NORTH SEA ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORM 51-102F1

FOR THE PERIOD ENDED SEPTEMBER 30, 2017 and 2016

NOVEMBER 21, 2017

The following Management's Discussion and Analysis ("**MD&A**") is management's assessment of North Sea Energy Inc.'s ("**NSE**" or the "**Company**") operating and financial results and should be read in conjunction with the condensed interim consolidated financial statements of the Company for the period ended September 30, 2017 and the audited consolidated financial statements of the Company for the years ended December 31, 2016. These documents and additional information about NSE are available on SEDAR at www.sedar.com.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). The financial statements are presented in Canadian Dollars ("**$**") unless otherwise stated.

The head office, principal address and registered office of the Company are located at 800-120 Eglinton Avenue East, Toronto, Ontario, M4P 1E2. North Sea Energy Inc. exists under the *Business Corporations Act* (Ontario) and is a publicly traded company on the TSX Venture Exchange (the "Exchange") under the symbol "NUK".

NSE is a UK focused oil and gas exploration and appraisal company quoted on the TSX-V. NSE was formed in February 2007 and along with its wholly owned subsidiaries, North Sea Energy (UK NO2) Limited, North Sea Energy (UK) Limited, Echo Exploration Limited, and March Resources Limited, have a strategy of acquiring and farming out exploration, and appraisal assets to larger North Sea participants.

The following discussion focuses on the operational highlights for the nine months ended September 30, 2017 and 2016 only. Further discussion of operations, financial and other transactions are presented elsewhere in the MD&A.

1. OVERALL PERFORMANCE

Highlights and Significant developments for the nine months ended September 30, 2017

Gemini Negotiations:

The Company and Gemini have intensified their discussions to reach a settlement agreement pertaining to the current $8,066,192 outstanding amount as a result of the Arbitration decision.

Bagpuss Update

On January 17, 2017, the Company announced the following update regarding the Bagpuss and Blofeld Licence P.1943.

The UK Oil and Gas Association ("the OGA") approves licence renewal for Bagpuss for 2017:

The OGA has agreed, in principle, subject to the usual regulatory consents and certain conditions, to the continuation of the Bagpuss licence into the second 4 year term. The Company has been advised during this last quarter that Reach Halibut Limited, the current Operator, must apply for an extension as Operator into the second year, 2018. If such extension is not granted by the OGA, the Bagpuss and Blofeld Licence P.1943 would be cancelled. There is no certainty that the OGA will grant such an extension.

Maersk Oil North Sea UK Limited ("Maersk") reassigns interests Bagpuss Licence:

Maersk and the Bagpuss JV listed below reassigned Maersk's 25% working interest in the Bagpuss on a prorate basis. Upon final approval by the OGA, NSE2's working interest in Bagpuss increased from 15 % to 20%. The working interests in the Bagpuss JV going forward are as follows: Encounter - 17.67%, Groliffe - 8.83%, NSE2 - 20.0%, Reach Halibut Limited - 53.5%, Total - 100%.

Management and Board Changes:

On January 20, 2017, the Company announced the following management changes and board changes:

J. Craig Anderson, Chairman and CEO of NSE and Petya Popova, CFO have decided to leave the Company, effective immediately, to pursue other interests. Ian Lambert, a Director of NSE and former CEO of Trade Winds Ventures assumed the role of Interim CEO and CFO. Both Mr. Anderson and Ms. Popova expressed their willingness to assist NSE in order to ease in the transition. As a result of the management changes, C. Brent Austin and Larry Leblanc, Directors of NSE resigned.

On February 7, 2017, the Company announced that Harvey M. Lawson and D. Brett Whitelaw were appointed to the Board of Directors of the Company, effective January 30, 2017.

Ian Lambert was appointed CEO, Harvey Lawson has been appointed CFO, and the Audit Committee consists of Ian Lambert, Harvey Lawson and Brett Whitelaw.

On March 20, 2017, the Company announced the appointment of Scott Davis, CPA, CGA, as Chief Financial Officer of the Company. As a result of this appointment, the Audit Committee consists of Ian Lambert, CEO, and independent directors Harvey Lawson and Brett Whitelaw.

Change of Auditors

The Company announced that it changed its auditors from Grant Thornton LLP (the "Former Auditors"), to Dale Matheson Carr-Hilton Labonte LLP, Chartered Accountants (the "Successor Auditors"), effective March 17, 2017.

There were no reservations in the Former Auditor's reports for the two most recently-completed fiscal years or for any period subsequent to the more recently completed period for which an audit report was issued and preceding the date of the Former Auditors' resignation. There were no reportable events between the Company and the Former Auditors.

Private equity placement

In September, 2017, the Company announced a non-brokered private placement (the "Private Placement") of up to 4,000,000 units (the "Units") at a price of $0.05 per Unit, for gross proceeds of up to $200,000 (of which $51,000 was received at September 30, 2017). Each Unit is comprised of one common share and one-half share purchase warrant. Each full share purchase warrant will entitle the holder to acquire one additional common share in the capital of the Company at a price of $0.075 per share, for a period of two years from the date the Units are issued. If during the exercise period of the warrants, but after the resale restrictions on the shares have expired, the Company's shares trade at or above a volume weighted average trading price of $0.15 per share for 22 consecutive trading days, the Company may accelerate the expiry time of the warrants by giving written notice to warrant holders that the warrants will expire 30 days from the date of providing such notice.

Granting of stock options

In September, 2017, the Company granted 100,000 stock options to a consulting advisor, which entitle the holder to acquire one additional common share in the Company at $0.05 per share for three years.

In April, 2017, the Company granted 2,700,000 stock options to directors and officers, which entitle the holders to acquire one additional common share in the Company at $0.05 per share for three years.

During the nine month period ended September 30, 2017, the Company extended the period for which 3,780,000 stock options, granted on July 2, 2015 to former directors and officers, may be exercised to January 19, 2018 at $0.07 per share.

