

# **GALILEO PETROLEUM LTD.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS For the six months ended December 31, 2014**

### **NOTE TO READER**

Management's Discussion and Analysis ("MD&A") is intended to help the reader understand Galileo Petroleum Ltd. ("Galileo" or the "Company"), its history, business environment, strategies, performance and risk factors from the viewpoint of management.

This MD&A has been prepared based on information known to management as of February 25, 2015 and should be read in conjunction with the condensed consolidated interim financial statements for the six months ended December 31, 2014 and the related notes all of which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by IASB.

The following comments may contain management estimates of anticipated future trends, activities or results. These are not a guarantee of future performance, since actual results will change based on other factors and variables beyond management control.

Management is responsible for the preparation and integrity of the consolidated financial statements, including the maintenance of appropriate information systems, procedures and internal controls, and to ensure that information used internally or disclosed externally, including the consolidated financial statements and MD&A, is complete and reliable.

The Company's board of directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The board's audit committee meets with management regularly to review financial statement results, including the MD&A and to discuss other financial, operating and internal control matters.

The reader is encouraged to review Company statutory filings on [www.sedar.com](http://www.sedar.com) and to review general information, including maps on the Company's website at [www.galileopetroleum.ca](http://www.galileopetroleum.ca).

### **DATE**

This MD&A is prepared as of February 25, 2015.

### **DESCRIPTION OF BUSINESS AND OVERVIEW**

The Company is a natural resource exploration company focused primarily on the acquisition, exploration and development of crude oil projects. The Company is concentrating on identifying oil or natural gas properties that have potential for discovery of reserve and with further development, have good production potential.

On March 8, 2011, the Company signed an Agreement to participate in the exploration, exploitation and production of oil and natural gas in central Saskatchewan – see "Exploration review".

On October 20, 2014, the TSX Venture Exchange ("TSX-V") approved the Company's share consolidation on the basis of 3 pre-consolidation common shares for 1 post-consolidation common share of the Company. All references to number of shares and per share amounts have been retroactively restated to reflect this consolidation.

### **FORWARD LOOKING STATEMENTS**

Certain information set forth in this report contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties including: the results of current oil and gas operation and exploration activities; market reaction to future operation and exploration activities; significant changes in oil prices; currency fluctuations; general market and industry conditions; and other

factors detailed in the Company's public filings. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Galileo Petroleum Ltd.'s actual results, programs and financial position could differ materially from those expressed in or implied by these forward-looking statements, and accordingly, no assurance can be given that the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits Galileo Petroleum Ltd. will derive therefrom. Galileo Petroleum Ltd. disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Forward looking statements included or incorporated by reference in this document include statements with respect to:

- The Company's progress, potential and uncertainties of its oil and gas drilling program in central Saskatchewan.
- The Company's progress, potential and uncertainties of its oil and gas drilling program in central Alberta.
- The Company's expectations regarding the ability to find new projects in Canada.
- Expectations regarding the ability to raise capital to continue its exploration, project search and acquisition activities.

## **EXPLORATION REVIEW**

### **HIGHLIGHTS**

The Company:

- acquired a 50% working interest in exploratory lands at Provost, Alberta (See Provost).
- entered an agreement to participate in the development of an oil and natural gas play in central Saskatchewan (See Salt Lake project - Birdbear formation).

### **OUTLOOK**

The Company continues to monitor production from the Salt Lake (BirdBear) Project and will undertake a review of the current portfolio with the view of monetizing several assets for debt reduction. New projects for acquisition, on a larger scale, are being targeted.

