



MANAGEMENT DISCUSSION AND ANALYSIS
(For the year ended September 30, 2015)

The following Management's Discussion and Analysis ("MD&A") is intended to assist the reader to assess material changes in financial condition and results of operations of Esrey Energy Ltd. ("Esrey" or the "Company") as at and for the years ended September 30, 2015 and 2014.

This MD&A should be read in conjunction with the audited consolidated financial statements and the notes thereto as at and for the year ended September 30, 2015. These audited consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All dollar amounts are expressed in Canadian dollars unless otherwise indicated. Note that additional information relating to the Company is available on SEDAR at www.sedar.com.

The effective date of this MD&A is January 15, 2016.

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1. Highlights for the year ended September 30, 2015

- On September 22, 2015, the Company was notified by Heritage Oil Ltd. (“Heritage”) that it would not be fulfilling its remaining commitments under a farm-in agreement with respect to PPL 486 and PRL 13 and so would not earn the remaining 40% of the original 80% farm-in. Heritage advised the Company that it would re-transfer this 40% participating interest in the licenses back to the Company’s subsidiary Companies, Telemu No. 18 Limited (“Telemu”), and LNG Energy (PNG) Limited (“LNG PNG”), respectively. Therefore as at September 30, 2015, the Company has a 50.55% working interest in Petroleum Prospecting License (“PPL”) 486 and a 60% working interest in Petroleum Retention License (“PRL”) 13.
- On March 31, 2015, the Company settled its non-revolving credit facilities of US\$3,377,776 in full in exchange for: (a) US\$1,600,000, (b) funding the lender’s share of certain work programs in Papua New Guinea (“PNG”) that the parties are involved in, and (c) for 72 months after March 31, 2015, acquiring any new oil and gas licenses in PNG through the Company’s subsidiary, Telemu, in which the lender has a 15.75% indirect interest.
- On March 31, 2015, the Company withdrew from its Polish investment in Saponis Investments Sp. z.o.o. (“Saponis”). In accordance with the withdrawal agreement, the Company transferred its 42.96% interest in Saponis to BNK Poland Holdings B.V. (“BNK”), paid the final cash call of US\$100,000 and assigned and forgave its loan receivable from Saponis in exchange for BNK assuming all future obligations of Saponis.
- PPL 320 and 322 expired and were allowed to lapse in November 2014. The Company submitted an application to simultaneously surrender and top-file PPL 321 in August 2014, seeking a new 6 year license. PPL 321 expired in November 2014 and, as of January 15, 2016 the Company has not received a formal response from the Department of Petroleum and Energy (“DPE”) with regards to the top-filing application for PPL 321.
- The Company relinquished all of its Sheridan County and Cascade County leases and has plugged and abandoned the Archer well.

- During the year ended September 30, 2015, the Company recorded net income from continuing operations attributable to equity shareholders of the Company of \$265,829 (year ended September 30, 2014 – net loss \$3,592,921).

2. Overview, operational update and oil and gas property work program requirements

Esrey is a Canadian exploration and development company focused on developing oil and gas reserves in Papua New Guinea and Bulgaria. On November 13, 2013, the Company changed its name from LNG Energy Ltd. to Esrey Energy Ltd. The Company's shares trade on the TSX Venture Exchange under the symbol "EEL."

2.1 Papua New Guinea

Licenses

As at September 30, 2015 the Company held approximately 2.4 million acres of land for oil and natural gas exploration through a 50.55% working interest in PPL 486 (formerly PPL 319), an 84.25% working interest in oil and natural gas exploration PPL 321, and a 60% working interest in PRL 13. In August 2014, the Company submitted an application to simultaneously surrender and top-file PPL 321. PPL 321 expired in November 2014 and, as of January 15, 2016 the Company has not received a formal response from the DPE. If the Company's top-file application for PPL 321 is not successful, the acres of land the Company holds for oil and natural gas exploration would decrease by 1.8 million acres to 0.6 million acres. In November 2014, PPLs 320 and 322 expired and were allowed to lapse.

PPL 486

PPL 486 was obtained in June 2014, and is the result of the top-filing of PPL 319. PPL 486 is located in Southeastern Papua New Guinea in the Papuan Basin approximately 30 km southeast of the Southeast Gobe oil and gas field.

PPL 486 encompasses the same territory as PPL 319 did and has a six year term, commencing in June 2014, along with conditional work and expenditure commitments, to be no less than US\$ 30 million during the initial two years. The entire work program includes:

- During years 1 and 2: acquisition of a minimum of 50km of seismic and the drilling of the first exploration well;
- During years 3 and 4: analysis of the data acquired in years 1 and 2, acquisition of an additional minimum of 50km of seismic, and the drilling of a second exploration well; and
- During years 5 and 6: analysis of data from the previous four years and the drilling of a third exploration well.

On September 11, 2015, the Company was informed that the Minister had approved a variance to move the requirement for 50km of seismic from Years 1 and 2 into Years 3 and 4 thereby bringing the total seismic requirement for Years 3 and 4 to 100km. As of January 15, 2016, the Company is in the process of requesting an additional variance to move the exploration well commitment to years 3 and 4.

Up until September 22, 2015, the Company had a 16.85% interest in PPL 486 under the assumption that Heritage would fulfill its work commitments in the future and earn its full 80% farm-in. On September 22, 2015, the Company was notified by Heritage that it would not be funding the drilling of the first exploration well on PPL 486 and therefore would not fulfill its final commitment under the farm-in agreement. Heritage

advised the Company that it would re-transfer the other 40% participating interest in the licenses back to the Company's subsidiary Telemu. Therefore as at September 30, 2015, the Company has a 50.55% working interest in PPL 486.

