
ALTIMA RESOURCES LTD.
MANAGEMENT DISCUSSION AND ANALYSIS
PERIOD ENDED FEBRUARY 28, 2021

Date prepared: June 2, 2021

GENERAL

This management discussion and analysis (“MDA”) covers the operations of Altima Resources Ltd. (“Company”) for the period ended February 28, 2021 and should be read in conjunction with the audited consolidated financial statements for the year ended November 30, 2020 and the condensed consolidated interim unaudited financial statements for the three months ended February 28, 2021. The financial statements together with this MDA are intended to provide investors with a reasonable basis for assessing the financial performance of the Company.

Additional information related to the Company is available for view on the company’s website at www.altimaresources.ca, on SEDAR at www.sedar.com, or by requesting further information from the Company’s head office in Vancouver.

FORWARD LOOKING STATEMENTS

Information contained in this MDA that is not historical fact may be considered “forward looking statements”. These forward looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Company’s objectives, goals or plans are forward looking statements. Since forward looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors, including such variables as new information regarding recoverable reserves, changes in demand for and commodity prices of crude oil and natural gas, legislative, environmental and other regulatory or political changes, competition in areas where the Company operates, and other factors discussed herein. Readers are cautioned not to place undue reliance on this forward looking information.

NATURE OF BUSINESS

The Company was incorporated under the Company Act of British Columbia and is engaged in the acquisition, exploration and development of petroleum and natural gas properties in Western Canada and has not yet determined whether all the properties contain reserves that are economically recoverable. The recoverability of amounts shown for petroleum and natural gas properties is dependent upon the discovery of economically recoverable reserves of the Company’s interest in the petroleum and natural gas properties, the ability of the Company to obtain necessary financing to complete the development of the properties and upon future profitable production or proceeds from the disposition thereof.

The Company is a public company listed on the TSX Venture Exchange under the symbol ARH.

Corporate development

Low commodity prices continued throughout 2020. The Company prioritizes the preservation and strengthening of its balance sheet through a diligent focus on reductions in all areas of spending, including operating, financing and administrative costs. Developing oil and natural gas resources requires a long-term commitment.

During fiscal 2020 the Company pursued the acquisition of long-life assets with bookable reserves with the intention to capitalize on developments the Canadian oil and gas industry during the 2018 through 2020 period of increased market access, oil price differential and changes to the regulatory processes.

The Company will continue to focus on collaboration with a broad range of engaged stakeholders to achieve enduring success in reserve and cash flow development.

During the period ended February 28, 2021 and the year ended November 30, 2020, global factors have had a significant impact on the Canadian and global oil and gas industry. The industry is currently in a state of oversupply due to increased production by the major producing nations, coupled with the decrease in demand for oil due to the impact of travel restrictions as a result of the novel corona virus causing significant price decreases.

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Petroleum and natural gas properties

The Company's exploration program is focused on both conventional and resource based deeper multi-zone gas and gas condensate targets in Western Canada. As at the year ended November 30, 2019, the Company had title to two operable wells (the Chambers wells) in Alberta. During the year ended November 30, 2020, due to changing in economic conditions, the Company recorded an impairment reversal of \$530,291 (2019 – 347,198 impairment) on these wells.

Effective April 1, 2020, the Company completed the acquisition of Crimson Oil and Gas Ltd ("Crimson"), a company with petroleum and natural gas operations in Alberta and British Columbia, Canada. Pursuant to the acquisition agreement, the Company acquired all of the issued and outstanding common stock of Crimson, in consideration for the issuance of a promissory note of \$750,000, with a discounted value of \$692,155, maturing on or before November 30, 2020, secured by the assets purchased, and repayable at any time at the Company's option prior to maturity. On November 30, 2020, the term of the promissory note was extended to December 31, 2022 with a discounted value of \$583,621, and the Company recorded a gain on refinancing the note of \$166,379.

