POWDER MOUNTAIN ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS AT AND FOR THE PERIOD ENDED DECEMBER 31, 2014

The following Management's Discussion and Analysis ("MD&A") of Powder Mountain Energy Ltd. ("Powder Mountain" or the "Company") was prepared on, and is dated as at February 25, 2015 and is management's assessment of the Company's financial and operating results as at and for the three months ended December 31, 2014. This MD&A should be read in conjunction with the financial statements of the Company for the three months ended December 31, 2014, with the notes related thereto and the audited consolidated financial statements and related notes for the year ended September 30, 2014. These financial statements, including the comparative figures, were prepared in accordance with International Financial Reporting Standards (IFRS). Additional information on the financial statements, this MD&A and other factors that could affect the Company's operations and financial results are included in reports, on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Forward Looking Statements

Certain statements contained within the Management's Discussion and Analysis, and in certain documents incorporated by reference into this document, constitute forward looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward looking statements. Forward looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements.

In particular, this MD&A contains the following forward-looking statements pertaining to, without limitation, the following: Powder Mountain's production volumes and the timing of when additional production volumes will come on stream; Powder Mountain's realized price of commodities in relation to reference prices; future commodity prices; the Company's future royalty rates and the realization of royalty incentives; Powder Mountain's expectation of reducing operating costs on a per unit basis; the relationship of Powder Mountain's interest expense, if any and the Bank of Canada interest rates; increases in general and administrative expenses and recoveries; future development and exploration activities and the timing thereof; the future tax liability of the Company; the depletion, depreciation and accretion rate; the estimated future contractual obligations of the Company; the future liquidity and financial capacity of the Company; and its ability to fund its working capital and forecasted capital expenditures. In addition, statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

With respect to the forward-looking statements contained in the MD&A, Powder Mountain has made assumptions regarding: future commodity prices; the impact of royalty regimes and certain royalty incentives, the timing and the amount of capital expenditures; production of new and existing wells and the timing of new wells coming on-stream; future proved finding and development costs; future operating expenses including processing and gathering fees; the performance characteristics of oil and natural gas properties; the size of oil and natural gas reserves; the ability to raise capital and to continually add to reserves through exploration and development; the continued availability of capital, undeveloped land and skilled personnel; the ability to obtain equipment in a timely manner to carry out exploration and development activities; the ability to obtain financing on acceptable terms; the ability to add production and reserves through exploration and development activities; and the continuation of the current tax and regulation.

We believe the expectations reflected in those forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this Management's Discussion and Analysis, as the case may be. The actual results could differ materially from those anticipated in these forward looking statements as a result of the risk factors set forth below and elsewhere in this Management's Discussion and Analysis: volatility in market prices for oil and natural gas; counterparty credit risk; access to capital; changes or fluctuations in production levels; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; geological, technical, drilling and processing problems; limitations on insurance; changes in environmental or legislation applicable to our operations, and our ability to comply with current and future environmental and other laws; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; and the other factors discussed under "Risk Factors" in this MD&A.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward-looking statements contained in this document speak only as of the date of this document and Powder Mountain does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

Numerical Amounts

All amounts are in Canadian dollars, unless otherwise stated and all tabular amounts are in thousands of Canadian dollars, except per share amounts or as otherwise noted.

Natural gas reserves and volumes are converted to barrels of oil equivalent (boe) on the basis of six thousand cubic feet (mcf) of gas to one barrel (bbl) of oil. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Non-IFRS Measures

The Company has also used certain measures of financial reporting that are commonly used as benchmarks within the oil and natural gas production industry in the following discussion. The measures discussed are widely accepted measures of performance and value within the industry, and are used by investors and analysts to compare and evaluate oil and natural gas exploration and producing entities. Most notably, these measures include operating netback, funds flow from operations and finding, development and acquisition costs. Operating netback is a benchmark used in the crude oil and natural gas industry to measure the contribution of oil and natural gas sales subsequent to the deduction of royalties and operating costs. Funds flow from operations is before changes in non-cash working capital, decommissioning obligations settled and transaction costs, and is used to analyze operations, performance and liquidity. Finding, development and acquisition costs are calculated as the purchase or sale price of an asset, total cash and non-cash capital expenditures, plus future development capital. These measures are not defined under IFRS and should not be considered in isolation or as an alternative to conventional IFRS measures. These measures and their underlying calculations are not necessarily comparable to a similarly titled measure of another entity. When these measures are used, they are defined as "non IFRS" and should be given careful consideration by the reader.