## **PETROLEUM AND NATURAL GAS JOINT VENTURES**

### **Salt Lake Project (Birdbear formation)**

On March 8, 2011, the Company entered into an agreement to participate in the development of an oil and natural gas play in central Saskatchewan. Under the terms of the agreement the Company has the right to earn a 25%, non-operating, working interest in a total of four sections of land (2,560 acres). A 25% working interest in the first two sections was earned by participating in, and paying a 50% cost share of, the drilling of one vertical and one horizontal well. An interest in an additional two sections of land was earned with participation on a "straight up basis" (25% of costs for a 25% working interest) in the drilling of a subsequent horizontal well. Each of the horizontal wells will qualify for the Province of Saskatchewan's drilling incentive program with a maximum 2.5% government royalty on the first 100,000 barrels of production.

On March 28, 2011, the Company secured two additional sections of contiguous land by way of a seismic option. Future production from these lands is subject to a sliding scale nonconvertible royalty.

On August 15, 2011, the Company announced that it had established oil production through a five-well drilling program. The Company tested and brought the wells on stream achieving combined average production of 130 barrels of oil per day ("bopd"), 33 bopd net to the Company.

At this time one oil well remains producing on a limited basis, and one natural gas well is suspended due to low gas prices.

As at December 31, 2014, the Company has total expenditures of \$2,041,113 (June 30, 2014 - \$2,027,288) on the Salt Lake project.

### **Provost**

In February, 2012, the Company acquired a 50% ownership in 928 acres (1.5 square miles) of exploratory land at Provost, Alberta. The primary target of this project is the Sparky formation which can be prolific for medium grade oil.

During the year ended June 30, 2014, the Company performed an impairment analysis on the Provost assets and concluded there was impairment due to the upcoming expiry leases on these properties. The Company, therefore, wrote off \$79,967 of project expenditures.

As at December 31, 2014 the Company has recorded total expenditures of \$Nil (June 30, 2014 – \$Nil) on the Provost project.

### **Bigwave Joint Venture**

On November 1, 2008 the Company signed the Bigwave Joint Venture Agreement (the “Agreement”) to participate for a 15% working interest in the exploration, exploitation and production of oil and natural gas from lands located in central Alberta. In December of 2008 the Agreement was modified to allow the Company to participate for a 20% interest. During the quarter ended September 30, 2009 the Company increased its interest in the joint venture to 22%.

On April 9, 2010 the Company purchased the Participation Agreement for \$5,000 and 500,000 common shares in the capital of the Company. On the closing of the purchase, the Participation Agreement was terminated and the Company held a 22% working interest in the Joint Venture.

On August 2010 the Company acquired an additional 6.5% working interest in the joint venture and the Company’s working interest in the joint venture increased from 22% to 28.5%.

On May 21, 2013, the Company sold its 28.5% share of certain land rights for aggregate proceeds of \$14,535. The Company recorded a loss on disposition of exploration and evaluation assets of \$28,995 as a result of this transaction.

During the year ended June 30, 2013, the Company performed an impairment analysis on the Bigwave Joint venture assets and concluded there was impairment due to the upcoming expiry leases on these properties. The Company, therefore, wrote off \$355,813 of project expenditures.

During the year ended June 30, 2014, the Company performed an impairment analysis on the Bigwave Joint venture assets and concluded there was impairment due to the upcoming expiry leases on these properties. The Company, therefore, wrote off \$238,674 of project expenditures.

As at December 31, 2014 the Company has recorded total net expenditures of \$Nil (June 30, 2014 – \$Nil) on the Bigwave project.

## **PETROLEUM AND NATURAL GAS EXPENDITURES**

During the six months ended December 31, 2014, the Company spent \$13,826 on petroleum and natural gas property expenses (2013 – recovered \$12,674). The Company’s oil and gas properties are located in Saskatchewan, Canada.