PPL 321

In August 2014, the Company submitted an application to simultaneously surrender and top-file PPL 321, which comprises 1.8 million acres held for oil and natural gas exploration and is located in Northern Papua New Guinea overlying the Ramu Basin. PPL 321 expired in November 2014 and, as of January 15, 2016 the Company has not received a formal response from the DPE. As at September 30, 2015, the Company had fully impaired the carrying amount of \$883,760 (1.9 million kina) with respect to PPL 321. The Company has continued to evaluate PPL 321 utilizing recently reprocessed seismic data and updated geological models.

PRL 13

PRL 13 is also located in Southeastern Papua New Guinea in the Papuan Basin approximately 30 km southeast of the SE Gobe oil and gas field. In June 2014, the Company received a three year extension for PRL 13, commencing in June 2014 and ending in June 2017. The license has the following conditional work and expenditure commitments:

- Years 1 and 2: acquisition of a minimum of 20km seismic carrying a value of US\$ 2.8 million, analysis of the seismic acquired and planning of a well, if a well prospect is identified; and
- Year 3: acquisition of additional seismic if no drillable prospect is identified.

Prior to the granting of the extension, the Company had acquired approximately 20km of seismic on PRL 13. The years 1 and 2 seismic portion of this work commitment has been fulfilled.

On September 22, 2015, the Company was notified by Heritage that it would not be fulfilling its final commitment under the farm-in agreement, advising the Company that it would re-transfer the other 40% participating interest in the licenses back to the Company's subsidiary LNG PNG. Therefore as at September 30, 2015, the Company has a 60% working interest in PRL 13.

All of the licenses are subject to a 22.5% back-in participation right in favour of the government. The government may exercise this right at any point in time in exchange for 22.5% of the costs incurred in the development of the property until that point in time. The government also has a 2% royalty over any oil and natural gas production that may occur with respect to these licenses.

If the Company does not meet the expenditure and work program requirements outlined above, it may result in the loss of the licenses if variation applications are not approved by the DPE.

License #	Blocks	Esrey's		Expiry Date
		W.I.*	Total Acreage	
PRL 13	2	60.00%	40,031	January 2017
PPL 486	25	50.55%	500,388	June 2020
PPL 321	92	84.25%	1,841,426	November 2014 **
	119		2,381,845	

* Working interest as at September 30, 2015

** Application to simultaneously surrender and top file was submitted in August 2014, and the Company has not yet received a formal response from the DPE. PPL 321 expired in November 2014.

Business Transactions

Heritage farm-in agreement

On April 22, 2013, the Company closed a farm-in agreement with Heritage, under which Heritage acquired an 80% participation interest in PPL 486 and PRL 13, subject to the fulfillment of certain work commitments, in exchange for US\$7,522,079. In addition to the cash payment, Heritage also committed to fund the acquisition of a minimum of an additional 78km of seismic within the license areas and the drilling and completion of one exploration well in PPL 486 to a depth sufficient to test identified exploration targets. In May 2014, Heritage informed the Company that it had acquired a total of 235km of seismic, of which 215km was acquired on PPL 486 and 20km was acquired on PRL 13.

Amendment to Heritage farm-in agreement

On May 30, 2014, Telemu, LNG Energy (PNG) Limited and LNG Energy No. 2 Limited, entered into an amendment to the farm-in agreement with wholly owned subsidiaries of Heritage in Papua New Guinea. In exchange for the extension of the deadline to spud the first exploration well from October 1, 2014, to December 31, 2015, the farm-in agreement was amended and Telemu received:

- a further cash payment of US\$2,500,000;
- a further carry by Heritage for 30% of Telemu's 20% share of costs in a second exploration well in the event that a second well is drilled; and
- a further carry by Heritage through the funding of 100% of any joint operating costs incurred between the time Heritage fulfills its obligations with respect of the first exploration well until the earlier of the spud of the second exploration well or the 180th day following the date of testing and suspension or abandonment of the first exploration well.

Current position with respect to the Heritage farm-in agreement

On September 22, 2015, the Company was notified by Heritage that it would not be funding the drilling of the first exploration well on PPL 486 and therefore would not fulfill its final commitment under the amended farm-in agreement. Heritage advised the Company that it would retain the 40% interest already earned as permitted under the terms of the amended agreement, and wished to re-transfer the remaining 40% participating interest in the licenses back to the Company's subsidiaries Telemu and LNG Energy, who then assume operatorship of the licenses. Upon the re-transfer, Esrey, through Telemu and LNG Energy, will hold a 50.55% net interest in PPL 486 and a 60% net interest in PRL 13.

On September 29, 2015, Telemu and LNG PNG filed the necessary documents with the DPE to assume operatorship of PPL 486 and PRL 13 with immediate effect. Subsequent to year-end on November, 11, 2015, the necessary documents were filed with the DPE for the re-transfer of a 40% interest in PPL 486 and PRL 13 back to Telemu and LNG PNG, respectively. These re-transfers require Minister approval. As of the date of this report, this approval has not been received.