Crimson has two major properties and a number of smaller assets in Alberta and British Columbia. The Red Earth oil property has production capabilities of approximately 100 barrels of oil per day along with an inventory of four well reactivations and recompletions. The Whiskey Creek liquids rich natural gas property has two good recompletion opportunities tied in to its pipeline.

The transaction is being accounted for using the acquisition method in accordance with IFRS 3, Business Combinations with the assets and liabilities acquired recorded at their fair values at the acquisition date.

The Company is required to allocate the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The excess of the purchase price of those fair values of the net assets acquired is recorded as goodwill. The purchase price and the preliminary allocation of the purchase price is as follows:

Consideration:	\$
Promissory note	692,155
Acquisition advances	140,000
	<u>832,155</u>
 Net assets acquired:	
Cash	7,430
Accounts receivable	824,667
Prepaid expenses and deposits	146,525
Petroleum and natural gas properties	5,143,100
Accounts payable	(2,998,903)
Other accounts payable and accrued liabilities	(308,188)
Decommissioning provision	<u>(1,556,700)</u>
	<u>1,257,931</u>
 Bargain purchase gain	 <u>425,776</u>

The fair values of the petroleum and natural gas properties and decommissioning provision were measured and assessed using an NI 51-101 reserve engineers report from engineers and discounted cash flows from a third-party valuation.

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SELECTED ANNUAL INFORMATION

The following table provides a brief summary of the Company's financial operations for the prior three fiscal years.

	Years ended November 30,		
	2020 - \$ -	2019 - \$ -	2018 - \$ -
Revenue	596,771	93,673	321,761
Income (loss) and comprehensive income (loss)	(267,341)	(1,074,700)	989,240
Income (loss) per share	(0.01)	(0.03)	0.03
Total assets	6,383,119	175,816	502,132
Total long-term liabilities	2,740,702	218,375	217,483
Total deficiency	(3,738,547)	(3,471,206)	(2,396,506)

Year ended November 30, 2020:

In the year ended November 30, 2020, the Company had a net loss of \$267,341 compared to a net loss of \$1,074,700 in 2019. In the current year, the Company completed the acquisition of Crimson, recording a bargain purchase gain of \$425,776 (2019 - \$nil). Significant components of the net assets acquired include increases in petroleum and natural gas properties of \$5,143,100, a decommissioning provision increase of \$1,556,700, accounts receivable increase of \$824,667 and accounts payable increase of \$2,998,903 (Note 4 of the financial statements for further details). As a result of the acquisition and the return of the Chambers wells to production during the last quarter of fiscal year, revenues and direct costs increased to \$596,771 (2019 - \$93,673) and \$1,167,658 (2019 - \$149,524) respectively.

Other items of variance include an increase in office facilities and miscellaneous \$543,188 (2019 - \$212,275), decrease in write-off of acquisition deposit \$nil (2019 - \$142,500) and impairment of petroleum and natural gas properties \$nil (2019 - \$347,198). In the current year, the Company recorded the following gains; gain on impairment reversal of \$530,291 (2019 - \$nil), gain on reversal of accounts payable of \$437,521 (2019 - \$nil), and a gain on note payable refinancing of \$166,379 (2019 - \$nil).

These factors contributed to the variability in total assets, long-term liabilities, and net loss/income in the comparative year.

Year ended November 30, 2019:

In the year ended November 30, 2019, the Company had a net loss of \$1,074,700 compared to a net income of \$989,240 in 2018. In prior years, the Company incurred gains on settlement of the convertible debenture of \$nil (2017 - \$4,804,102) and on sale of petroleum and natural gas properties of \$nil (2018 - \$1,403,920) and impairment reversal on petroleum and natural gas properties of \$nil (2018 - \$161,333); which contributed to reported net income in prior years.

In the year ended November 30, 2019, due to economic conditions, the Company recorded an impairment of petroleum and natural gas properties of \$347,198, these assets are retained by the Company and remain producible. The Company also recorded an impairment of acquisition deposit of \$142,500. These factors contributed to the variability in net loss/income in the comparative periods.