The following table reconciles cash flow from operating activities to funds flow from (used in) operations:

	Three months ended December 31	
($'000)	**2014**	2013

Cash flow used in operating activities	**(345)**	(78)
Changes in non-cash working capital	**418**	(88)
Funds flow from (used in) operations	**73**	(166)

Reporting Entity

In accordance with IFRS 3, the consolidated financial statements are in the name of Powder Mountain Energy Ltd., however are deemed to be a continuation of Passport. The financial year end of the Company was changed from December 31 to September 30. Accordingly, the comparative figures as at and for the three months ended December 31, 2013 reflect the operations of Passport.

Results of Operations

Overview

The Company continues to develop and delineate the Bakken and Torquay play concepts over its acreage in Southeast Saskatchewan. Deep well control shows the area to be prospective for both formations and analogous to what is seen geologically in the Flat Lake area. The Hardy and Coteau Lake land blocks were both hi-graded and acquired on the basis of the well control and available cores in the area. Following drilling results these areas will be further hi-graded to determine the next stage of development.

During the quarter the Company drilled and completed two horizontal Bakken wells on its core property in southeast Saskatchewan. Severe winter conditions in December and early January delayed completion and equipping operations, however Powder Mountain was able to place the wells on production during January 2015 and the wells are currently cleaning up and the Company will announce 30 day production numbers once production has stabilized. The Company now has over 36,000 net acres (57 net sections) in its core area of southeast Saskatchewan.

The recent decline in oil prices has had a significant impact on the economics of these wells and accordingly the Company has deferred further drilling until the Company deems it prudent to commit further capital. The Company believes that this current oil price environment will create opportunities for the Company and we will be evaluating further ways to enhance shareholder value.

Hardy North (southeast Saskatchewan)

The Company owns 8,640 gross, 7,520 net acres in the Hardy North area of southeast Saskatchewan, with two horizontal Bakken wells currently on production and one recently drilled well (5A4-16) placed on production test during the latter part of January 2015 to establish commerciality.

Hardy North is considered a development property with the recent drill at 5A4-16 offsetting a producing horizontal Bakken well at 4-16 which has produced over 50,000 bbls (gross) to date since being placed on production back in September 2011.

The 5A4-16 well was drilled and completed with costs totaling approximately $3,618,000. The costs included expenses for additional stages being added to the horizontal leg of the completion program that were not originally planned, along with the impact of poor weather conditions causing delays in completion and equipping.

Average production for the quarter in Hardy was 39 bbls/d net, an increase of 4 bbls/d from last quarter. The increase in average daily production is the result of improved production from the 11-32 well and was despite the 4-16 well being shut in for half the quarter for safety reasons due to drilling operations at the 5A4-16 well.

Coteau Lake (southeast Saskatchewan)

The Company currently owns approximately 28,960 acres (100% working interest) of undeveloped lands in the Coteau Lake area of southeast Saskatchewan. These lands were acquired during the calendar year ended December 31, 2014 and are believed to be prospective for both Bakken and Torquay production.

During the quarter, the Company drilled and completed 1 horizontal Bakken well (1.0 net) at Coteau Lake at 8-30 and the well is currently on production test. The well was drilled as a vertical well that penetrated the Torquay (or Three Forks) formation where the Company logged the Bakken and Torquay formations and obtained samples for further analysis. The Company then abandoned the Torquay portion of the vertical well before kicking off to drill the horizontal leg of the well in the Bakken formation. The well is currently on production test to determine commerciality.

The 4C8-30 well was drilled a little over estimate due to the decision to drill a vertical strat well into the Torquay formation to evaluate the zones potential before drilling horizontally into the Bakken formation. Additional stages were also added on completion, while extreme cold weather conditions in December caused delays on completion and equipping which also contributed to cost overruns. The well was drilled and completed with costs totaling approximately $4,538,000.

Stolberg - Cordel, (Alberta)

The Company holds a non-operated 8% working interest in the 15-19 well at Stolberg-Cordel, Alberta which averaged 2 bbl/d net during the quarter compared with 2 bbl/d last quarter. Production is from the Cardium formation and the operator is proposing a waterflood on the property in 2015.