2.2 Bulgaria

The Company has a farm-in agreement with TransAtlantic Worldwide Ltd. ("TransAtlantic"), a wholly owned subsidiary of TransAtlantic Petroleum Ltd., to earn a 50% interest in a future production concession in northwest Bulgaria (the "Etropole Concession"). The application for the Etropole concession was submitted in November 2011, amended in April 2012 and denied in July 2014. The denial was partially due to the ban on fracture stimulation enacted by the Bulgarian Parliament in January 2012. In August 2014, TransAtlantic and the Company filed a formal appeal to the denial of the Etropole concession. The appeal was heard by the relevant court on November 23, 2015. No ruling has been issued by the court as of the date of this report.

Pursuant to the terms in the farm-in agreement with TransAtlantic, the Company is expected to fund up to US\$20 million in exchange for a 50% undivided interest in the Etropole Concession. As at December 31, 2014, EEL had funded US\$7,492,122 towards the drilling of a 3,190 m (10,466 ft) exploration well on the A-Lovech exploration license, which targets the Middle Jurassic Etropole formation in Bulgaria. US\$7.5 million of the remaining funding is expected to be used to drill a second well or for other exploration activities on the Etropole Concession after the concession has been granted. If the Etropole Concession is granted and the concession covers an aggregate amount equal to or greater than 200,000 acres, then an additional US\$5 million is payable to TransAtlantic.

The Company continues to assess the impact of the legislation to its operations in Bulgaria and the Bulgarian assets remain fully impaired as at September 30, 2015.

2.3 Poland

Saponis investment

On March 31, 2015, the Company withdraw from its Polish investment in Saponis, which holds the Slupsk concession. In accordance with the withdrawal agreement, the Company transferred its 42.96% interest in Saponis to BNK, paid the final cash call of US\$100,000 and assigned and forgave its loan receivable from Saponis in exchange for BNK assuming the future obligations of Saponis.

As at September 30, 2015, the Company's investment in Saponis remains at \$Nil.

Ilawa and Wegrow concessions

As of February 28, 2015, the Company, along with its joint venture partner San Leon Energy Plc ("San Leon"), informed the Ministry of Geology that the Ilawa concession was being relinquished. As at September 30, 2015, the Company is in the process of exiting from its investment in Joyce Podlasie LLC ("Joyce") and the Company's investment in Joyce remained at \$Nil.

The Wegrow concession expired in June 2014, which resulted in a full impairment of both the Wegrow exploration and evaluation costs by Maryani and the Company's investment in the Maryani Podlasie LLC joint venture during the year ended September 30, 2014. As at September 30, 2015, the Company is in the process of exiting from its investment in Maryani and the Company's investment in Maryani remained at \$Nil.

2.4 United States

Sheridan County, Montana

During the year ended September 30, 2015, the Company relinquished all of its oil and gas leases in Sheridan County and plugged and abandoned the Archer well. The remaining costs associated with the oil and gas leases were impaired in full during the three months ended December 30, 2014, and the net book value of both the oil and gas leases and the Archer well remained at \$Nil as at September 30, 2015.

Cascade County, Montana

During the year ended September 30, 2015, the Company relinquished all of its oil and gas leases in Cascade County and, as at September 30, 2015, the costs associated with these oil and gas leases was \$Nil.

A combined impairment of \$2,834,773 was taken on these United States assets in 2015.

3. Results of operations

The review of the results of operations should be read in conjunction with the Company's audited consolidated financial statements and related notes for the years ended September 30, 2015 and 2014.

The table below summarizes the Company's eight most recently completed quarters (in thousands of Canadian dollars, except for share and per share amounts).

Table 1

	Sept 30, 2015	June 30, 2015	Mar 31, 2015 (ii)	Dec 31, 2014	Sept 30, 2014 (i)	June 30, 2014 (i)	Mar 31, 2014 (i)	Dec 31, 2014 (i)
Income (loss) before tax and discontinued operations	(597)	1,430	149	(2,806)	(235)	(1,474)	(1,461)	(853)
Loss from discontinued operations	(21)	(2)	(611)	(88)	(3,685)	(476)	-	-
Net (loss) income attributable to equity shareholders of the Company	<u>(397)</u>	<u>1,460</u>	<u>(359)</u>	<u>(1,161)</u>	<u>(3,920)</u>	<u>(1,534)</u>	<u>(1,455)</u>	<u>(845)</u>
Basic and diluted (loss) income per share from								
Continuing operations	0.01	0.04	0.01	(0.03)	(0.01)	(0.03)	(0.05)	(0.03)
Discontinued operations	(0.00)	(0.00)	(0.02)	(0.00)	(0.09)	(0.01)	0.00	0.00

- (i) These balances have been retroactively adjusted for the recasting of certain comparative information related to discontinued operations.
(ii) Figures for this quarter have been restated for the misstatements discussed below under "Disclosure Corrections".

Disclosure Corrections

Subsequent to the issuance of the financial statements and MD&A for the quarter ended March 31, 2015 the Company determined that there were misstatements in the interim financial statements for that quarter. The misstatements occurred in the measurement of the transfer of translation losses from other comprehensive income to the income statement as required under IFRS following the exiting of an investment during the period, and in the accounting for a return of capital to a non-controlling shareholder in one of the Company's subsidiaries. The result of these adjustments is that the net loss in the second quarter of 2015 was misstated as follows:

Table 2

	3 months ended March 31, 2015
Net loss attributable to equity shareholders as previously reported	(3,486)
Adjustment to AOCI transferred to income following exit from investment	2,662
Adjustment to reflect return of capital to a minority shareholder as a reduction to NCI	<u>465</u>
Net loss attributable to equity shareholders as adjusted	<u><u>(359)</u></u>

3.1 Results of operations for the year ended September 30, 2015 and 2014

The table below sets forth selected results of operations for the Company for the three months and year ended September 30, 2015 and 2014 (in Canadian dollars).