2. SELECTED QUARTERLY INFORMATION

	As at	
	September 30, 2017 CAD ($)	**December 31, 2016 CAD ($)**
Assets	632,596	713,309
Long-term liabilities	27,435	27,435
Shareholders' deficiency	(8,284,414)	(8,199,380)

	For the three months ended		**For the nine months ended**	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Revenues	-	-	-	-
(Loss) income before income tax expense	(211,905)	4,348	(898,835)	(481,217)
Net (loss) income	(211,905)	4,348	(898,835)	(481,217)
Total comprehensive (loss) income for the period	192,488	(152,780)	(198,239)	(76,268)
Basic and diluted net (loss) income per share	(0.00)	0.00	(0.02)	(0.01)

The above noted financial data should be read in conjunction with the period ended September 30, 2017 condensed interim consolidated financial statements. The condensed interim consolidated financial statements are prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting.

3. RESULTS OF OPERATIONS

For the nine and three months ended September 30, 2017 and 2016

General and Administrative Expenses

The general and administrative expenses for the nine months decreased compared to the prior year's period (Q3 2017: $111,899; Q3 2016: $125,873) and for the three months increased compared to the prior year's period (Q3 2017: $35,470; Q3 2016: $30,116). Year over year, most of the general and administrative expenses decreased compared to the prior year comparative period. During the nine months ended September 30, 2017, the Company incurred $44,803 for directors and officers run-off insurance. Although, costs were reduced across the board, the majority of the decrease in costs comprising the general and administrative expenses relate to the professional fees and rent. Professional fees relate to the company's legal, audit and accounting services. In efforts to preserve cash, the Company has reduced its spending on marketing and promotion costs, travel and other general and administrative costs.

Compensation and Consulting Fees

The compensation and consulting fees for the nine months increased to $369,114 in Q3 2017 from $257,039 in Q3 2016 and for the three months decreased to $32,338 in Q3 2017 from $79,992 in Q3 2016. The increase for the nine months is due to $240,000 for CEO contract termination fee incurred in Q1 2017. Otherwise, the Company is continuing its efforts to cut costs going forward to preserve cash. In addition, management continues to accrue but not pay the directors fees in the amount of $61,790 for the nine months (2016: $124,500) and $19,000 for the three months ended September 30, 2017 (2016: $41,500).

Net Loss

The Company reported a net loss of $898,835 for the nine months ended September 30, 2017 (2016: $481,217) and $211,905 for the three months ended September 30, 2017 (2016: income of $4,348). The company’s operating losses increased to $543,218 for the nine months ended September 30, 2017 (2016: $387,838) and decreased to $70,473 (2016: $110,203) during the three months ended September 30, 2017.

During the nine months ended September 30, 2017 the Company recorded share-based payments of $62,205 as the result of the fair value of issuing 2,800,000 stock options at an exercise price of $0.05 per share for three years.

Cash Flow

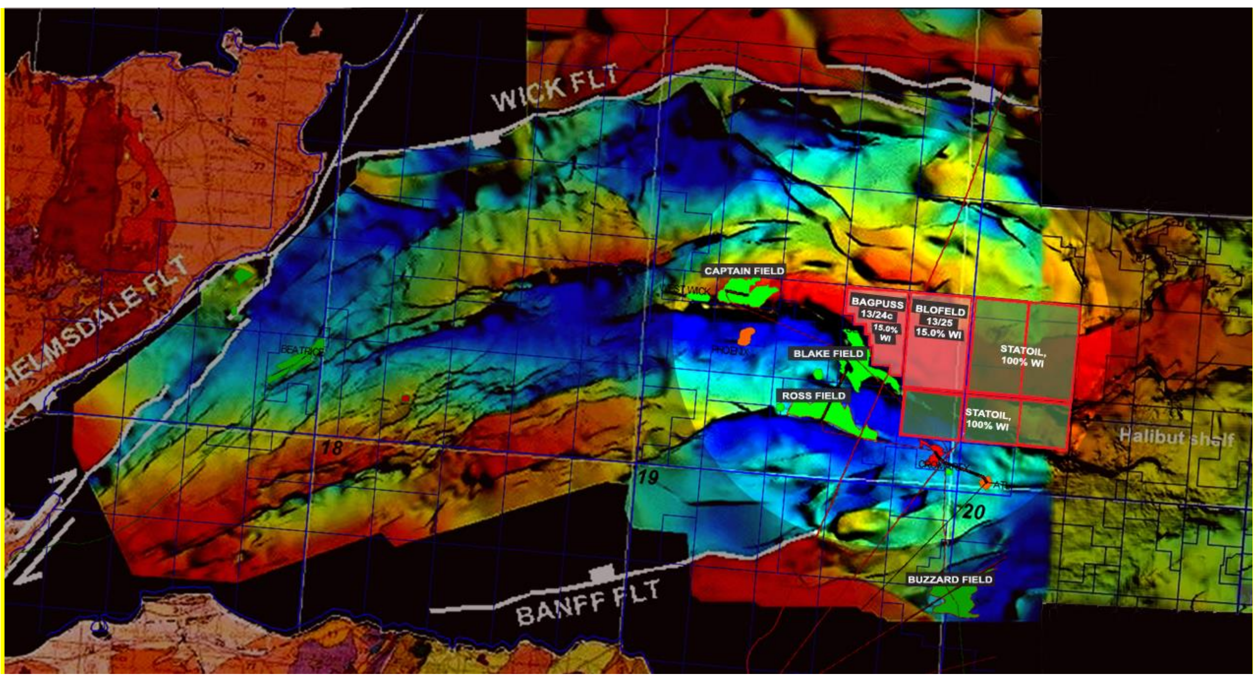
The Company provided $4,695 of cash in Q3 2017 compared to cash used of $322,813 in Q3 2016. As a result, the Company’s cash balance was increased to $49,461 for the period ended September 30, 2017 (December 31, 2016: $44,766).

Taxation

To date the Company has not paid any corporate income tax.

Appraisal and Exploration Activities

Bagpuss and Blofeld (Blocks 13/24c and 13/25)



North Sea UK Geological Map of the Inner Morey Firth

The spudding of the 13/25-1 Bagpuss well ("the Well") occurred on July 18th, shortly after the Ocean Valiant offshore drilling rig arrived on site at the Bagpuss prospect.

