

SILK ROAD ENERGY INC.

FORM 51-102F1

MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2015

The following discussion and analysis should be read in conjunction with the financial statements of the Corporation for the year ended September 30, 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the IFRS Interpretations Committee and in effect at September 30, 2015.

Date

This management discussion & analysis ("MD&A") is dated January 29, 2016, and is in respect of the year ended September 30, 2015. This MD&A was prepared by management of Silk Road Energy Inc. ("Silk Road" or the "Corporation"), and was approved by the Board of Directors on January 28, 2016. All amounts are in Canadian dollars unless otherwise stated.

Overall Performance

Silk Road Energy Inc. ("Silk Road Energy" or the "Corporation") was incorporated under the Business Corporations Act (Alberta) on November 9, 2010 and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange ("Exchange"). On January 28, 2014, the Corporation entered into a formal acquisition agreement ("Acquisition Agreement") with Gold Note Resources Inc. ("Gold Note"), pursuant to which the Corporation has completed the purchase of certain oil production, oil and gas reserves, lands, leases and miscellaneous interests held by Gold Note in the Bashaw, Columbia and Thornbury areas of Alberta (the "Acquisition"). The Acquisition constitutes the Corporation's qualifying transaction (the "Qualifying Transaction") under the applicable policies of the Exchange.

Pursuant to the terms of the Acquisition Agreement, the Corporation purchased, on industry standard terms, certain non-operated petroleum and natural gas rights, oil and gas production, tangibles, oil and gas reserves, lands, leases and miscellaneous interests including seven (7) gross producing wells (the "Assets") located in the Bashaw, Columbia and Thornbury areas in Alberta, Canada for an aggregate purchase price of \$500,000 inclusive of applicable taxes and in Canadian funds, payable by way of 2,352,941 common shares of Silk Road ("Consideration Shares") at a deemed price of \$0.17 per Common Share and \$100,000 cash. The Consideration Shares are subject to the terms and conditions of an escrow agreement between Silk Road, Gold Note, and Olympia Trust Company dated January 24, 2014.

The completion of the Acquisition by the Corporation was approved by the board of director of the Corporation and by the TSXV as the Qualifying Transaction of the Corporation. As a result, the Corporation is no longer considered a Capital Pool Company as of January 29, 2014.

Selected Business Highlights

On January 6, 2012, the Corporation completed its initial public offering (the "Offering") of 6,042,500 common shares at a price of \$0.10 per share for gross proceeds of \$604,250. In connection with the Offering, the Corporation paid cash commissions of \$60,425 (10% of gross proceeds) and issued to

the agent options to purchase 604,250 common shares at a price of \$0.10 per common share for a period of 24 months from closing.

The Corporation has also granted options to acquire an aggregate of 934,250 common shares, at an exercise price of \$0.10 per share, to the directors of the Corporation, which options will expire ten years from the date of grant. Subsequent to the issuance of the common shares pursuant to the Offering, the Corporation had 11,725,729 common shares issued and outstanding.

On January 27, 2015, the Corporation announced that the 2,352,941 common shares of Silk Road (“Consideration Shares”) issued to Gold Note at a deemed price of \$0.17 per common share in connection with the Acquisition were cancelled and returned to treasury effective January 27, 2015. The Consideration Shares were subject to the terms and conditions of a Form 5D Escrow Agreement – Surplus Security between Silk Road, Gold Note, and Computershare Trust Company of Canada (formally Olympia Trust Company) dated January 24, 2014 (the “Escrow Agreement”), and were cancelled in accordance with the Escrow Agreement as: (i) the Tax Debt (as defined in the Escrow Agreement) of Gold Note has not paid in full or elimination, and (ii) satisfactory confirmation has not been provided to the Exchange confirming the Canada Revenue Agency is fully satisfied respecting the Tax Debt. After giving effect to the cancellation of the Consideration Shares, the Corporation had 9,372,788 common shares issued and outstanding.

Selected Financial Information

A summary of selected financial information is as follows:

	As at September 30, 2015	As at September 30, 2014	As at September 30, 2013
Total Assets	\$655,262	\$796,596	\$369,763
Total Liabilities	\$287,016	\$241,767	\$12,349
Total Shareholders' Equity	\$368,246	\$554,829	\$357,414
	Year Ended 2015	Year Ended 2014	Year Ended 2013
Revenue	\$190,183	\$ 209,301	\$ 0
Net Loss	(\$456,538)	(\$254,519)	(\$150,539)
Loss per share – basic and Diluted	(\$0.043)	(\$0.031)	(\$0.025)

For the year ended September 30, 2015, the Corporation sold its Columbia assets and had no changes in accounting policy and declared no cash dividends. On January 29, 2014, the Corporation completed its Qualifying Transaction with the acquisition of certain oil and gas assets from Gold Note (Note 5) for cash consideration of \$100,000 and the issuance of 2,352,941 Consideration Shares. As of January 29, 2014 the Corporation was no longer classified as CPC. On January 27, 2015 the 2,352,941 Consideration Shares issued to Gold Note were cancelled in accordance with the Escrow Agreement. After giving effect to the cancellation of the Consideration Shares, the Corporation had 9,372,788 common shares issued and outstanding.