Table 3

	Three months ended		Years ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Expenses				
Depreciation	\$ 3,698	\$ 4,370	\$ 14,777	\$ 37,221
Loss on disposal of fixed assets	-	628	-	37,542
General and administrative expenses	96,542	148,412	441,274	631,984
Professional fees	315,764	279,229	1,161,175	1,207,493
Share-based payments	50,110	25,461	186,009	131,811
Travel and business development	6,068	16,609	65,270	149,406
Settlement of drilling obligations	-	1,916	-	1,048,310
Impairment of exploration and evaluation assets	944,896	1,193	3,718,533	176,533
	(1,417,078)	(477,818)	(5,587,038)	(3,420,300)
Other income (expense)				
Accretion expense	(13)	(410)	(581)	(1,721)
Interest expense	(3,018)	(60,904)	(138,726)	(345,984)
Interest income	1,473	1,995	7,448	12,463
Share of loss of joint ventures	(65)	(1,827)	(2,491)	-
Gain (loss) on settlement of debt	47,535	-	2,184,680	(704,730)
Other income	9,226	7	187,903	3,606
Foreign exchange gain	765,091	301,440	1,524,613	434,392
Loss for the period before tax	(596,849)	(237,517)	(1,824,192)	(4,022,274)
Income tax recovery	6,317	2,106	1,881,331	398,617
Income (loss) from continuing operations	(590,532)	(235,411)	57,139	(3,623,657)
Loss from discontinued operations	(21,292)	(3,679,140)	(722,398)	(4,160,967)
Net income (loss) for the period	\$ (611,824)	\$ (3,914,551)	\$ (665,259)	\$ (7,784,624)
Attributable to:				
Non-controlling interest	(215,052)	1,482	(208,690)	(30,736)
Equity shareholders of the Company	(396,772)	(3,916,033)	(456,569)	(7,753,888)
	\$ (611,824)	\$ (3,914,551)	\$ (665,259)	\$ (7,784,624)
Basic and diluted income (loss) per share				
From continuing operations	\$ (0.01)	\$ (0.01)	\$ 0.01	\$ (0.11)
From discontinued operations	\$ (0.00)	\$ (0.09)	\$ (0.02)	\$ (0.12)
Condensed consolidated statements of financial position				
	September 30,	September 30,		
	2015	2014		
Total assets	\$ 10,489,105	\$ 15,030,176		
Total long-term liabilities	\$ -	\$ -		

Net income (loss) attributable to equity shareholders of the Company

For the year ended September 30, 2015 (“YE 2015”), the Company reported net losses attributable to equity shareholders of the Company of \$456,569 which comprised of income of \$265,829 from continuing

operations (\$0.01 per share) and a loss of \$722,398 from discontinued operations (\$0.02 per share). The Company's net loss attributable to equity shareholders of the Company decreased \$7,297,319 between the year ended September 30, 2014 ("YE 2014") and YE 2015, mainly due to: reduced losses from discontinued operations of \$3,438,569; a \$2,889,410 increase in the gain on settlement of debt; a decrease of \$1,048,310 in expenses related to the settlement of a drilling obligation in YE 2014; an increase in the income tax recovery of \$1,482,714; a \$1,090,221 increase in foreign exchange gains this year; and partially offsetting these was an increase during YE 2015 in the impairment of exploration and evaluation assets of \$3,542,000. These movements are discussed in further detail, below.

Revenue

The Company does not yet earn revenue from its exploration and evaluation assets. The Company's sources of income are interest income earned on its cash and cash equivalents and royalties received from an overriding royalty that it owns in the USA. During the year ended September 30, 2015, the Company received a combined total of US\$187,903 for revised amounts due on its overriding royalty, and is shown as Other Income

General and Administrative expenses

General and administrative expenses decreased \$190,710 from \$631,984 in YE 2014 to 441,274 in YE 2015. Costs were lower in areas such as transfer agent fees, office overheads, regulatory fees and rent.

Professional fees

Professional fees declined slightly from \$1,207,493 in FY 2014 to \$1,161,175 in FY 2015. A significant reduction in audit and other accounting fees was partially offset by increases in legal and consulting fees. The impact of the stronger US dollar relative to the Canadian dollar had a negative impact on our US dollar denominated fees and expenses.

Interest expense

Interest expense for FY 2015 of \$137,726 was \$207,258 less than the comparative amount for FY 2014. The reduction reflects the maturing of the non-revolving credit facilities in February 2015.

Gain on settlement of debt

In the year ended September 30, 2015 the Company recorded a gain on the settlement of debt of \$2,184,680 in comparison to a loss of \$704,730 in the same period in 2014. On March 31, 2015, the Company settled its non-revolving credit facilities of US\$3,377,776 in full in exchange for: (a) US\$1,600,000, (b) funding the lender's share of certain work programs in Papua New Guinea ("PNG") that the parties are involved in, and (c) for 72 months after March 31, 2015, acquiring any new oil and gas licenses in PNG through the Company's subsidiary, Telemu, in which the lender has a 15.75% indirect interest. This led to a gain on the settlement of debt of \$2,184,680 being recorded.