	Exploration and Evaluation Assets		Developing & Producing	Total
	Bigwave	Provost	Salt Lake	
<b>Total as at June 30, 2013</b>	<b>\$ 239,098</b>	<b>\$ 79,967</b>	<b>\$ 388,586</b>	<b>\$ 707,651</b>
Crown Lease	(424)	-	3,709	3,285
Drilling	-	-	964	964
Recovery of drilling costs	-	-	(33,660)	(33,660)
Completion	-	-	49,502	49,502
Total expenditures	(424)	-	20,515	20,091
Impairment loss	(238,674)	(79,967)	-	(318,641)
Depletion of oil and gas properties	-	-	(57,671)	(57,671)
<b>Total as at June 30, 2014</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 351,430</b>	<b>\$ 351,430</b>
Completion	-	-	13,826	13,826
Total expenditures	-	-	13,826	13,826
Depletion of oil and gas properties	-	-	(38,388)	(38,388)
<b>Total as at December 31, 2014</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 326,868</b>	<b>\$ 326,868</b>

### **IMPAIRMENT OF LONG-LIVED ASSETS**

The Company completed an impairment analysis as at December 31, 2014, which considered the indicators of impairment in accordance with IAS 36, "Impairment Assets". Management recorded an impairment loss of \$Nil for the six months ended December 31, 2014 (2013 - \$Nil), no other impairment charge was required because:

- there have been no significant changes in the legal factors or climate that affects the value of the remaining properties;
- all properties rights remain in good standing;
- there have been no significant changes in the projections for the properties.

### **SUMMARY OF SELECTED ANNUAL FINANCIAL INFORMATION**

**For the years ended June 30<sup>th</sup>**

	2014	2013	2012
Net loss	\$ 386,844	\$ (1,689,917)	\$ (1,159,501)
Basic EPS	\$ 0.04	\$ 0.17	\$ (0.12)
Total assets	\$ 404,634	\$ 806,014	\$ 2,411,691
Total capital expenditures	\$ 19,430	\$ (4,061)	\$ 1,120,261
Total long-term debt	Nil	Nil	Nil

## **SUMMARY OF QUARTERLY RESULTS**

	Three Months Ended			
	December 31	September 30	June 30	March 31
	2014	2014	2014	2014
	\$	\$	\$	\$
Oil and gas revenue	18,513	27,438	37,465	11,507
Other gains (losses)	4,387	61,002	112,262	(318,391)
Expenses	76,509	63,597	59,288	80,968
Net income (loss)	(53,609)	24,843	90,439	(387,852)
Net loss per share	(0.01)	Nil	0.03	(0.12)

	Three Months Ended			
	December 31	September 30	June 30	March 31
	2013	2013	2013	2013
	\$	\$	\$	\$
Oil and gas revenue	7,148	14,213	15,058	35,165
Other gains (losses)	1,634	-	(1,416,947)	-
Expenses	41,187	68,240	174,605	75,453
Net loss	(32,405)	(54,027)	(1,576,494)	(40,288)
Net loss per share	(0.01)	(0.02)	(0.49)	Nil

## **RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2014 AND 2013**

For the quarter ended December 31, 2014 the Company recorded net loss of \$53,609 (loss per share - \$0.01) compared to a net loss of \$32,405 (loss per share - \$0.01) in the second quarter of fiscal 2014.

During the three months ended December 31, 2014, the Company recorded \$18,513 (2013 - \$7,148) in oil and gas revenues.

During the three months ended December 31, 2014, the Company incurred \$74,831 (2013 - \$41,027) in expenses, of which \$19,194 (2013 - \$18,223) relates to non-cash depreciation and depletion. The Company's general and administrative expenses, excluding the non-cash items, and the resource operating expenses of \$16,824 (2013 - \$6,698) amounted to \$38,813 compared to 2013's \$16,106 an increase of \$22,707. The increase was primarily due to an increase in legal fees and transfer agent expenses related to the settlement of debt with shares and the share consolidation, offset by a decrease in salaries and other office expenses that resulted from the Company's increased efforts to curtail operations and conserve cash.

## **RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED DECEMBER 31, 2014 AND 2013**

During the six months ended December 31, 2014 the Company incurred losses of \$28,766 (loss per share - \$0.01) compared to a net loss of \$89,431 (loss per share - \$0.03) for the same period in 2013.