On August 5, 2016, NSE announced that the Well which was targeting the Bagpuss prospect on the Halibut Horst in the Outer Moray Firth reached a total depth of 1,532 feet (TVDSS) in granite basement. The Well was drilled approximately 2 km from the 1981 Amoco well in the same structure.

The Well encountered 41 feet of hydrocarbon-bearing sands within a 68 feet hydrocarbon column. This is in line with pre-drill estimates. The sands have between 25%-33% porosity and initial indications were that the oil is heavy, which was expected. The Well was plugged and abandoned in accordance to the drilling plan. For further information on the Bagpuss and Blofeld Prospects in our Independent Prospective Resource Assessment, please refer to the press release dated June 27, 2013 posted on www.sedar.com.

The Bagpuss Well, a vertical well, was always planned to be an informational well only and, in accordance with the original Well Plan, it was plugged and abandoned upon completion.

Premier's Director of Exploration commented: *"The Bagpuss well has successfully proven a significant volume of oil in place."*

NSE's costs relating to the Well have been carried by Maersk Oil UK. As at December 31, 2016 Maersk Oil has paid approximately $3,268,000 for past costs, site survey costs and the Bagpuss exploration/appraisal well.

On August 19, 2016, NSE provided a further update on the Bagpuss drilling results (see full release dated August 19, 2016 filed on www.sedar.com).

On September 29, 2016, NSE announced that Premier had informed the Bagpuss joint-venture ("JV") partnership that they are resigning as Operator of the Bagpuss joint-venture (Licence P.1943) with the effective date of December 31, 2016. In addition, Premier stated they have sold their 40.1% working interest in the Bagpuss JV to Reach Halibut Limited, subsequently approved by the JV partners and regulatory consent from the OGA.

Maersk and the Bagpuss JV listed below reassigned Maersk's 25% working interest in the Bagpuss on a prorate basis. Upon final approval by the OGA, NSE2's working interest in Bagpuss increased from 15 % to 20%. The working interests in the Bagpuss JV going forward are as follows: Encounter - 17.67%, Groliffe - 8.83%, NSE2 - 20.0%, Reach Halibut Limited - 53.5%, Total - 100%

4. SUMMARY OF QUARTERLY RESULTS

	For the three month period ended			
	September 30, 2017 (Unaudited) CAD	**June 30, 2017 (Unaudited) CAD**	**March 31, 2017 (Unaudited) CAD**	**December 31, 2016 (Unaudited) CAD**
Net sales/total revenues	-	-	-	-
Net income (loss)	(211,905)	(237,979)	(448,951)	(474,080)
Basic and diluted net income (loss) per share	(0.00)	(0.00)	(0.01)	(0.00)

	For the three month period ended			
	September 30, 2016 (Unaudited) CAD	**June 30, 2016 (Unaudited) CAD**	**March 31, 2016 (Unaudited) CAD**	**December 31, 2015 (Unaudited) CAD**
Net sales/total revenues	-	-	-	-
Net income (loss)	4,348	(165,885)	(319,681)	(1,640,685)
Basic and diluted net income (loss) per share	0.00	(0.00)	(0.01)	(0.03)

5. LIQUIDITY

The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities to ensure it has sufficient available funds to meet current and foreseeable financial requirements.

The following are the undiscounted contractual maturities of financial liabilities as at September 30, 2017:

In Canadian dollars	Carrying amount	Less than 1 year	1 to 2 years	After 2 years
Trade and other payables	**(382,907)**	**(382,907)**	-	-
Due to related parties[2]	**(440,476)**	**(440,476)**	-	-
Settlement payable[1]	**(8,066,192)**	**(8,066,192)**	-	-
TOTAL (as at September 30, 2017)	**(8,889,575)**	**(8,889,575)**	-	-
Cash (as at September 30, 2017)	**49,461**			

[1] The Company has engaged in prolonged negotiations with Gemini in efforts to find a solution to satisfy the liability with respect to the arbitration award. If these negotiations fail and Gemini demands payment, the Company may seek court protection.

In order for the Company to operate for the next twelve months, the Company will need to raise funds through either equity placements, or the sale or farm-out of a portion or all of its interest in the Bagpuss and Blofeld lease. The management and board of NSE will also look at strategic options to meet its liquidity requirements.

[2] The outstanding unsecured balance of unpaid director's fees is $385,540 comprising of unpaid directors fees for 2015, 2016 and 2017 accumulated to September 30, 2017.

6. CAPITAL RESOURCES

The aggregate of NSE's commitments through joint operations will be funded through the Company's working capital and are approximately $54,000 for licence fees and drilling studies for 2018.

Capital expenditures are categorized as exploration and evaluation and gas and oil properties capitalized in country-by-country cost-centres. The following is a summary of net capital expenditure additions (recoveries) by cost-centre for the nine months ended September 30, 2017 and the years ended December 31, 2016, 2015 and 2014:

License	Field/well	For the period ended			
		September 30, 2017 CAD	**December 31, 2016 CAD**	**December 31, 2015 CAD**	**December 31, 2014 CAD**
P.1887[3], P.1943, P. 1945[1], P.2095[2] and P.2096[2]	NSE UK NO2 – E&E assets	-	4,826	162,135	159,616
	TOTAL	**-**	**4,826**	**162,135**	**159,616**

** All properties are located in the UKCS, except for Wayne which is located in Alberta, Canada. The properties listed by category:

- Oil and gas properties: Wayne
  [1] The Company withdrew from the Jacky Field (Licence P. 1392) as at December 31, 2013
- Exploration and evaluation ("E&E") assets:
  - NSE UK NO2 - Norfolk and Norfolk East, Bagpuss/Blofeld (net of proceeds on farm-out), Golden Phoenix, Kipling and Del Monte.
    [1] Licence P. 1945 was allowed to expire in December 31, 2014
    [2] Licences P. 2095 and P. 2096 were allowed to expire in December 31, 2015
    [3] Licence P. 1877 was allowed to expire in January, 2016

7. OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

8. TRANSACTIONS WITH RELATED PARTIES

For the nine months ended September 30, 2017, the Company incurred expenditures of $380,476 (2016 - $384,000) to companies controlled by directors of the Company, for management consulting services and directors services to key management personnel as set out in the table below:

	For the nine months ended September 30,	
	2017	**2016**
	$	**$**
Management and consulting services	78,686	259,500
Directors fees*(accrued not paid)	61,790	124,500
CEO contract termination fee (accrued not paid)**	240,000	-
	380,476	384,000

*The outstanding unsecured balance due to related parties is $54,936 of unpaid management and consulting services to the Company's CEO and CFO and $385,540 of unpaid director's fees from 2015, 2016 and 2017 accumulated to September 30, 2017.
**The contract with the former CEO calls for a termination fee of one year's base salary. The Company's position, as advised by counsel, is that no other amounts are due under that contract.

9. CRITICAL ACCOUNTING ESTIMATES

The preparation of these condensed interim consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions and could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods.

Estimates

In the process of applying the Company's accounting policies, management has made the following estimates, apart from those involving judgements, which may have the most significant effect on the amounts recognized in the consolidated financial statements.

Provisions

By their nature, the timing and ultimate amount of provisions and contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of provisions and contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Decommissioning costs

Decommissioning costs will be incurred by the Company at the end of the operating life of some of the Company's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimates, which may have the most significant effect on the amounts recognized in the consolidated financial statements.

Joint arrangements

Judgement is required to determine when the Company has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Company has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, such as approval of the capital expenditure program for each year. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Refer to note 12 in the condensed interim consolidated financial statements for more details.

Judgement is also required to classify a joint arrangement. Classifying the arrangement requires the Company to assess its rights and obligations arising from the arrangement. Specifically, the Company considers:

- The structure of the joint arrangement – whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the Company also considers the rights and obligations arising from:
    - The legal form of the separate vehicle
    - The terms of the contractual arrangement
    - Other facts and circumstances (when relevant)

This assessment often requires significant judgement, and a different conclusion on joint control, and also whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

Exploration and evaluation expenditures

The application of the Company’s accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely, from either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Company defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the consolidated statement of comprehensive loss in the period when the new information becomes available.

10. CHANGES IN ACCOUNTING POLICIES

In fiscal 2017, there have been no new or amended accounting pronouncements that have had a material impact on the Company's condensed interim consolidated financial statements.

11. FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company is exposed to a number of different risks arising from normal course business exposures, as well as the Company's use of financial instruments. These risk factors include: (1) foreign currency risk and interest rate risk; (2) liquidity risk; and, (3) credit risk. The Company's board of directors (the "Board") has overall responsibility for the establishment and oversight of the Company's risk management framework and establishes and monitors risk management policies to: identify and analyze the risks faced by the Company; set appropriate risk limits and controls; and monitor risks and adherence to market conditions and the Company's activities.

The Company determines the fair value of its financial instruments based on the following hierarchy:

LEVEL 1 – Where financial instruments are traded in active financial markets, fair value is determined by reference to the appropriate quoted market price at the reporting date. Active markets are those in which transactions occur in significant frequency and volume to provide pricing information on an ongoing basis.

LEVEL 2 – If there is no active market, fair value is established using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable market data including recent arm's-length market transactions, and comparisons to the current fair value of similar instruments; but where this is not feasible, inputs such as liquidity risk, credit risk and volatility are used.

LEVEL 3 – Valuations in this level are those with inputs that are not based on observable market data.

The Company does not have any financial instruments carried at fair value.

Financial assets

Financial assets are classified into one of the following four categories: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. The Company determines the classification of its financial assets at initial recognition. The category determines subsequent measurements and whether any resulting income and expense is recognized in profit or loss or in comprehensive income for the period. All financial assets are initially recorded at fair value.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

All financial assets except those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

The Company's financial assets include cash and trade and other receivables.

Loans and receivables

Financial assets are classified as loans and receivables if they are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are carried at amortized cost using the effective interest rate method with gains and losses recognized when the asset is derecognized. The Company's cash and trade and other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence exists that a specific counterparty may default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of write down is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables are presented within "general and administrative costs".

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that do not meet the hedge accounting criteria as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with gains or losses recognized in the statement of comprehensive income.

The Company has not designated any financial assets as at fair value through profit or loss.
Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in the statement of comprehensive loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

The Company's financial liabilities include trade and other payables, due to related parties and settlement payable. Financial liabilities are initially measured at fair value with subsequent measurement determined based on their classification as follows.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that do not meet hedge accounting criteria. Gains or losses on liabilities held for trading are recognized in the statement of comprehensive loss. The Company has not designated any financial liabilities as at fair value through profit or loss and the Company does not have any derivative financial instruments.

Loans and borrowings

After initial recognition, interest bearing and non-interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive loss when the liabilities are derecognized as well as through the amortization process. The Company's trade and other payables, due to related parties and settlement payable fall into this category of financial instruments.

Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at its fair value of a similar liability that does not have an equity conversion option. The equity component, if any, is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss. Distributions to the equity holders are recognized against equity, net of any tax benefit.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Amortized cost of financial instruments

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

12. OUTSTANDING SHARE DATA

The following information is as the date of this report:

Authorized and Issued Share Capital

Class	Authorized	Issued
Common shares	Unlimited	59,295,512
Preferred shares	Unlimited	Nil

No new shares were issued during the quarter ended September 30, 2017.

Description of Options and Convertible securities outstanding

Security Type	Number	Exercise Price	Expiry Date	Recorded Value
Options	175,000	$0.23	January 2, 2018	N/A
Options	600,035	$0.33	January 28, 2018	N/A
Options	3,780,000	$0.07	January 19, 2018	N/A
Options	1,315,000	$0.07	July 2, 2018	N/A
Options	2,700,000	$0.05	April 20, 2020	N/A
Options	100,000	$0.05	September 25, 2020	N/A
Convertible Debentures	3,800[(1)] (convertible into 8,444,444 Common Shares)	$0.45	November 22, 2017	N/A

[1] The Company issued 3,800 Debentures pursuant to the Private Placement on November 22, 2012.