On March 25, 2014, the Company entered into an agreement to issue 10,943,396 common shares at a deemed price of Cdn\$0.265 per common share, in order to settle US\$2,636,363 of the non-revolving credit facilities owed by the Company's wholly owned subsidiary, Kaynes Capital S.a.r.l. ("Kaynes") to arm's length creditors. The transaction closed on April 28, 2014, when the Company's share price was at Cdn\$0.33 per common share, which resulted in a \$704,730 loss being recorded.

Impairment of exploration and evaluation assets

Impairment of exploration and evaluation assets increased \$3,542,000 from \$176,533 in YE 2014 to \$3,718,533 in YE 2015 due to the impairment of the remaining assets in the United States taken in Q2 2015, and the impairment of the capitalized assets associated with license PPL 321 in Papua New Guinea.

During the first quarter of 2015 the Company took a full impairment in the amount of \$2,834,773 on its Sheridan and Cascade County oil and gas leases as well as the costs associated with the Archer well. As at September 30, 2015, the Company had relinquished all of its Sheridan and Cascade County oil and gas leases and had plugged and abandoned the Archer well. In the fourth quarter of 2015 the Company also fully impaired its \$883,760 of carrying costs relating to the Papua New Guinea license PPL 321, given the uncertainties around the license renewal application.

The comparable amount in 2014 relates to the write down of the Company's exploration and evaluation assets in the United States and Poland by \$91,317 and \$85,216 respectively.

Loss from discontinued operations

Further losses were recognized in the year ended September 30, 2015 with respect to the Company's discontinued operations. On March 31, 2015, the Company withdrew from its 42.96% investment in Saponis and was required to reclassify the cumulative amount of exchange differences relating to Saponis that had been recognized in accumulated other comprehensive income to net income. This led to a \$464,518 foreign currency translation loss that was recognized within discontinued operations in the second quarter of 2015. See Note (ii) below *Table I*.

Income tax

Income tax recovery increased from \$398,617 in YE 2014 to a recovery of \$1,881,331 in YE 2015. In October 2014, the Company received a tax refund of US\$1,532,675, which led to the tax recovery.

Settlement of drilling obligations

On January 31, 2014, the Company entered into an agreement to settle the Company's drilling obligations on its Sheridan County oil and gas leases. The agreement led to the release of US\$650,000 of restricted cash to the Company and the release of US\$850,000 of restricted cash to a third party. The release of cash to the third party resulted in \$1,048,310 in exploration expenses being recorded.

Foreign exchange gains

The increase in gains reported on foreign exchange is largely a function of the relative strengthening of the United States dollar compared to the Canadian dollar. The average conversion rate for YE 2015 was 1.2857, a change of approximately 17% when compared to the equivalent rate for YE 2014 of 1.0943.

3.2 Results of operations for the three months ended September 30, 2015 and 2014

Net income (loss) attributable to equity shareholders of the Company

For the three months ended September 30, 2015 ("Q4 2015"), the Company reported net losses attributable to equity shareholders of the Company of \$396,772 which comprises losses of \$375,480 from continuing operations (\$0.01 per share) and losses of \$21,292 from discontinued operations (\$Nil per share). The Company's net income attributable to equity shareholders of the Company increased \$3,519,261 between the three months ended September 30, 2014 ("Q4 2014") and Q4 2015, mainly due to higher losses from

discontinued operations in Q4 2014 of \$3,657,848, increases in exchange gains in the current quarter of \$463,652, and partially offsetting these was a higher impairment of exploration and evaluation assets of \$943,703 in the current quarter compared to the same quarter a year ago. These movements are discussed in further detail, below.

Loss from discontinued operations

The higher losses from discontinued operations in Q4 2014 compared to Q4 2015 are the result of: an impairment of the Company's Polish associates and joint ventures of \$7,983,053 taken in Q4 2014; an impairment of exploration and evaluation assets of \$1,419,693 recognized in Q4 2014; and a higher bad debt expense taken in Q4 2014 of \$825,705. Partially offsetting these additional costs was the higher share of joint venture and associates income reflected in Q4 2014 compared to Q4 2015.

Impairment of exploration and evaluation assets

An increase of \$943,703 in impairments taken on exploration and evaluation assets in Q4 2015 compared to Q4 2014 largely relates to the impairment recognized on PPL 321 in the current quarter as discussed in the year to date comparative earlier.

Foreign exchange gains

The increase in the gains on foreign exchange in Q4 2015 compared to Q4 2014 reflect the strength of the United States dollar relative to the Canadian dollar in the current quarter compared to a year ago. The rate strengthened by approximately 20% over the respective quarters.

4. Liquidity, going concern and capital resources

4.1 Liquidity and going concern

At September 30, 2015, the Company had cash and cash equivalents of \$6,782,208 (September 30, 2014 - \$8,099,814) and working capital of \$6,687,528 (September 30, 2014 - \$4,340,984). Cash and cash equivalents decreased \$1,317,606 during YE 2015 as the Company paid \$1,966,213 as partial settlement of its non-revolving credit facilities (as described below), made advances to associates and joint ventures of \$235,021, paid a distribution of \$464,524, and incurred exploration and evaluation expenditures of \$250,612, which were partially offset by positive operating cash flows which largely resulted from the receipt of a tax refund of \$1,881,988, and a positive foreign exchange effect on cash and cash equivalents of \$1,213,322.

