The difference between the fair value and the carrying amounts of $125,000 is considered a capital contribution, and was recorded, net of deferred tax of $33,750, in contributed surplus. Accretion of $8,701 has been recorded for the three months ended March 31, 2017 (three months ended March 31, 2016 - $nil). Unpaid interest of $38,739 has been included in trade and other payables at March 31, 2017 (March 31, 2016 - $nil). Interest expense for the three months ended March 31, 2017 was $10,658 (three months ended March 31, 2016 - $nil). The following table sets forth a reconciliation of the changes in the long term promissory notes:

	Liability Component $	Equity Component $	Total $
Balance, January 1, 2016	170,400	74,000	244,400
Promissory note	295,661	125,000	420,661
Deferred tax liability	-	(33,750)	(33,750)
Accretion of the discount	48,152	-	48,152
Foreign exchange	18,402	-	18,402
Balance, December 31, 2016	**532,615**	165,250	697,865
Accretion of the discount	16,535	-	16,535
Foreign exchange	(4,551)	-	(4,551)
Balance, March 31, 2017	**544,599**	**165,250**	**709,849**

The principal amounts of $526,500 USD, converted at the spot rate on March 31, 2017 total $770,772 CDN (March 31, 2016 - $200,000 USD principal was $259,420 CDN at the then spot rate).

The loan maturities for the three year promissory notes are summarized as follows:

Date Issued	Loan amount (USD) $	Maturity Date
August 18, 2015	200,000	August 18, 2018
April 7, 2016	100,000	April 7, 2019
May 12, 2016	160,000	May 13, 2019
June 22, 2016	66,500	June 21, 2019
Total	**526,500**	

c) Promissory notes (current liability, related party)

On December 30, 2015, the Company received loans from and issued a promissory note to a company controlled by an individual who is a Director of the Company and a significant shareholder (related party), in the amount of $1,086,712 ($785,526 USD). The balance owing at March 31, 2017, adjusted for foreign exchange is $1,045,535 (December 31, 2016 - $1,054,725). The promissory note is secured by a mortgage, assignment of production, security agreement and financing statement. The loan shall bear interest at 10% per annum paid annually. The principal amount was due December 30, 2016 and this loan is therefore currently in default. The Company is seeking an extension, which may include incentives to the related party lender. Unpaid interest on this loan of $132,912 has been included in trade and other payables at March 31, 2017 (March 31, 2016 - $27,636). Interest expense for the three months ended March 31, 2017 was $25,641 (three months ended March 31, 2016 - $26,893).

On July 27, 2016, the Company received a loan from and issued a secured promissory note on the same terms and to the same related party as the loan on December 30, 2015 in the amount of $526,800 ($400,000 USD). The balance owing at March 31, 2017, adjusted for foreign exchange is $532,400. The principal amount is due on July 27, 2017. Unpaid interest on this loan of $35,882 has been included in trade and other payables at March 31, 2017 (March 31, 2016 - $nil). Interest expense for the three months ended March 31, 2017 was $13,057 (three months ended March 31, 2016 - $nil).

In October 2016, the Company received further loans from and issued secured promissory notes on the same terms and to the same related party as the loans in July 2016 and December 2015. The loans totaled $579,702 ($440,000 USD). The balance owing at March 31, 2017, adjusted for foreign exchange is $585,640. The principal amounts are due in October, 2017. Unpaid interest on these loans of $28,068 has been included in trade and other payables at March 31, 2017 (March 31, 2016 - $nil). Interest expense for the three months March 31, 2017 was $14,362 (March 31, 2016 - $nil).

Share Capital

On August 3, 2016, the Company completed a five for one share consolidation of its outstanding common shares. The results as presented are on the basis of the post-consolidation shares outstanding, for both the current and comparative period.

Three months ended March 31	**2017**	2016
Outstanding common shares	**59,053,455**	49,790,875
Weighted average outstanding common shares		
Basic	**56,400,074**	49,790,875
Diluted	**56,400,074**	49,790,875

Outstanding securities at March 31, 2017	
Common shares	**59,053,455**
Common share options - average strike price of $1.00	**1,290,909**
Common share options - average strike price of $0.65	**148,800**

Outstanding securities at May 30, 2017	
Common shares	**59,053,455**
Common share options-average strike price of $1.00	**1,290,909**
Common share options-average strike price of $0.65	**148,800**

	Number of Shares	**$**
January 1, 2016	**49,790,875**	**60,058,316**
Share issue costs (a)	**-**	(35,971)
Balance, December 31, 2016	**49,790,875**	**60,022,345**
Shares issued in rights issue (a)	**7,673,053**	1,496,245
Shares issued in debt for shares transaction (b)	**1,589,527**	349,696
Share issue costs	**-**	(42,874)
Balance, March 31, 2017	**59,053,455**	**61,825,412**

a) On January 13, 2017, the Company closed a rights offering to existing shareholders. Existing shareholders were issued one right for every share held, and for every four rights issued, a shareholder had the option to purchase one common share of the Company at a price of $0.195/share. As a result of the rights issue, the Company issued an additional 7,673,053 shares, of which 6,776,620 were beneficially issued to the Company's major shareholder. Total proceeds from the rights issue were $1,496,245, of which $1,321,441 was attributable to shares purchased beneficially by the company's largest shareholder. Share issue costs of $35,971 were incurred in the year ended December 31, 2016 in respect of this rights offering, and an additional $42,874 in share issue costs were incurred in the three months ended March 31, 2017.