The subscription price per Debenture is $1,000. Interest on the Debentures is 7.75%, payable semi-annually, for a term of five years from the issue date. Each debenture is convertible into 1,000 common shares of the Company at the holder's option at any time after four months from the date of issuance at a price of $0.45 (the "Conversion Price") per Common Share and upon 20 business days' notice to the Company. The Company may elect to convert the Debentures on each anniversary date of the date of issuance of the Debentures at the Conversion Price. The Company shall have the right at any time after December 1, 2015 to repay all or a portion of the Debentures without the consent of the holders, subject to the right of the holders to convert prior to such prepayment.

The Debentures are subject to an Undertaking Agreement ("UA"), signed at the time of issuance of the Debentures, that restricted the convertibility of the Debentures to circumstances where, after conversion, the holder, would not hold more than 10% of the issued and outstanding common shares of the Company. Please refer to the Company's press release issued on July 3, 2015.

On November 26, 2014, the Company reached an agreement with the holder of the $3,800,000 Convertible Debenture (the "Debenture") regarding the Debenture issued on November 22, 2012. The holder agreed to defer interest payable (including the interest payment that was due on November 22, 2014) and all future interest payments payable by the Company to the holder, under certain conditions that must be met by July 1, 2015. The Amending Agreement stipulates that interest shall not accrue from May 22, 2015 on the principal amount and that the principal amount shall not be payable if a financing (as defined in the Amending Agreement) was not received and closed by the July 1, 2015 deadline. Therefore, since a financing as defined under the Amending Agreement signed on November 26, 2014, was not closed by July 1, 2015, the Company is under no obligation to repay the Debentures. The conversion option available to the holder and the Company are subject to the UA discussed above. As long as the holder owns more than 10% of the issued and outstanding common shares of the Company, the holder or the Company cannot convert the Debentures into common shares. The holder's latest public filing indicates that he owns 20.3% of the issued and outstanding common shares of the Company.

Pursuant to Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* ("MI 61-101"), the agreement described above may be considered a "related party transaction" for the Company. For this transaction, the Company relied on the exemption from the formal valuation requirements of MI 61-101 contained in sections 5.5(a) & (b) of MI 61-101 and relied on the exemption from the minority shareholder approval requirements of MI 61-101 contained in section 5.7(1)(a) of MI 61-101.

13. RISK FACTORS

Overview

The Company's primary business consists of the exploration and, development of oil and gas properties. There are a number of inherent risks associated with the exploration, development and production of oil and gas reserves. Many of these risks are beyond the control of the Company.

Oil and Gas Exploration and Development - General

The future value of the Company is dependent on the success or otherwise of the Company's activities which are principally directed toward the further exploration, and development of oil and gas properties. The Company has a right to explore and appraise such assets but does not have a right to produce same until such time as the reserves are determined to be commercial. Exploration, appraisal and development of oil and gas reserves are speculative and involve a significant degree of risk. There is no guarantee that exploration or appraisal of the properties in which the Company holds rights will lead to a commercial discovery or, if there is commercial discovery, that the Company will be able to realize such reserves as intended. Few properties that are explored are ultimately developed into new reserves. If at any stage the Company is precluded from pursuing its exploration or development programs, or such programs are otherwise not continued, the Company's business, financial condition and/or results of operations and, accordingly, the trading price of the Common Shares, is likely to be materially adversely affected.

Oil and gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration or development activities by the Company will result in discoveries of oil, condensate or natural gas that are commercially or economically possible. It is difficult to project the costs of implementing any exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as overpressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The Company's operations are subject to the general risks of exploration, development and operation of oil, condensate and natural gas properties and the drilling of wells thereon, including encountering unexpected formations or pressure, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on the Company. The Company may become subject to liability for pollution, blow-outs or other hazards. The payment of such liabilities could reduce the funds available to the Company or could result in a total loss of its properties and assets.

Oil and natural gas exploration and development activities are dependent on the availability of skilled personnel, drilling and related equipment in the particular areas where such activities will be conducted. Demand for such personnel or equipment, or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

Prices and Markets for Crude Oil, Condensate and Natural Gas

Oil, condensate and natural gas are commodities whose prices are determined based on global demand, supply and other factors all of which are beyond the control of the Company. World prices for oil and condensate have fluctuated widely in recent years. Future price fluctuations in world oil prices will have a significant impact upon the projected revenue of the Company and the projected return from and the financial viability of the Company's existing and future reserves.

General economic and business conditions may adversely affect the interests of the Company.

There is no assurance that a market will exist for oil or natural gas reserves discovered within the Company's properties. Although recent history suggests that ready and growing oil and gas markets exist, access to such markets cannot be assured. There is no assurance that the Company will be able to access the pipeline transportation system for the transportation to the marketplace of any oil or gas that may be produced from the Company's properties due to construction, capacity or other reasons.

Gemini Loan Liquidity Risk

The Company and Gemini Oil & Gas Fund II, L.P. ("Gemini") were in arbitration regarding the loan agreement signed September 8, 2008 from November 2011 to December 2014. While the Company was in arbitration, the Company recorded a provision at its best estimate as a provision to settle the disputed amount. On December 2, 2014, the Company received the final decision by the arbitrator awarding against NSE and NSE UK the amount of US$5,820,907 plus simple interest at the rate of LIBOR +3% from September 1, 2014 to the date of payment. The arbitrator ordered that each party bear its own legal costs and that half of the costs of the arbitration be paid by each party. Therefore, the Company has reclassified the amount as payable from a provision. The Company has been in prolonged negotiations with Gemini in efforts to find a solution to satisfy the liability with respect to the arbitration award. The Company has made proposals to Gemini who is evaluating them and management will continue to work toward appropriate settlement of the award. A settlement with Gemini may entail the sale of assets and/or an exchange of debt for shares. However, while management anticipates that the Company will be able to settle with Gemini there is no assurance that the Company will be successful in its negotiations.