On March 31, 2015, the Company settled its non-revolving credit facilities of US\$3,377,776 in full in exchange for:

- US\$1,600,000;
- Funding the lender's share of certain work programs in Papua New Guinea ("PNG") that the parties are involved in; and,
- For 72 months after March 31, 2015, acquiring any new oil and gas licenses in PNG through the Company's subsidiary, Telemu, in which the lender has a 15.75% indirect interest

The Company continues to be in the exploration stage and therefore has generated no revenues to date from its existing properties. The Company will be required to spend significant capital on its exploration and evaluation projects in order to meet the work commitments dictated by the terms of the concessions,

determine whether commercially economical reserves exist and, if commercially economical reserves exist, to further develop the properties. As a result, the Company will be required to raise capital or seek other alternatives such as farm-in arrangements or the sale of properties in order to generate this capital.

There can be no assurance that funding will be available to the Company when needed or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may not be able to further develop its exploration and evaluation projects.

Even if adequate funds are available, there is no guarantee that the Company will meet the work commitments dictated by the terms of the concessions (Section 2). If the Company does not meet the work commitments required by the terms of a concession and it is not able to obtain an amendment or extension to the commitments, the Company risks losing the concession. Whether the Company meets the work commitments of a concession or not, there is no guarantee that the Company will discover commercially economical reserves or, if commercially economical reserves are found, there is no guarantee that the Company will be able to further develop its properties. The Company presently does not have sufficient funds to develop all of its existing properties and to continue with ongoing operations. As a result, material uncertainties exist with respect to the recovery of costs previously spent on capital projects and the ability to find, develop and produce oil and natural gas reserves. In turn, significant doubt may exist with respect to the Company's ability to continue as a going concern.

Management believes the use of the going concern assumption is appropriate based upon the assumption that the Company will have sufficient cash resources to meet its ongoing obligations as they become due in the normal course of operations. The Company has successfully raised financing in the past and believes that it may be able to raise the necessary financing in the future.

The Company's audited consolidated financial statements for the years ended September 30, 2015 and 2014 do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Therefore, the Company may be required to realize its assets and discharge its liabilities in other than the normal course of business at amounts different from those reflected in the Company's audited consolidated financial statements for the years ended September 30, 2015 and 2014.

4.2 Impairment

During the year ended September 30, 2015, the Company recorded a write-down of exploration and evaluation assets of \$2,834,773 pertaining to the Company's exploration and evaluation assets in the United States. During the year ended September 30, 2015, the Company relinquished the Sheridan and Cascade County oil and gas leases, and plugged and abandoned the Archer well, which led to the full impairment of the costs associated with these exploration and evaluation assets. In addition the Company recorded a write-down of exploration and evaluations assets of \$883,760 in Papua New Guinea with respect to PPL 321 because of the fact that the lease expired in November 2014, and the renewal had not been confirmed by the DPE since the Company's top-file application made in August 2014.

During the year ended September 30, 2014, the Company recorded an impairment of exploration and evaluation assets of \$176,533, of which \$85,216 pertained to the Company's exploration and evaluation assets in Papua New Guinea and \$91,317 pertained to the Company's exploration and evaluation assets in the United States.

As at September 30, 2015, the Company's Bulgarian, Polish and United States exploration and evaluation assets and the Company's investments in the Joyce and Maryani joint ventures remained impaired in full.

Any changes to future market conditions or future information obtained about the Company's exploration and evaluation licenses may result in impairment, a further impairment or a reversal of impairment of any of the Company's exploration and evaluation assets.

4.3 Share Capital

During the year ended September 30, 2015, there were no changes to the Company's outstanding share capital.

On April 2, 2015, the Company granted 2,376,000 stock options at an exercise price of \$0.095 per share and with an expiry date of April 2, 2020. One third of these options vested immediately, one third will vest on October 2, 2015 and one third will vest on April 2, 2016. During the period, there were no expiries or exercises of stock options. Share-based payment expense recorded with regards to stock options during the year ended September 30, 2015 was \$186,009 (year ended September 30, 2014 - \$131,811).

As at January 15, 2016, the Company had:

- 39,762,771 common shares outstanding; and
 - 3,312,500 options outstanding, which are exercisable at prices ranging from Cdn\$0.095 to Cdn\$2.40 and which expire between July 18, 2016 and April 2, 2020.
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5. Risks factors

5.1 General

The oil and gas industry is very competitive and is subject to a variety of risks, many of which are outside the Company's control. Management has identified certain key risks, which are discussed below, along with their potential impact on the Company's operations. There is no assurance that commercial quantities of oil and natural gas will be discovered by the Company.

5.2 Exploration, drilling and operating risks

The business of exploration for and production of oil, gas and other resources involves a high degree of risk. In particular, the operations of the Company may be disrupted, curtailed or cancelled by a variety of risks and hazards which are beyond the control of the Company, including environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, unusual or unexpected rock formations, flooding and extended interruptions due to inclement or hazardous weather conditions, mechanical difficulties, shortage or delays in the delivery of rigs and/or other equipment, compliance with governmental requirements, explosions and other accidents. These risks and hazards could also result in damage to, or destruction of, production facilities, personal injury, environmental damage, business interruptions, monetary losses and possible legal liability.

5.3 Title to properties

It is often not possible to conclusively determine title to an oil and gas interest, without incurring substantial expense. In accordance with industry practice, the Company will conduct such title review in connection with its principal properties as it believes is commensurate with the value of such properties. Governmental regulations and processing, approvals, licenses and permits are subject to the discretion of the applicable governments or governmental offices. The Company must comply with known standards, existing laws and regulations. New laws and regulations, amendments to existing laws and regulations, or more stringent enforcement of existing laws and regulations could have a material adverse impact on the Company's title to properties and correspondingly the Company's results of operations, financial condition and prospects.