In order to manage the Company's working capital deficiency, continue operations, fund its expenditure commitments, and provide adequate working capital for ongoing activities, the Company will continue to depend on equity financing through existing and new shareholders, third party financing, continued support from its trade creditors, and cost sharing arrangements to fund its work programs and operations.

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SUMMARY OF QUARTERLY RESULTS

The following is a summary of selected financial information compiled from the quarterly unaudited financial statements for eight quarters ending February 28, 2021.

	Feb.28, 2021	Nov. 30, 2020	Aug. 31, 2020	May 31, 2020
	-\$-	-\$-	-\$-	-\$-
Revenue	280,708	426,099	148,676	21,996
Total assets	6,465,320	6,383,119	9,610,086	9,567,492
Working capital deficiency	6,711,223	6,500,412	6,512,782	6,279,819
Long-term liabilities	2,898,355	2,740,702	3,445,645	3,444,037
Shareholders' deficiency	35,133,069	3,738,547	3,105,849	2,795,639
Net income (loss)	(427,117)	(632,698)	(310,210)	758,865
Net income (loss) per share	(0.01)	(0.02)	(0.01)	0.02
	Feb.29, 2020	Nov.30, 2019	Aug. 31, 2019	May 31, 2019
	-\$-	-\$-	-\$-	-\$-
Revenue	40	19,407	57,871	10,196
Total assets	185,857	175,816	578,251	598,159
Working capital deficiency	3,468,983	3,392,833	2,947,167	2,842,434
Long-term liabilities	225,523	218,375	218,152	217,929
Shareholders' deficiency	3,554,504	3,471,206	2,801,319	2,665,363
Net income (loss)	(83,298)	(669,887)	(135,956)	(140,776)
Net income (loss) per share	(0.00)	(0.02)	(0.00)	(0.00)

In the period ended November 30, 2019, the significant variances attributing to the increase in net loss of \$669,887 include impairment of an acquisition deposit of \$142,500, and the impairment on petroleum and natural gas properties of \$347,198.

During the period ended May 31, 2020, the Company completed the acquisition of Crimson, which is the contributing factor to the significant variances reported in the February 28, 2021, May 31, 2020, August 31, 2020, and November 30, 2020 periods due to the consolidation and reporting of Crimson's operations.

Additionally, in the period ended November 30, 2020, the Company recorded the following gains: gain on impairment reversal \$530,291 (2019 - \$nil), gain on reversal of accounts payable \$437,521 (2019 - \$nil), gain on note payable refinancing \$166,379 (2019 - \$nil), offset by a loss on allowance for expected credit loss of \$307,736 (2019 - \$nil). These factors increased the variability in the period then ended.

Comparison of operating results

During the period ended February 28, 2021, the Company had a net loss of \$427,117 compared to a net loss of \$83,298 in 2020. Significant variances in the results for the two periods are outlined in the following table:

	Feb.28, 2021	Feb.29, 2020
	-\$-	-\$-
Gross loss	156,022	7,718
<i>In the current period revenues and direct costs include the operations of Crimson, whereas in the comparative period, revenues and direct costs were only attributable to the Company's two historical wells, which were shut in pending work to restart wells to production.</i>		
Recovery of operating costs	-	(38,486)
<i>In the prior period, the Company realized a recovery of historical operating expenses.</i>		
Office facilities and miscellaneous	183,675	52,111
<i>The increase in the current period is attributable to the additional general and administrative costs of Crimson, acquired on April 1, 2020.</i>		

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	Feb.28, 2021	Feb.29, 2020
	-\$-	-\$-
Interest	26,678	8,164

In the current period the increase is mainly due to the accretion of the long term promissory note recorded in the current period, where there were no comparable charges in the current period.

LIQUIDITY AND CAPITAL RESOURCES

At February 28, 2021, the Company had \$1,021,406 (November 30, 2020 - \$880,552) in cash, prepaid expenses and receivables, a working capital deficiency of \$6,711,223 (November 30, 2020 - \$6,500,412), and had a cumulative deficit of \$35,133,069 (November 30, 2020 - \$34,705,952).