Financial Risks and Financing Risks

The Company will require substantial capital expenditures for the exploration, development and production of its properties and the acquisition of additional oil properties. The development of the Company's properties and the acquisition of additional properties will depend upon the Company's ability to obtain financing through joint ventures, farm-ins, equity financing, debt financing or other means. Such financing may not be available on favourable terms or at all. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

Any additional equity financing may be dilutive to existing shareholders and debt financing, if available, may involve restrictions on financing operating activities. Failure to obtain additional financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities, and reduce or terminate its operations.

From time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Exploration and Development Risks

The Company's rights to explore its oil assets will be limited in time. There is no guarantee or assurance that such rights can be extended or that new rights can be obtained to replace any rights that expire. The business of exploration and production of oil resources involves a high degree of risk. A limited number of properties that are explored are ultimately developed into producing oil fields.

Significant expenditure is required to establish the extent of oil reserves through seismic surveys, electromagnetic surveys, and drilling and there can be no certainty that oil reserves will be realized. The exploration and development of oil assets may be curtailed, delayed or cancelled by unusual or unexpected geological formation pressures, oceanographic conditions, hazardous weather conditions or other factors.

It is difficult to project the costs of implementing drilling programs due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones, wireline tools lost in the hole and changes in drilling plans and locations as a result of prior wells or additional seismic data and interpretations thereof.

Oil exploration, development and production activities are dependent on the availability of drilling and facilities related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration, development and production activities. In particular, the Company may be subject to the relatively limited availability of drilling rigs to proceed with its North Sea drilling programs.

There are numerous risks inherent in drilling and operating wells, many of which are beyond the Company's control. The Company's operations may be curtailed, delayed or cancelled as a result of weather conditions, environmental hazards, industrial accidents, occupational and health hazards, technical failures, shortage or delays in the delivery of rigs and/or other equipment, labour disputes and compliance with governmental requirements.

Drilling may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells which, though yielding some petroleum, are not sufficiently productive to justify commercial development or cover operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity, or other geological and mechanical conditions. Production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. The Company's ability to execute projects and market oil depends upon numerous factors beyond the Company's control, including the availability of drilling and related equipment; the availability and proximity of pipeline capacity; the availability of processing capacity; the availability and productivity of skilled labour; the effects of inclement weather; unexpected cost increases; currency fluctuations; the supply of and demand for oil; the availability of alternative fuel sources; accidental events; and regulation of the oil industry by various levels of government and governmental agencies. As a result of these factors, the Company could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil that it hopes to produce.

Offshore Exploration

The Company faces certain risks due to its concentration on offshore activities. In particular, drilling conditions, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity, or other geological and mechanical conditions. Sub-sea tiebacks in the UK North Sea, while common, are also affected by weather conditions in the UK North Sea, and potential pipeline tie-back installations can only be conducted from April to late September. The Company's offshore production facilities would also be subject to hazards inherent in marine operations, such as capsizing, sinking, grounding, collision and damage from severe weather or tidal conditions. These hazards can cause substantial damage to facilities and interrupt production. Offshore oil activities can also be affected by ocean phenomena arising from occurrences such as hurricanes and tsunamis.

Access to facilities to process field production is an important consideration when developing fields in the North Sea. Such access is not guaranteed and directly affects the economics of a project. The UK government with the assistance of the OGA has a policy which has been adopted by the major operators of facilities in the North Sea that allows access to facilities at a reasonable rate. These types of initiatives are intended to ensure that reserves that cannot support facilities on a stand-alone basis can be developed.

Interests in Licenses

The Company expects that its properties will be generally held by the Company in the form of United Kingdom Continental Shelf ("UKCS") licences, ("**Authorizations**"). The Company's activities are dependent upon the grant and maintenance of appropriate Authorizations, which may not be granted; may be made subject to limitations which, if not met, will result in the termination or withdrawal of the Authorizations; or may be otherwise withdrawn. There can be no assurance that any of the obligations required to maintain each Authorization will be met. Although the Company believes that the Authorizations will be renewed following expiry or granted (as the case may be), there can be no assurance that such Authorizations will be renewed or granted or as to the terms of such renewals or grants. The termination or expiration of the Company's Authorizations may have a material adverse effect on the Company's results of operations and business. A description of the Authorizations applicable to the Company is set out below.

Licensing

There are five countries with North Sea oil production, all of which operate tax and royalty licensing regimes. The respective sectors are divided by median lines that were agreed to in the late 1960s.

Licenses in the United Kingdom are administered by the OGA. The UKCS (UKCS) is divided into quadrants of one degree latitude and one degree longitude. Each quadrant is divided into 30 blocks measuring 10 minutes of latitude and 12 minutes of longitude. Some blocks are further divided into "part blocks" where areas have been relinquished by previous licensees. As an example, block 13/24a is located in quadrant 13 of block 24, and it would consist of part block "a". The UK government typically holds annual licensing rounds. Blocks are awarded on the basis of the work program bid by the participants. The OGA has been very active in attracting new entrants to the UKCS via Promote licensing rounds (less demanding terms) and the fallow acreage initiative where non-active licences have had to be relinquished.

The OGA operates three alternative licence award systems for UK-based hydrocarbon exploration that are applicable to NSE and NSE's joint venture partners. These are the traditional license, promote license and frontier license application systems. In general, all licenses are awarded under a competitive tendering process during specific license rounds. All seaward production licenses run for three successive periods, or terms. The initial term, after which, if the agreed work programme has been completed and if a minimum amount of acreage has been relinquished, the license may continue into a second term. The second term, after which, if a development plan has been approved and if all of the acreage outside that development has been relinquished, the license may continue into a third term. The terms are of different lengths according to the license type.

License holders are encouraged and expected to exploit the area granted by them by the OGA in the form of contracted licence commitments. Promote licences and frontier licenses are specialized variations of the traditional licenses and each differs with regards to the permissible timeframes and required commitments. In general, license evolution may be divided into three stages; exploration, appraisal and production.