5.4 Fluctuations in the prices of oil and natural gas

Oil and natural gas prices have fluctuated widely during recent years and are determined by various factors outside the Company's control, including supply and demand, weather, general economic conditions, political instability, government regulation and taxes, the price and availability of alternative fuels, and conditions in oil and gas regions around the world. Such fluctuations will have a positive or negative effect on any revenue that the Company may receive in the future. If oil and natural gas prices become depressed or decline, the Company's potential revenue and earnings and the value of its assets would be expected to decline.

5.5 Political risks

The Company's principal licenses are located in Papua New Guinea and Bulgaria. Operations in Papua New Guinea and Bulgaria are subject to risks due to the potential for social, political, economic, legal and fiscal instability. The governments in Papua New Guinea and Bulgaria face ongoing issues such as inflation, unemployment and inequitable income distributions. Such instability may impact the Company's operations on its properties as future political actions, which may adversely affect the Company, cannot be predicted. Future operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, maintenance of licenses, environmental legislation, land use, land claims of local people, water use and well safety.

Failure to comply strictly with applicable laws, regulations and local practices relating to exploration and evaluation assets could result in loss, reduction or expropriation of entitlements. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's consolidated results of operations and financial condition.

5.6 Additional financing

To the extent that external sources of capital, including the issuance of additional Common Shares, become limited or unavailable, the Company's ability to make necessary capital investments to maintain or expand its oil and gas exploration and development activities will be impaired.

5.7 Dependence on key personnel

The Company has a small management team and the loss of a key individual or the inability to attract suitably qualified personnel in the future could materially and adversely affect the Company's business.

5.8 Foreign exchange rates

The Company will be subject to normal market risks including fluctuations in foreign exchange rates. While the Company expects to manage its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure.

5.9 Foreign investments

The Company expects that its oil and gas exploration activities will take place principally outside of Canada for the foreseeable future. As such, the Company's operations are subject to a number of risks over which it has no control. These risks may include risks related to economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability, changes of laws affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control,

exploration licensing, petroleum and export licensing and export duties as well as government control over domestic oil and gas pricing. The Company endeavours to operate in such a manner in order to minimize and mitigate its exposure to these risks. However, there can be no assurance that the Company will be successful in protecting itself from the impact of all of these risks.

5.10 Environmental regulation

The oil and gas industry is subject to environmental regulation. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of the Company or its properties. Such legislation may be changed to impose higher standards and potentially more costly obligations. The Company endeavours to operate in such a manner to ensure it conforms to the standards and government regulations required for each jurisdiction in which it operates.

5.11 Governmental regulations

The Company's oil and gas concessions are subject to various federal and local governmental regulations. Matters subject to regulation include discharge permits for drilling operations, drilling and abandonment bonds, reports concerning operations, the spacing of wells, and pooling of properties and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and gas wells below actual production capacity in order to conserve supplies of oil and gas. The production, handling, storage, transportation and disposal of oil and gas, by-products thereof, and other substances and materials produced or used in connection with oil and gas operations are also subject to regulation under federal and local laws and regulations relating primarily to the protection of human health and the environment. To date, expenditures related to complying with these laws, and for remediation of existing environmental contamination, have not been incurred in relation to the results of operations of the Company, although the Company anticipates incurring such expenses in the future. The requirements imposed by such laws and regulations are frequently changed and subject to interpretation, and the Company is unable to predict the ultimate cost of compliance with these requirements or their effect on its operations.

5.12 General economic conditions

There has been a high level of volatility in the world financial markets over the past few years. This volatility has caused investors to become less willing to provide debt or equity financing to most companies and in particular to junior resource companies. This will potentially make completing financings for the Company difficult in the foreseeable future.

6. Off-balance sheet transactions

As at September 30, 2015, the Company did not have any off-balance sheet arrangements other than those discussed elsewhere in this MD&A.

7. Proposed transactions

As at January 15, 2016, the Company's Board of Directors has not approved any proposed asset or business acquisitions or dispositions other than those discussed elsewhere in this MD&A.

8. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities, and loans payable.

8.1 Fair value of financial instruments

The carrying amount for cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities on the statement of financial position approximate their fair value due to the short-term to maturities of these financial instruments.

The carrying amount for loans payable approximates its fair value as it is classified as a financial liability measured at amortized cost.

8.2 Financial risk management

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity and funding risk, and market risk. There have been no substantive changes in the Company's exposure to financial instrument risk, the Company's objectives, policies and processes for managing those risks or the methods used to measure them from previous years.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The overall objective of the Board is to set policies that seek to reduce the Company's risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

8.3 Credit risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk arises principally from the Company's cash and cash equivalents and amounts receivable. Cash consists of cash on deposit in major banks that are considered to be creditworthy. Amounts receivable are comprised primarily of amounts due from GST receivables from the government in Canada. The carrying values of the financial assets represent the maximum credit exposure.

8.4 Liquidity and funding risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and cash equivalents. The Company's cash is invested in business accounts and is available on demand.

Funding risk is the risk that the Company may not be able to raise equity financing in a timely manner and on terms acceptable to management. There is no assurance that such financing will be available when, and if, the Company requires additional equity financing.

In the normal course of business, the Company enters into contracts and performs business activities that give rise to commitments for future minimum payments. The following table summarizes the Company's significant remaining contractual maturities for financial liabilities as at September 30, 2015 and 2014.