Montana

The Company holds 17,686 net acres of undeveloped land in Toole, Yellowstone (Laurel) and Gallatin (Circus) counties, Montana. In Toole County, a majority of the leases are held by production and accordingly do not expire until production ceases. In the Yellowstone and Gallatin counties, the leases, held in its subsidiary, Trilateral Energy USA Inc., do not begin to expire until 2017 and 2023 respectively.

Powder Mountain has no plans to explore, develop or exploit these properties within the next year.

Land Holdings

Powder Mountains land holdings at December 31, 2014 are as follows:

	Developed		**Undeveloped**		**Total**	
(acres)	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Saskatchewan	520	520	37,080	35,960	37,600	36,480
Alberta	640	51	-	-	640	51
Montana	-	-	34,201	17,686	34,201	17,686
Total	**1,160**	**571**	**71,281**	**53,646**	**72,441**	**54,217**

Outlook

At the date of this MD&A the Company has completed the previously announced drilling program and the wells have been equipped and are currently on production. The outlook for 2015 will be largely dictated by results from these wells along with current oil pricing. The Company intends to evaluate all aspects of its business plan including drilling additional wells, property acquisitions and other opportunities that are accretive and will increase shareholder value.

Detailed Financial Review

During the three month period ended December 31, 2014, the Company recorded a loss of $376,000 and has an accumulated deficit of approximately $14,212,000. The Company has working capital surplus of $23,881,000 at December 31, 2014 and is considered sufficient to finance the Company's business plan over the next 12 months.

Production and Operating Costs

	For the Three Months Ended December 31,	
	2014	2013
Volume		
Production - bbl	**3,760**	1,358
Average Daily bbl	**41**	15
Revenue $'000	**293**	117
Average selling price $/bbl	**77.95**	86.20
Royalties $'000	**29**	13
Average royalty $/bbl	**7.72**	9.73
Operating Costs $'000	**109**	77
Operating Cost $ per barrel	**29.05**	56.74
Operating netback $ per barrel	**41.18**	19.73

Production

Production during the first quarter averaged 41 bbl/d compared with 15 bbl/d in 2013. The increase over the first quarter last year reflects the additional production arising from the acquisition of our partner's working interest in the Hardy area of Saskatchewan where the Company has two horizontal wells on production. In addition there was minor production from its Alberta property for the period that averaged approximately 2 bbl/d net to Powder Mountain.

Compared with the fourth quarter of 2014, average production increased by 4 bbl/d and was mainly the result of improved production following work-over activities on both wells.

Revenue

	Three months ended December 31,	
	2014	2013
Revenue- $'000	**$293**	$ 117
Average Price	**77.95**	86.20
Benchmark pricing (1)		
Canadian light sweet (Cdn$/bbl)	**74.41**	86.28
WTI (Cdn $/bbl)	**82.81**	103.82

(1) Natural Resources Canada – Selected Crude oil prices

Revenue for the three months ended December 31, 2014 increased $176,000 (150%) over the first quarter last year due to higher volumes (up 177%) and partly offset by lower average realized commodity prices (down 9.6%). Compared to last quarter, revenue decreased $28,000.

Royalties

	Three months ended December 31,	
	2014	2013
Royalties $'000	**$29**	$ 13
Per bbl	**7.72**	9.73
Percentage of revenue -%	**9.9**	11.3

Powder Mountain's royalty regime includes a combination of crown royalties, gross overriding royalties and royalty incentives. In Saskatchewan, where the majority of the Company's production exists, the Company is subject to the Saskatchewan crown royalty along with a gross overriding royalty (ranging from 4% to 9%) on certain properties. A deep horizontal oil well qualifies for a crown incentive royalty rate of 2.5% on the first 16,000 cubic meters (approximately 100,000 barrels). Powder Mountain qualifies for the incentive volume royalty rate on its Bakken wells in the Hardy and Coteau Lake areas of Saskatchewan.

Royalties for the quarter ended December 31, 2014 were $29,000 or $7.72 per barrel compared to $13,000 or $9.73 per barrel in 2013. The decrease can be mainly attributed to a reduction in the gross overriding royalty expense payable to third parties, on production in the Hardy area, following the purchase by the Company of those royalties in July 2014.

Operating Costs

	Three months ended December 31,	
	2014	2013
Operating costs (excl. transportation) $'000	**91**	68
Per bbl	**24.22**	49.82
Transportation costs ($'000)	**18**	9
Per bbl	**4.83**	6.92
Total operating costs ($'000)	**109**	77
Per bbl	**29.05**	56.74

Operating costs include direct field costs such as contract operators, electricity, fuel, property taxes, routine maintenance, equipment rentals and the trucking and disposal costs of produced water.