Traditional Licenses

These are awarded by the OGA under a competitive tendering process. The OGA assesses applicants on their financial, technical and environmental capability as well as the extent of the applicant's plan for the exploration and exploitation of the relevant area. Subsequently, awards are made to applicants on the basis of this assessment.

Traditional licenses offer an initial term, usually focused on exploration, which may last up to four years. At the end of this initial term, the license holder is required to relinquish a portion of the acreage, generally 50%. Subsequent to the completion of the initial term and the fulfillment of the proposed work program, a secondary term will be awarded if required. The secondary term, which also lasts up to four years, is most often associated with further exploration, appraisal or development in the event of a successful discovery. License holders are expected to write a field development program for any commercial discovery which they intend to progress into a production development or third term. The field development program details the proposed development of the field as well as the principles and objectives that govern the field's management, and consequently requires OGA approval and sanction. The third and final term is generally associated with production and lasts for 18 years, although an application for extension may be submitted if production is forecast to continue beyond the license expiry date.

The OGA imposes an annual rental charge on license holders determined by the square acreage of the license in order to encourage License holders not to allow areas to fall fallow. These charges escalate with the age of the license.

Promote Licenses

The promote license is similar to the traditional license and was introduced in the 21st round and provides a 2 year period in which to work up and promote the potential of the acreage, while benefiting from a 90 per cent reduction on the rental fee, and no obligation to commit to exploration drilling or acquiring new seismic data. Entry requirements are also less rigorous, and the license can be extended for up to 2 additional years. At the end of this, conversion to a traditional license or relinquishment becomes mandatory.

Therefore, the promote license has two years after award to attract the technical, environmental and financial capacity to complete the agreed work programme. To implement this, each promote license caries a "drill-or-drop" initial term work programme. The license will expire after two years if the licensee has not satisfied the OGA of its technical, environmental and financial capacity to complete the work programme (i.e. to drill a well), and made a firm commitment to the OGA to do so.

The promote license has had a direct positive impact on exploration activity, helping to arrest the decline, which started in 2000 and turned around in 2003; with activity levels increasing each year since.

The Company may relinquish certain blocks based on its risk-reward analysis of the economics and potential commerciality of the resource and its ability to fund its drilling program.

The OGA has agreed, in principle, subject to the usual regulatory consents and certain conditions, to the continuation of the Bagpuss licence into the second 4 year term. The Company has been advised during this last quarter that Reach Halibut Limited, the current Operator, must apply for an extension as Operator into the second year. If such extension is not granted by the OGA, the Bagpuss and Blofeld Licence P.1943 would be cancelled. There is no certainty that the OGA will grant such an extension, and the Company may lose all of its interest in the Bagpuss and Blofeld Licence.

Uninsurable Risks

In the course of exploration, development and production of oil and gas properties, certain risks, and in particular, blowouts, pollution, premature decline of reservoirs and invasion of water into producing formations may occur. Hazards such as unusual or unexpected geological formations, pressures or other conditions may be encountered in drilling and operating wells as the Company will initially have interests in a limited number of properties, such risk is more significant than if spread over a number of properties. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company. Insurance against damages caused by terrorism, and acts of war, is generally not available.

Although the Company intends to obtain insurance to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances, be insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's financial position, results of operations or prospects. There can be no assurance that insurance will be available in the future.

Industry Risks

The Company's ability to acquire reserves will depend on its ability to select and acquire suitable producing properties or prospects. Competitive factors in the distribution and marketing of oil and gas include price methods and reliability of delivery. The marketability of oil and natural gas produced by the Company, if any, will also be affected by numerous other factors beyond the control of the Company. These factors include market fluctuations, the world price of oil, the supply and demand for oil and natural gas, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulations, including regulations relating to prices, taxes, royalties, land tenure, production allowable, the import and export of oil and natural gas and environmental protection. The effect of these factors cannot be accurately predicted.

Permits and Licenses

The operations of the Company may require licenses and permits for various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and operations of its projects.

No Assurance of Continuing Title

Title to or rights in oil and gas properties may involve certain inherent risks due to problems arising from the ambiguous conveyancing history characteristic of many such properties. Although the Company will conduct reasonable investigations (including the employment of local legal counsel to inform itself as to the status of properties) with respect to the validity of ownership of and the ability of sellers to transfer interests to it, there can be no assurance that it will hold good and marketable title to all of its properties. If a title defect does exist, it is possible that the Company may lose all or a portion of its interest in properties to which the title defect relates.

Dependence on Key Personnel

The success of the Company is dependent on the services of a number of members of senior management. The experience of these individuals will be a factor contributing to the Company's continued success and growth. The Company does not have any key man insurance policies, and therefore there is a risk that the death or departure of one or more of these individuals could have a material adverse effect on the Company.

Alternatives to/Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices will reduce the demand for crude oil and other liquid hydrocarbons. The Company cannot predict the impact of changing demand for oil and natural gas products and any major changes would have a material adverse effect on the Company's business, financial condition, results of operations and cash flow.

Environmental Regulation

The Company's operations are, and its future operations will be, subject to environmental regulations promulgated by the United Kingdom or other governments from time to time in the regions where the Company carries on business. Current environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil, condensate and natural gas operations. In addition, certain types of operations may require the submission and approval of environmental impact assessments. Environmental legislation and policy is periodically amended. Such amendments may result in stricter standards and enforcement, and in more stringent fines and penalties for non-compliance. Environmental assessments of existing and proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The costs of compliance associated with changes in environmental regulations could require significant expenditures, and breaches of such regulations may result in the imposition of fines and penalties, any of which may be material. There can be no assurance that these environmental costs will not have a material adverse effect on the Company's financial condition or results of operations in the future.

Decommissioning Security Risk

Actual decommissioning expenditures related to a given field may not incur for several years although security for decommissioning costs may be required to be posted in advance. If the Company fails to provide the decommissioning security it may lose its working interest in the asset and other default provisions may apply. Security on the decommissioning costs may be up to 150% of the estimated decommissioning costs although NSE has obtained a decommissioning security deed from the UK government that provides for 50% of this amount.