Contractual maturity analysis as at September 30, 2015

	Less than 3 months	3 - 12 months	1 - 5 years	Total
Accounts payable and accrued liabilities	\$ 25,708	\$ 159,607	\$ -	\$ 185,315
Loans payable	236,713		-	236,713
Total	\$ 262,421	\$ 159,607	\$ -	\$ 422,028

Contractual maturity analysis as at September 30, 2014

	Less than 3 months	3 - 12 months		Total
Accounts payable	\$ 307,337	\$ -	\$ -	\$ 307,337
Decommissioning obligation	-	55,876	-	55,876
Loans payable	196,978	3,656,852	-	3,853,830
Total	\$ 504,315	\$ 3,712,728		\$ 4,217,043

8.5 Market risk

The Company is subject to normal market risks including fluctuations in foreign exchange rates and interest rates. While the Company manages its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure.

Interest rate risk

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates of the Company's financial instruments. The Company has minimal exposure to interest rate fluctuations on its cash and cash equivalent balances due to current low market interest rates.

Foreign currency risk

Some of the Company's exploration expenditures, certain acquisition costs and other operating expenses are denominated in US dollars, Papua New Guinea kina, Polish zloty and European euro. The Company's exposure to foreign currency risk arises primarily on fluctuations between the Canadian dollar and the US dollar, Papua New Guinea kina and Polish zloty. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

9. Adoption of accounting standards and pronouncements under IFRS

9.1 Application of new and revised IFRSs

Effective October 1, 2014, the Company adopted the following new and revised IFRSs that were issued by the IASB.

(i) *IAS 32 Financial Instruments: Presentation*

The amendments to IAS 32 pertain to the application guidance on the offsetting of financial assets and financial liabilities, focused on four main areas: the meaning of 'currently has a legally enforceable right of set-off', the application of simultaneous realization and settlement, the offsetting of collateral amounts and the unit of account for applying the offsetting requirements. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years.

(ii) *IFRIC 21 Levies*

IFRIC 21 “Levies”. IFRIC 21 was issued by the International Accounting Standards Board in May 2013. IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years.

9.2 Accounting standards issued but not yet effective

Certain pronouncements have been issued by the IASB that are mandatory for accounting years beginning after October 1, 2015 or later years.

Effective for annual periods beginning on or after October 1, 2018

(i) *IFRS 15 Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The extent of the impact of adoption of the standard has not yet been determined.

(ii) *IFRS 9 Financial Instruments*

On July, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The extent of the impact of the adoption of this standard has not yet been determined.

10. Critical Accounting Estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, revenue and expenses. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events, which are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in net earnings (loss) and/or comprehensive earnings (loss) in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Judgments and estimates made by management in the application of IFRS that have a significant effect on the financial statements are discussed below:

(a) Exploration and evaluation expenditures

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the earnings (loss) in the year the new information becomes available.

(b) Title of mineral property interest

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

(c) Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the applicable tax laws in the jurisdictions in which the Company operates. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. However, the final outcome may result in a materially different outcome.

(d) Decommissioning obligations

Decommissioning obligations are recorded based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from year to year. Actual decommissioning costs will ultimately depend on future market prices for the decommissioning costs which will reflect the market conditions at the time the decommissioning costs are actually incurred.

(e) Share-based payments

The Company measures the cost of equity-settled transactions with employees based on the fair value of the equity instruments on the date of grant. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them.

11. Cautionary Statement on Forward-Looking Information

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as “forward-looking statements”) within the meaning of Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking information typically contains statements with words such as “anticipate”, “believe”, “plan”, “continuous”, “estimate”, “expect”, “may”, “will”, “project”, “should”, or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements pertaining to the following:

- Depreciation and accretion rates;
- General and administrative expenses;
- Capital expenditures;
- Exploration and development drilling program; and
- Sources of funding.

Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not in fact be realized. Actual results will differ, and the difference may be material and adverse to the Company and its shareholders.

Forward-looking statements are based on the Company’s current beliefs as well as assumptions made by, and information currently available to, the Company concerning anticipated financial performance, business prospects, strategies, regulatory developments, future natural gas commodity prices, the ability to market natural gas successfully to customers, the impact of increasing competition, the ability to obtain financing on acceptable terms, and the ability to add production and reserves through development and exploration activities. Although management considers these assumptions to be reasonable based on information currently available, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward-looking statements will not be achieved. These factors include, but are not limited to: risks associated with oil and gas exploration, financial risks, substantial capital requirements, bank financing, government regulation, environmental risks, prices, markets and marketing, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, risks may not be insurable, management of growth, expiration of licenses and leases, reserves estimates, seasonality, competition, conflicts of interest, issuance of debt, title to properties, variations in exchange rates, and hedging. Further information regarding these factors may be found under the heading “Risk Factors” in the Annual Information Form. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive.

Certain of the forward-looking statements in this MD&A may constitute “financial outlooks” as contemplated by National Instrument 51-102 Disclosure Obligations, including information related to projected revenues, expenses, capital expenditures for 2015, which are provided for the purpose of forecasting the financial position of the Company at the end of the 2015 financial year. Please be advised that the financial outlook in this MD&A may not be appropriate for purposes other than the one stated above.

The forward-looking statements contained in this MD&A are made as of the date thereof and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, except as required by applicable law. The forward-looking statements contained herein are expressly qualified by this cautionary statement.