Transportation costs include the costs and fees associated with trucking oil to the sales terminal.

Total operating costs for the three months ended December 31, 2014 totaled $109,000 or $29.05 per barrel compared with $77,000 or $56.74 per barrel for the same period last year. The reduction on a per barrel basis is due to lower contract operator costs and repair and maintenance expenditures.

Compared with last quarter operating and production costs decreased $59,000 or $20.71 per barrel due to lower chemical costs, operator costs, property taxes, surface rental payments and a lower negotiated trucking rate.

The major cost component of operating costs (excluding transportation) is the transportation and disposal of water. For the quarter water transportation costs totaled $13.50 per barrel of oil compared with $9.94 per barrel in 2013 due to higher volumes of water.

General and Administration Expenses

	Three months ended December 31,	
($'000)	**2014**	2013
General and administrative expense	**$ 321**	$ 201
Capital overhead recovery	**(113)**	(9)
General and administrative expense	**$ 208**	$ 192

The Company's general and administrative expenses for the three months ended December 31, 2014 were $208,000 (2013 - $192,000). The increase for the three months ended December 31, 2014 over the same periods last year is due to a number of factors. These include higher compensation and consulting fees as well as increases in professional fees, software and computer service costs. Additionally the Company incurred extra legal fees on a lawsuit which was in relation to Trilateral's operations in Montana. These increases were partially offset by an increase in overhead charged out to capital projects.

Share based Compensation

($'000)	Three months ended December 31, 2014	2013
Stock based compensation expense	**$ 324**	$ 170
Charged to capital projects	**114**	**-**
Total stock based compensation	**$ 438**	$ 170

In July 2014 the Company granted 4,195,000 stock options to directors, officers, employees and consultants of the Company. The options have an exercise price of $1.03 per share, a term of five years from date of grant and vest one third on the anniversary of the grant, one third after the second anniversary and one third after the third anniversary. The options were fair valued using the Black-Scholes model and are being expensed over the vesting period. The year to date expense represents the vesting of the options in the first quarter. In the first quarter of the previous fiscal year the Company granted 7,150,000 options with a fair value of $170,000. The grant of the 7,150,000 options vested immediately and accordingly the fair value of the options were expensed in the first quarter. Subsequently and as a condition of the plan of arrangement these options were surrendered.

Financing Items

($'000)	Three months ended December 31, 2014	2013
Asset retirement accretion	**$**	$ -
Interest income	**(116)**	-
Foreign exchange	**(10)**	-
Total financing items	**$ (1**	$ -

Financing items consists of (i) the accretion of the Company's asset retirement liability. The expense is the increase in the present value of the decommissioning liability for the current period and the amount of this expense will fluctuate commensurate with the decommissioning obligation as new wells are drilled, acquired through acquisitions or sold through property dispositions; (ii) interest earned from cash on deposit.

Depletion and Depreciation Expense

	Three months ended December 31, 2014	2013
Depletion - $'000	**$ 1[illegible]**	$ 5[illegible]
Depreciation - $'000	**5**	-
	$ 1[illegible]	$ 5[illegible]
Per bbl - $	**34.31**	42.34

The increase in the depletion expense in 2014 as compared to 2013 is mainly due to a higher asset base and increased production.

Income Taxes

Presently the Company does not expect to pay current taxes into the foreseeable future based on existing tax pools, planned capital activities and current forecasts of taxable income. However, the current tax horizon will ultimately depend on several factors including commodity prices, future production, corporate expenses, and both the type and amount of capital expenditures incurred in future reporting periods.

Cash, Funds from (used in) Operations and Net Income (loss)

	Three months ended December 31,	
	2014	2013
Cash used in operating activities	(345)	(78)
Funds from operations	73	(166)
Per Share – basic and diluted	($0.00)	($0.04)
Net loss	(381)	(393)
Per Share – basic and diluted	($0.01)	($0.11)

Capital Expenditures

During the first quarter the Company commenced its capital program, drilling two Bakken horizontal wells in southeast Saskatchewan that were completed during the quarter and placed on production in January 2015. Expenditure to date on the two wells has totaled $8,156,000, with $3,618,000 allocated to Property and Equipment and $4,538,000 allocated to Exploration and Development.