Competition

The oil and gas industry is intensely competitive and the Company will compete with a substantial number of other companies, many of which have greater financial resources. Many such companies not only explore for and produce oil, condensate and natural gas, but also carry on refining operations and market petroleum and other products on a global basis. There is also competition between the petroleum industry and other industries supplying energy and fuel to industrial, commercial and individual consumers. There is no assurance that the Company will be able to successfully compete against such competitors.

Governmental Regulation

The oil and gas business is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possible expropriation or cancellation of contract rights, as well as with respect to prices, taxes, export quotas, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand for oil and natural gas, increase the Company's costs and have a material adverse effect on the Company.

Reserve Replacement

The Company's future oil and natural gas reserves, productions, and cash flows to be derived therefrom are highly dependent on the Company's successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on the Company's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Company's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas. Should the Company not discover additional reserves, current operations may not be sustainable.

Legal Systems

The Company is continued in Ontario, Canada, but carries on all of its material operations in the United Kingdom. Accordingly, the Company is subject to the legal systems and regulatory requirements of a number of jurisdictions with a variety of requirements and implications for shareholders of the Company. Exploration and development activities outside Canada may require protracted negotiations with host governments, regulatory bodies and other third parties. If a dispute arises with foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons, especially foreign oil ministries, to the jurisdiction of Canada.

Furthermore, some or all of the directors and officers of the Company and some or all of the experts reside outside of Canada. Some or all of the assets of those persons may be located outside of Canada. It may not be possible for investors to collect from the Company or enforce judgments obtained in courts in Canada predicated on the civil liability provisions of Canadian securities legislation against the Company, the directors, the officers of the Company and certain of the experts named in its public disclosure record. Moreover, it may not be possible for investors to effect service of process within Canada upon the directors, officers of the Company and experts referred to above.

Foreign exchange risk

The Company operates primarily in Canada and the United Kingdom. The functional and reporting currency of the parent company is Canadian dollars. The functional currency of the UK subsidiaries is the US dollar. Foreign exchange risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates ("transaction exposures") and because the non-Canadian dollar denominated financial statements of the Company's subsidiaries may vary on revaluation into the Canadian dollar reporting currency ("translation exposures").

The Company's operations are exposed to exchange rate changes in the U.S. dollar and British Pound to the Canadian dollar. As of September 30, 2017, fluctuations of +/- 5% would, everything else being equal, have had an effect of approximately $457,000 on other comprehensive income in 2017 and $408,000 in 2016 mainly related to the Gemini settlement payable. The Company has not entered into arrangements to hedge its foreign currency risk.

Interest rate risk

The Company's exposure to interest rate risk is related to the Gemini's settlement payable, whereby if LIBOR increases the ultimate amount payable may increase as well. The Company's cash balances earn nominal interest and convertible debentures are fixed (effective) rate instruments and are not subject to fluctuations in interest risk. The Company has no other loans subject to interest rate.

Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and trade and other receivables. The carrying value of financial assets represents the Company's maximum credit exposure as follows:

	September 30, 2017 CAD	**December 31, 2016 CAD**
Cash	49,461	44,766
Trade and other receivables	3,961	15,417
Total	**53,422**	**60,183**

The Company mitigates this credit risk by dealing with counterparties who are major financial institutions and monitoring credit exposure on its cash balances.

14. INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("**NI 52-109**"), the Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited consolidated financial statements and the audited annual consolidated financial statements and respective accompanying Management's Discussion and Analysis.

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certification includes a "Note to Reader" stating that the CEO and CFO do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

There were no material changes in the Company's internal control over financial reporting or disclosure controls and procedures that occurred during the Company's first quarter of the fiscal year 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting or disclosure controls and procedures.

15. ADDITIONAL INFORMATION

Additional information relating to the Company can be found on SEDAR at www.sedar.com.

TECHNICAL ABBREVIATIONS AND DEFINITIONS

Abbreviations:

API	American Petroleum Index
bbl	Barrel
bbl/d	barrels per day
Bcf	billion cubic feet
Bcf/d	billion cubic feet per day
boe	barrels of oil equivalent converting Mcf of natural gas or one barrel of natural gas liquids to one barrel of oil
ppm	parts per million
MMboe	million barrels of oil equivalent
Mboe	one thousand barrels of oil equivalent
Mcf	one thousand cubic feet
Mcf/d	one thousand cubic feet per day
MMbbl	one million barrels
MMcf	one million cubic feet
MMcf/d	one million cubic feet per day

boe/d	barrels of oil equivalent per day	NGL	natural gas liquids
bopd	Barrels of oil per day	Tcf	trillion cubic feet

Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

16. FORWARD LOOKING STATEMENTS

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "forecast", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. 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. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this annual MD&A should not be unduly relied upon by investors. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking statements, pertaining to the following:

- the quantity of reserves;
- business strategy and objectives;
- development, exploration and capital expenditure plans; and
- operating and other costs.

With respect to forward-looking statements contained in this MD&A, the Company has made assumptions regarding, among other things the Company's ability to obtain additional financing on satisfactory terms.

- the general stability of the economic and political environment in which the Company operates;
- the ability of the Company to reach an agreement with Gemini to satisfy the arbitration award liability.
- the timely receipt of any required regulatory approvals;
- the ability of the Company to obtain qualified staff, equipment and services in a timely and cost-efficient manner;
- the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner;
- the ability to replace and expand oil and gas reserves through acquisition, development or exploration;
- the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Company to secure adequate product transportation;
- future oil prices;
- currency, exchange and interest rates;
- the regulatory framework regarding royalties, taxes and environmental matters in the countries in which the Company operates;
- the ability of the Company to successfully market its oil products;
- treatment under governmental regulatory and taxation regimes; and
- expectations regarding the Company's ability to raise capital and to continually add to reserves through acquisitions and development.

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:

- geological, technical, drilling and processing problems;
- liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations;
- incorrect assessments of the value of acquisitions;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; and
- the other factors referred to under "Risk Factors".