During the six months ended December 31, 2014, the Company recorded \$45,951 (2013 - \$21,361) in oil and gas revenues.

During the six months ended December 31, 2014, the Company incurred \$134,731 (2013 - \$110,059) in expenses, of which \$38,388 (2013 - \$36,445) relates to non-cash depreciation and depletion. The Company's general and administrative expenses, excluding the non-cash items, and the resource operating expenses of \$33,448 (2013- \$24,487) amounted to \$62,895 compared to 2013's \$49,127 an increase of \$13,768. The increase was primarily due to an increase in lawyer fees and transfer agent expenses related to the settlement of debt with shares and the share consolidation, offset by a decrease in salaries and other office expenses that resulted from the Company's increased efforts to curtail operations and conserve cash.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements that would potentially affect its operations or financial condition of the Company.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash totaled \$294 and had a working capital deficiency of \$151,627 as of December 31, 2014 (June 30, 2014: cash of \$15,414 and working capital deficiency of \$174,600). The decrease in cash of \$15,120 is primarily due to \$41,294 spent in operating activities and oil and gas expenditures of \$13,826; offset by \$40,000 in shareholders' loans received. The decrease in working capital deficiency of \$22,973 is primarily due to the settlement of certain debts with shares of the Company.

As at December 31, 2014, the Company has an authorized unlimited number of common shares without par value. All issued shares are fully paid.

	No. of Common Shares Issued and Outstanding	Share Capital Amount
June 30, 2013	3,249,702	\$ 4,237,854
June 30, 2014	5,120,729	\$ 4,406,246
December 31, 2014	5,422,692	\$ 4,433,423

At December, 2014 the Company had 8,000 (June 30, 2014 – 8,000) outstanding stock options with a weighted average exercise price of \$2.12 (June 30, 2014 - \$2.13). If the remaining outstanding options were exercised, the Company's available cash would increase by \$16,100.

During the six months ended December 31, 2014, nil stock options were cancelled, and nil options were exercised.

As at December 31, 2014 contributed surplus totaled \$1,277,793 (June 30, 2014 - \$1,277,793).

Stock options outstanding as at December 31, 2014 are as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,333	\$2.25	17-Jan-15
6,667	\$2.10	28-Mar-16
<u>8,000</u>		

The Company relies on equity financings to fund its exploration activities, corporate overhead expenses and acquisitions. There is no guarantee that the Company will be able to secure additional financing in the future at terms that are favourable. To date, the Company has not used debt or other means of financing to further its exploration programs.

## **TRANSACTIONS WITH RELATED PARTIES**

Payments to related parties were made in the normal course of operations and were valued at fair value as determined by management. Amounts due to or from related parties are unsecured, non-interest bearing and due on demand. All outstanding balances are unsecured, and there are no commitments or guarantees associated with the outstanding balances.

		Three months ended September 30, 2014		Year ended June 30, 2014	
Amounts in accounts payable	Services for:	Total Charges	Balance Outstanding	Total Charges	Balance Outstanding
		\$	\$	\$	\$
A private company with a director in common with the Company	Accounting, finance, promissory note	27,526	27,526	80,525	-
A public company with directors in common with the Company	Administrative fees, advances	6,541	8,878	13,083	1,308
Directors	Accrued salaries, expense reimbursement, loans	31,200	68,700	52,500	22,500
<b>Total</b>		<b>\$ 65,267</b>	<b>\$ 105,104</b>	<b>\$ 146,108</b>	<b>\$ 23,808</b>

During the six months ended December 31, 2014, the Company received a loan from a private company with a director in common for \$25,000. The loan is unsecured, non-interest bearing and has no fixed terms of repayment. As of December 31, 2014 the Company owes this private company \$25,000 (June 30, 2014 – \$Nil) in regards to this loan.