Also during the quarter the company acquired 10,080 net acres of land at crown land sales for $835,000.

Total net capital expenditures are detailed below:

	Three months ended December 31,	
($'000)	**2014**	2013
Land and seismic	**867**	-
Drilling and completions	**7,951**	-
Facilities, equipment and pipelines	**205**	-
Other	**2**	-
Total	**9,025**	-

Liquidity and Capital Resources

Powder Mountain's strategy is to provide sufficient liquidity to fund growth for future exploration and development drilling activities. Liquidity in the short term (12 months) will be provided through funds from operations, cash and short term deposits, while longer term liquidity is expected to be provided through funds from operations, the prudent use of available credit facilities and market conditions permitting, access to equity markets. In addition, available liquidity can be further managed by adjusting our capital program as well as the sale of non-core assets.

For the three months ended December 31, 2014 Powder Mountain generated $73,000 of funds from operations and in the short term (12 months), the Company does not expect to generate sufficient funds from operations to fund its planned exploration and development activities. The Company will continue to manage the funding of its exploration and development activities through a combination of funds flow from operations, available cash resources and the prudent use of equity and debt financing.

At December 31, 2014, the Company had working capital of $23,881,000 which included $29,916,000 of cash and short term deposits. Working capital comprises current assets less current liabilities. The Company currently has no bank debt and no credit facilities.

Capital Plan

As of the date of this MD&A, the Company has completed the capital program planned for the quarter which included the drilling of two wells in the Hardy and Coteau Lake areas of southeast Saskatchewan along with land and seismic purchases. The wells have been drilled, completed and equipped and are currently on production test.

The Company has deferred further drilling on its core properties in light of the decline in oil prices and the impact on the economics of these wells. The Company will continue to monitor oil prices and evaluate the timing of future drilling activity. The Company believes the current oil price environment will provide both corporate and asset acquisition opportunities and the Company will evaluate those opportunities with the objective of increasing shareholder value.

Management believes the Company has sufficient cash on hand to fund the next twelve months operations.

Contractual Obligations

Type of commitment	1 Year	2-3 Years	4-5 Years	Thereafter	Total
Office Leases	40	16	-	-	56
Total	**40**	**16**	**-**	**-**	**56**

Outstanding Share Data

The Company has authorized an unlimited number of Common shares. As at December 31, 2014, the Company had 48,112,510 common shares, Nil warrants and 4,195,000 options outstanding.

The following details the share capital structure as of the date of this MD&A.

	Expiry Date	Exercise Price	Number	Total Number
Common shares				48,112,510
Stock options	August 1, 2019	$1.03	4,195,000	4,195,000
Fully diluted				**52,307,510**

Summary of Quarterly Results

The following table summarizes for the past eight quarters selected quarterly financial results:

	31-Dec-14	30-Sep-14	30-Jun-14	31-Mar-14	31-Dec-13	30-Sep-13	30-Jun-13	31-Mar-13
Daily production (bbl/d)	41	37	19	16	15	16	22	24
Avg. wellhead price ($/bbl)	77.95	94.95	92.35	98.40	86.20	109.38	88.29	80.42
Oil and gas revenues	$293	$321	$160	$ 144	$ 117	$ 159	$ 180	$ 175
Cash flow from operating activities	($345)	($928)	($1,468)	($101)	($78)	$359	$213	($512)
Funds from operations	$73	($520)	($168)	($259)	($166)	($229)	($127)	($208)
Net Income (loss)	$ (381)	$ (2,679)	$1,377	$(322)	$(393)	$(2,656)	$(209)	$(303)
Net income (loss) per share,								
Basic and diluted	(0.01)	(0.05)	$ 0.13	$ (0.09)	$ (0.11)	$ (0.80)	$ (0.07)	$ (0.09)
Capital expenditures	$8,911	$654	$47	$9	-	($90)	$2	$95
Property Acquisition/disposition	-	$78	$962	-	-	-	-	-

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to credit risks, market risks, liquidity risks and foreign exchange risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Commodity price risk
The Company is subject to commodity price risk for the sale of its production. The Company may enter into contracts for risk management purposes only, in order to protect a portion of its future cash flow from the volatility of petroleum commodity prices. To date the Company has not entered into any forward commodity contracts.