For the period ended February 28, 2021 significant cash flows were as follows:

Funds used in operating activities for the period were \$44,440. The net loss for the period of \$427,117 included non-cash transactions totaling \$176,306. Changes in non-cash working capital included a total change in receivables of \$113,836, prepaids and deposits of \$17,300, accounts payable and accruals of \$210,018, and in amounts due to related parties of \$127,489.

Funds provided by financing activities of \$54,158 were comprised of loans and advances.

In October 4, 2019, the Company announced a private placement to raise up to \$6,000,000 through the issuance of convertible debentures (the "Debentures"). The Company also confirmed that existing debt of approximately \$2,500,000 in the Company will be converted into Debentures as part of the private placement, and therefore the private placement of Debentures is expected to result in up to \$3,500,000 of additional proceeds to the Company.

The Debentures will be transferable and will bear interest at 6% per annum, maturing September 30, 2022. Up to the maturity date, only interest on the Debentures will be repaid, with the first semi-annual interest payment being due on March 31, 2020. The Debentures may be pre-paid at any time by the Company after March 31, 2020. Any outstanding principal amount and accrued interest will be due and payable on the maturity date.

The Debentures will be convertible at the option of the holder into Units (the "Unit"), each Unit to be comprised of one common share and one-half share purchase warrant at a price of \$0.05 per Unit in the first year, and thereafter at \$0.10 per Unit until the maturity date (3 years from the issuance date). Each full warrant entitles the holder to purchase one share for a period of two years from the closing date at a price of \$0.15 per share.

As at March 31, 2021, the Company has received \$25,000 (November 30, 2020 - \$25,000) in convertible debenture subscription receipts. This financing has not yet been completed.

TRANSACTIONS WITH RELATED PARTIES

The Company had the following transactions with related parties in the years indicated:

	Feb.28, 2021	Feb.29, 2020
	- \$ -	- \$ -
Management fees paid or accrued to directors, or companies controlled by directors ³	28,500	28,500
Office facilities and miscellaneous charges accrued to companies controlled by a director or an officer ^{3,4,5}	51,000	51,000

¹ Stephen Watts, Director

² Jurgen Wolf, Director

³ Joe DeVries, Director, and CEO

⁴ Richard Barnett, Director, CFO and Secretary

⁵ Simco Services Inc.

The Company has identified all of the directors and officers as its key management personnel. The remuneration for these key management personnel, which include the amounts disclosed above, was as follows:

	Feb.28, 2021	Feb.29, 2020
	- \$ -	- \$ -
Short-term employee benefits – management, administrative, and consulting fees ^{3,4}	34,500	34,500

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These transactions were recorded at their exchange amounts, which are the amounts agreed upon by the transacting parties. Except where previously indicated, the amounts due to related parties bear no interest and are due on demand.

Liabilities to related parties consist of:

	Feb.28, 2021	Nov.30, 2020
	- \$ -	- \$ -
Management, consulting, exploration and administrative fees payable presented as amounts payable to related parties ^{3, 4, 5}	1,252,975	1,169,208
Amounts due to related parties bearing interest at 8% per annum ^{1, 5}	423,416	423,416
Interest payable on loan ^{1, 5}	65,932	52,210
Other related party loans ^{1, 4}	75,000	45,000
	1,817,323	1,689,834

¹ Stephen Watts, Director

⁴ Richard Barnett, Director, CFO and Secretary

² Jurgen Wolf, Director

⁵ Simco Services Inc.

³ Joe DeVries, Director, and CEO

During the periods ended February 28, 2021 and February 29, 2020 the Company accrued interest of \$8,352 (2020 - \$7,666) on amounts due to a director and a company controlled by a director and officer.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements during the period ended February 28, 2021 and as at the current date.

Outstanding Share Data: As at February 28, 2021, and at the current date, the Company has 34,474,949 common shares issued and outstanding.