During the six months ended December 31, 2014, the Company received loans from certain directors of the Company for \$31,200. The loans are unsecured, non-interest bearing and have no fixed terms of repayment. As of December 31, 2014 the Company owes these certain directors \$31,200 (June 30, 2014 – \$Nil) in regards to these loans.

Key management personnel compensation includes all compensation paid to executive management and members of the board of directors of the Company.

	Six months ending December 30,	
	2014	2013
Short-term employee benefits	\$ 15,000	\$ 15,000
Share-based payments	-	-
<b>Total</b>	<b>\$ 15,000</b>	<b>\$ 15,000</b>

## **PROPOSED TRANSACTIONS**

The Company does not currently have any proposed transactions approved by the board of directors. All current transactions are fully disclosed in the financial statements for the period ended December 31, 2014.

## **ADDITIONAL INFORMATION**

Additional information about the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Outstanding Share Data**

As at February 25, 2015 the Company had the following items issued and outstanding:

- 5,422,692 common shares.
- 8,000 common stock options with a weighted average exercise price of \$2.12 expiring at various dates until August 11, 2016.

## **RISKS AND UNCERTAINTIES**

The Company's financial success will be dependent upon the extent to which it can discover oil and gas reserves or acquire oil and gas properties and the economic viability of developing its properties.

The Company competes with many companies possessing greater financial resources and technical facilities than itself. The market price of oil and gas is volatile and cannot be controlled. There is no assurance that the Company's oil and gas exploration and development activities will be successful. The development of oil and gas properties involves many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome.

The development of oil and gas resources in Canada is subject to a comprehensive review, approval and permitting process that involves various federal and regional agencies. There can be no assurance given that the required approvals and permits for an oil and gas project, if technically and economically warranted, on the Company's claims can be obtained in a timely or cost effective manner.

Most of the Company's short to medium term operating funds and cash flow must be derived from external financing. Actual funding may vary from what is planned due to a number of factors including the progress of exploration and development on its current properties. Should changes in equity market conditions prevent the Company from obtaining additional external financing, the Company will need to review its exploration and oil and gas property holdings to prioritise project expenditures based on funding availability.

The Company competes with larger and better financed companies for exploration personnel, contractors and equipment. Increased exploration activity has increased the demand for equipment and services. There can be no assurance that the Company can obtain required equipment and services in a timely or cost effective manner.

The Company's financing activities in Canada make it subject to foreign currency fluctuations and such fluctuations may materially affect its financial position and results.

#### **INTERNAL CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING ('ICFR')**

No changes occurred in the current period of the Company's ICFR that have materially affected or are reasonable likely to materially affect the Company's ICFR.

#### **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The fair values of the Company's cash, marketable securities, short-term investments, amounts receivable, accounts payables and accrued liabilities approximate their carrying values.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest risk.

##### **(a) Currency risk**

The Company may acquire property interests in foreign jurisdictions that may make it subject to foreign currency fluctuations and inflationary pressures which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and foreign functional currencies. The Company does not invest in foreign currency contracts to mitigate the risks.

##### **(b) Credit risk**

The Company's cash and cash equivalents are held in a Canadian financial institution. The Company does not have any asset-backed commercial paper in its cash and cash equivalents or short-term investments. The Company's amounts receivable consists primarily of oil and gas sales receivable, and tax due from the federal government of Canada.

##### **(c) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash and cash equivalents is limited because they are generally held to maturity. A 1% change in the interest rate, with other variables unchanged, would affect the Company by an annualized amount of interest equal to approximately \$100.

(e) Commodity Price Risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices, affecting results of operations and cash generated from operating activities. Such prices may also affect the value of exploration and development properties and the level of spending for future activities. Prices received by the Company for its production are largely beyond the Company's control as oil and gas prices are impacted by world economic events that dictate the levels of supply and demand. The Company did not have any commodity price contracts in place as at or during the six months ended December 31, 2014.