(b) Credit Risk
Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the statement of financial position date. Cash and cash equivalents are held by major financial institutions. A majority of the Company's current financial assets at the statement of financial position date arise from oil sales and the Company's accounts receivable are with these customers and joint venture participants in the oil and natural gas industry. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. The Company's production is sold to large marketing companies. Typically, oil and gas companies' maximum credit exposure to customers is revenue from two months of sales. At December 31, 2014, $33 is due from its marketer with these sales being conducted on transaction terms that are typical for the sale of oil in Canada. In addition, when joint operations are conducted on behalf of a joint venture partner relating to capital expenditures, costs of such operations are paid for in advance to the Company by way of a cash call by the partner of the operation being conducted.

Management assesses quarterly if there should be any impairment of the financial assets of the Company. At December 31, 2014, the Company has no overdue accounts receivable. During the periods ended December 31, 2014 and September 30, 2014, management has determined that there was no allowance required on any of the financial assets of the Company. The maximum exposure to credit risk is represented by the carrying amount on the statement of financial position of cash and cash equivalents and accounts receivable.

The Company's accounts receivable at December 31, 2014 is aged as follows:

Total Accounts Receivable	0 to 30 Days	31 to 60 Days	61 to 90 Days	Greater than 90 days
$ 339	$ 338	$ 1	$ Nil	$ Nil

(c) Foreign Currency Exchange Risk

The Company is exposed to foreign currency fluctuations on its financial instruments primarily in relation to its U.S. dollar denominated cash and cash equivalents and accounts payable. The Company monitors its foreign currency exposure and attempts to minimize the effect of fluctuations in the U.S. dollar by maintaining appropriate levels of cash to offset corresponding U.S. dollar denominated accounts payable. The Company believes a fluctuation of the U.S. dollar relative to the Canadian dollar of 5% during the next year would be reasonably possible.

		December 31, 2014		September 30, 2014
Cash and cash equivalents	$	285	$	1,853
Non-cash financial assets		20		18
Non-cash financial liabilities		(13)		(55)
Net U.S. dollar exposure	$	292	$	1,816
Effect of plus (minus) 5% change in the U.S. dollar to Canadian dollar exchange rate on income before tax	$	15	$	91

(d) Market Risk

Market risk is comprised of three components: commodity price risk, currency risk and interest rate risk.

(e) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

The Company has no debt and has invested its excess cash in guaranteed deposits with a variable rate of interest at its banking institution. The deposits have a variable rate of interest and therefore the Company is exposed to interest rate risk if interest rates decrease and interest income declines; however based on a 1% change in interest rates the resulting decrease in interest income is not material.

(f) Fair Value of Financial Instruments

The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

All financial assets (except for cash which is classified as held for trading), are classified as either loans or receivables and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities. There have been no changes to the aforementioned classifications during the period ended December 31, 2014.

(g) Liquidity Risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset.

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to, oil production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing.

The Company's accounts payable and accrued liabilities as at December 31, 2014 and September 30, 2014 is comprised of the following:

	December 31, 2014	September 30, 2014
Trade accounts payable	**$ 4,240**	$ 410
Accruals	**2,267**	569
	$ 6,507	$ 979

The Company's trade accounts payable as at December 31, 2014 are aged as follows:

Total Accounts Payable and Accrued Liabilities	**0 to 30 Days**	**31 to 60 Days**	**61 to 90 Days**	**Greater than 90 days**
$ 4,240	$ 3,112	$ 1,029	$ 19	$ 80

Critical Accounting Estimates

A summary of the Company's significant accounting policies is contained in note 3 to the annual consolidated financial statements. These accounting policies are subject to estimates and key judgments about future events, many of which are beyond the Company's control.

Risk Factors

There are a number of risk factors facing Companies that participate in the Canadian oil and gas industry. A summary of certain risk factors relating to our business are disclosed below.

Exploration, Development and Production Risks
Oil and natural gas exploration involves a high degree of risk, for which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by Powder Mountain will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of Powder Mountain will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that Powder Mountain will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Powder Mountain may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition. Powder Mountain attempts to minimize exploration, development and production risks by utilizing a high-end technical team with extensive experience and multidisciplinary skill sets to assure the highest probability of success in its drilling efforts. Our collaboration of a team of seasoned veterans in the oil and gas business, each with a unique expertise in the various upstream to downstream technical disciplines of prospect generation to operations, provides the best assurance of competency, risk management and drilling success. A full cycle economic model is utilized to evaluate all hydrocarbon prospects. Detailed geological and geophysical techniques are regularly employed including 3D seismic, petrography, sedimentology, petrophysical log analysis and regional geological evaluation. Powder Mountain utilizes not only the publicly available sources of subsurface data and information, but also employs its own proprietary data set of rock core and drill cuttings descriptions to enhance the quality and probability of success of its internally generated plays and prospects. Where possible prospects have multi-zone potential and activity is focused in regions where Powder Mountain's expertise and experience can provide a competitive advantage.