Outstanding Option Data: As at February 28, 2021, and at the current date, there are no stock options outstanding.

Outstanding Warrant Data: As at February 28, 2021, and at the current date, there are no warrants outstanding.

CONTINGENCIES

From time to time, the Company is involved in various disputes and litigation matters arising in the ordinary course of its business.

In recording receivables and payables with customers and vendors, the Company estimates the probable inflow or outflow of financial resources in recording the related balances.

The Company is in discussions and negotiations to attempt to resolve disputes.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of February 28, 2021 that our disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company, is made known to them by others within those entities. It should be noted that disclosure controls and procedures cannot prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

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INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting ("ICFR") or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. We have designed controls for this process and have conducted an evaluation which has identified potential weaknesses in such controls. Due to the limited number of staff, it is not feasible to attain complete segregation of incompatible duties. Weaknesses in the Company's internal controls over financial reporting allow for a greater likelihood that a material misstatement would not be prevented or detected.

The company is not required to certify the design and evaluation of its ICFR and has not completed such an evaluation, and inherent limitations on the ability of the certifying officers to design and implement, on a cost-effective basis, ICFR for the company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Management and the Board of Directors mitigate the risk of material misstatement in financial reporting by performing a detailed review of operational and financial reports. It is not possible to provide absolute assurance that this risk can be eliminated.

FINANCIAL RISKS AND CAPITAL MANAGEMENT

The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposures to credit risks are on its cash held in bank accounts, receivables and loan receivable. The majority of cash is deposited in bank accounts held with major banks in Canada.

As most of the Company's cash is held by a bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution, as determined by rating agencies. The Company's exposure to credit risk on receivables is influenced mainly by the individual characteristics of each customer. As the Company sells its petroleum products through a large marketer, it is also exposed to a concentration risk. Trade receivables from petroleum products marketers are normally received within 30 days of the month following production. At February 28, 2021, the Company has trade receivables, receivables due from a government agency, receivables, and other receivables which were tested for collectability using the expected credit loss model.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. As at February 28, 2021 the Company has a working capital deficiency of \$6,711,223. The Company's ability to continue as a going concern is dependent on management's ability to raise additional funding through future debt or equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. The Company is exposed to liquidity risk.

Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollars, but also world economic events that dictate the levels of supply and demand. Fluctuations may be significant.

Foreign currency exchange risk

Foreign currency exchange risk is the risk that the future fair value of cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company's financial results are reported in Canadian dollars while it holds a portion of its debt denominated in US dollars. The assets, liabilities and expenses that are denominated in US Dollars will be affected by changes in the exchange rate between the Canadian dollar and the US Dollar.

If the Canadian dollar changes by ten percent against the US dollar, with all other variables held constant, the impact on the Company's foreign denominated financial instruments would result in a \$27,172 change in profit or loss.

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Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is nominally exposed to interest rate risk

Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in shareholders' deficiency as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or return capital to its shareholders. The Company is not exposed to externally imposed capital requirements other than on its secured convertible debt, settled in the current period. There have been no changes to the Company's capital management during the period ended March 31, 2021.

Classification of financial instruments

The following table summarizes information regarding the carrying values of the Company's financial instruments for the years then ended:

	Feb.28, 2021	Nov.30, 2020
	- \$ -	- \$ -
Fair value through profit or loss	79,631	69,913
Assets at amortized cost	777,761	663,925
Liabilities	7,732,629	7,460,964

- (a) Fair value through profit or loss includes cash
- (b) Assets include receivables, and loan receivable at amortized cost
- (c) Liabilities include accounts payable and accrued liabilities, amounts due to related parties, advances and convertible debenture subscription at amortized cost.

RECENT PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards are not yet effective as of February 28, 2021. See Note 2 of the financial statements for details.

DIRECTORS

Certain directors of the Company are also directors, officers and/or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploring oil and gas properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required to act in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any directors in a conflict will disclose their interests and abstain from voting in such matters. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.