b) On March 14, 2017, the Company closed a transaction settling certain of its debts in exchange for shares at a deemed price of $0.195 per common share. The value of the Montana shares on March 14, 2017 was $0.22 per common share. The difference of $39,739 between the carrying amount of the financial liabilities extinguished of $309,958 and the fair value of the common shares at the date of issuance of $349,696 was recognized as a loss on settlement of debt and trade and other payables.

Off Balance Sheet arrangements

The Company does not have any special purpose entities, nor is it party to any arrangements that would be excluded from the statement of financial position.

Summary of Quarterly Results

	2017	2016				2015		
($) unaudited	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Sales Volumes:								
Natural Gas (Mcf/d)	362	457	469	477	616	629	472	521
Oil and NGL (Bbls/d)	23	8	9	20	7	5	13	7
Total (BOE/d)	**84**	**84**	**87**	**100**	**110**	**110**	**91**	**94**
Average Prices:								
Natural Gas ($/Mcf)	2.56	2.84	2.05	1.21	1.71	1.96	2.60	2.65
Oil and NGL ($/Bbl)	42.46	61.30	52.29	58.04	40.91	53.59	20.70	51.88
Total ($/BOE)	**22.88**	**21.09**	**16.32**	**17.53**	**12.19**	**13.69**	**16.91**	**18.56**
Petroleum and natural gas sales	172,179	162,905	130,372	158,831	121,656	138,524	142,582	158,222
Natural gas processing fees	1,376	2,698	1,791	2,328	4,172	3,285	2,717	2,782
Royalty (recovery) expense	32,836	30,097	(118,093)	19,475	25,517	25,866	25,493	31,938
Petroleum and natural gas sales net of royalties	140,719	135,506	250,256	141,684	100,311	115,944	119,806	129,065
Net Earnings (Loss)	**(425,163)**	**(599,055)**	**(797,000)**	**(955,392)**	**(894,406)**	**(1,116,424)**	**1,423,062**	**(1,256,154)**
Per Share – Basic [(1)]	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)	0.06	(0.06)
Per Share - Diluted [(1)]	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)	0.06	(0.06)
Cash Flow (Deficiency) from Operations, before changes in non-cash working capital	**(594,038)**	**(803,115)**	**(652,897)**	**(789,694)**	**(631,985)**	**(1,385,766)**	**(899,236)**	**(541,079)**
Per Share - Basic [(1)]	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)	(0.03)	(0.02)	(0.01)
Per Share - Diluted [(1)]	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)	(0.03)	(0.02)	(0.01)
Capital Expenditures, net	**17,652**	**(39,178)**	**56,626**	**69,762**	**88,820**	**743,535**	**95,185**	**72,323**

(1) Note that due to rounding, per share amounts may not always add

Application of Critical Accounting Estimates

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company.

The Company assesses property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. Indications of impairment include the existence of low commodity prices for an extended period, significant downward revisions of estimated reserves, increases in estimated future development expenditures, and significant adverse changes in the legislative or regulatory frameworks. If any such indication of impairment exists, the Company performs an impairment test related to the specific assets. Individual assets are grouped for impairment assessment purposes into CGUs, which are the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets. The determination of fair value of CGUs requires the use of assumptions and estimates including quantities of recoverable reserves, production quantities, future commodity prices and development and operating costs. Changes in any of these assumptions, such as a downward revision in reserves, decrease in commodity prices or increase in costs, could impact the fair value.

The estimation of reserves involves the exercise of judgment. Reserve estimates are based on engineering data, estimated future prices, expected future rates of production and the timing of future capital expenditures, all of which are subject to many uncertainties and interpretations. The Company expects that, over time, its reserve estimates will be revised either upward or downward based on updated information such as the results of future drilling, testing and production levels, and may be affected by changes in commodity prices. Reserve estimates can have a significant impact on net earnings, as they are a key component in the calculation of depletion, depreciation and amortization and for determining potential asset impairment. For example, a revision to the proved reserve estimates would result in a higher or lower DD&A charge to net earnings. Downward revisions to reserve estimates may also result in an impairment of crude petroleum and natural gas property and equipment carrying amounts.

Liability recognition for asset retirement obligations associated with oil and gas well sites and facilities are determined using estimated costs discounted based on the estimated life of the asset. Capitalized costs are amortized on a unit-of-production basis, consistent with depletion and depreciation. Over time, the liability is accreted up to the actual expected cash outlay to perform the abandonment and reclamation.

In order to recognize stock based compensation expense, the Company estimates the fair value of stock options granted using assumptions related to interest rates, forfeiture rate, expected life of the option, volatility of the underlying security and expected dividend yields. These assumptions may vary over time.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded on Montana's financial statements.