Prices, Markets and Marketing of Crude Oil and Natural Gas
Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of Powder Mountain. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of Powder Mountain's oil and gas reserves. Powder Mountain might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Powder Mountain's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to Powder Mountain are expected to be determined in part by the borrowing base of Powder Mountain. A sustained material decline in prices from historical average prices could limit Powder Mountain's borrowing base, therefore reducing the bank credit available to Powder Mountain, and could require that a portion of any existing bank debt of Powder Mountain be repaid.

In addition to establishing markets for its oil and natural gas, Powder Mountain must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by Powder Mountain will be affected by numerous factors beyond its control. Powder Mountain will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by Powder Mountain. The ability of Powder Mountain to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. Powder Mountain will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Powder Mountain’s portfolio consists of light crude oil. Powder Mountain continually monitors the movement of commodity prices, interest rates and adjusts its capital expenditure program accordingly.

Substantial Capital Requirements; Liquidity
Powder Mountain's cash flow from its production and sales of petroleum and natural gas may not, at all times be sufficient to fund its ongoing activities. From time to time, Powder Mountain may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Powder Mountain to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Powder Mountain's revenues from its production of petroleum and natural gas decrease as a result of lower oil and natural gas prices or otherwise, it may affect Powder Mountain's ability to expend the necessary capital to replace its reserves or to maintain its production. If Powder Mountain's funds from operations are not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to Powder Mountain.

Powder Mountain monitors and updates its cash projection models on a regular basis which assists in the timing decision of capital expenditures. Farm-outs of projects may be arranged if capital constraints are an issue or if the risk profile dictates that we wish to hold a lesser working interest position. Equity, if available and if on reasonable terms, may be utilized to help fund our capital program.

Access to Capital
Access to capital has become limited during these times of economic uncertainty. To the extent the external sources of capital become limited or unavailable; Powder Mountain’s ability to make the necessary capital investments to maintain or expand oil and gas reserves may be impaired.

Credit Exposure

Recent economic conditions have increased the risk that certain counterparties for the Company’s oil and gas sales and our joint venture partners may fail to pay. We mitigate these increased risks through diversification and a review process of the credit worthiness of our counterparties.

Powder Mountain’s policy to mitigate credit risk associated with product sales is to maintain marketing relationships with large, established and reputable purchasers that are considered creditworthy. Powder Mountain has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within two to three months of the joint venture bill being issued to the partner. Powder Mountain attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital and operating expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners.

Joint venture receivables are from partners in the petroleum and natural gas industry who are subject to the risks and conditions of the industry. Significant changes in industry conditions and risks that negatively impact partners’ ability to generate cash flow will increase the risk of not collecting receivables. Powder Mountain does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however the Company does have the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners.

Health, Safety and Environment

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge.

There are potential risks to the environment inherent in the business activities of the Company. Powder Mountain has developed and implemented policies and procedures to mitigate health, safety and environment (HS&E) risks. Powder Mountain mitigates HS&E risks by maintaining its wells and complying with all regulations. Regular field inspections are also carried out to ensure that all field personnel and third party contractors comply with all company and regulatory guidelines. An action plan has been developed to ensure inactive wells are suspended properly and abandoned in a timely fashion. The above noted policies and procedures are designed to protect and maintain the environment and to ensure that the employees, contractors, subcontractors and the public at large are kept safe at all times.

Insurance

Powder Mountain's involvement in the exploration for and development of oil and gas properties may result in Powder Mountain becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although Powder Mountain has insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, Powder Mountain may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Powder Mountain. The occurrence of a significant event that Powder Mountain is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Powder Mountain's financial position, results of operations or prospects.

Competition
Powder Mountain actively competes for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial and personnel resources than Powder Mountain. Powder Mountain's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

Certain of Powder Mountain’s customers and potential customers are themselves exploring for oil and natural gas, and the results of such exploration efforts could affect Powder Mountain's ability to sell or supply oil or gas to these customers in the future. Powder Mountain's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.