Additional Disclosure for Venture Corporations without Significant Revenue

The following table sets forth a breakdown of material components of the general and administration costs of the Corporation for the year ended September 30, 2015 and 2014:

	Year ended September 30, 2015 (\$)	Year ended September 30, 2014 (\$)
Production revenues	190,183	209,301
Operating costs	95,223	75,174
Depletion, Impairment and Accretion expenses	114,277	56,975
Share-based compensation	269,955	48,906
General and administrative fee	594,567	283,080

Results of Operations

As at September 30, 2015, the Corporation had production revenues of \$190,183 (2014 – \$209,301) and operating costs of \$95,223 (2014 - \$75,174). For the year ended September 30, 2015, the Corporation had a net loss of \$456,538 (2014 - \$254,519). For the year ended September 30, 2015, the Corporation had general and administration fees of \$594,567 (2014 - \$283,080) and depletion, impairment and accretion expenses of \$114,277 (2014 - \$56,975) and share based compensation of \$269,955 (2014 - \$48,906).

Summary of Quarterly Results

	Gross Revenue	Net Income/ (Loss)	Loss per Share	
			Basic	Diluted
Q4 ended September 30, 2015	\$33,559	\$(106,391)	\$(0.010)	\$(0.010)
Q3 ended June 30, 2015	\$37,868	\$(188,793)	\$(0.020)	\$(0.020)
Q2 ended March 31, 2015	\$51,427	\$(154,352)	\$(0.016)	\$(0.016)
Q1 ended December 31, 2014	\$67,329	\$(7,002)	\$(0.0001)	\$(0.0001)
Q4 ended September 30, 2014	\$70,340	\$(199,619)	\$(0.024)	\$(0.014)
Q3 ended June 30, 2014	\$91,620	\$(86,420)	\$(0.007)	\$(0.007)
Q2 ended March 31, 2014	\$47,341	\$(79,826)	\$(0.007)	\$(0.007)
Q1 ended December 31, 2013	\$0	\$(61,494)	\$(0.007)	\$(0.007)

For the above noted periods, the Corporation reported sold its Columbia assets.

Liquidity

As at September 30, 2015, the Corporation had working capital of \$487,717, comprised of cash or cash equivalents deemed sufficient by management for the Corporation to meet its current financial obligations for the next fiscal year. Currently, the Corporation is expected to have increased cash flow as monthly revenues will exceed monthly expenses. The Corporation will use excess cash flow to seek out future acquisitions.

Related Party Transaction

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and approved by the related parties. There were no related party transactions incurred during the year ended September 30, 2015 and September 30, 2014. Remuneration of Directors and key management of the Corporation during the year ended September 30, 2015 and 2014:

	2015	2014
Share-based payment	\$269,955	\$48,906

Oil & Gas Future Acquisitions and Mergers

A number of oil and gas projects were pursued in during the year ended September 30, 2015, with some in progress, and the remainder which concluded as described herein. A potential international merger opportunity was pursued and significant costs were incurred in the process. The potential merger was ultimately abandoned, due to the inability to obtain adequate investment bank financing for a drilling project in Alaska. In another endeavor, the company evaluated numerous wells and a bid was submitted. The offered bid amount was not accepted, as the project was awarded to a firm that proposed a higher bid amount. At the present time the company is actively engaged with a farm-in-agreement, for which it requires financing requirements that are presently undetermined. The company is also in the process of carrying out two table top geologic engineering reviews, and the exact requirements for the corresponding project are not yet determined.

Nature of Operations and Going Concern

Silk Road Energy Inc. (the "Company") was incorporated under the laws of the Province of Alberta on November 9, 2010. The Company's principal business activity is the exploration, development and production of petroleum and natural gas assets in Alberta. The address of the registered head office is Suite 1900, 520 3rd Avenue SW, Calgary, AB T2P 0R3.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the extinguishment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due. The Company reported a net loss of \$456,538 and generated negative cash flow from operating activities of \$384,313 for the year ended September 30, 2015. The nature of development activities is that they are capital intensive and the nature of oil and gas properties is that the production will naturally decline over time. Internally generated cash flows may be insufficient to fund the type of development that would be necessary to maintain production over the intermediate to longer term. The Company's ability to continue as a going concern is dependent upon the ability to raise additional capital, the generation of positive cash flow, the maintenance of its existing reserve and production base, the success of the development and exploration program and the continued support of its shareholders. There is no certainty that such events will occur and that sources of financing will be obtained on terms acceptable to management. Whether and when the Company can attain profitability and positive cash flows is also uncertain and as such the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. These uncertainties cast significant doubt about the Company's ability to continue as a going concern unless the Company receives additional capital, debt financing or significant proceeds from the sale of assets. The Company will continue to seek appropriate financing initiatives that benefit the Company and its shareholders as well as continue to review other opportunities for the

sale or farm-out of existing resource interests. These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue as a going concern and therefore be required to realize its assets and liabilities in other than the normal course of business and potentially at amounts significantly different from those recorded in these financial statements.

Basis of Preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the Interpretations of the IFRS Interpretations Committee (“IFRIC”) and in effect at September 30, 2015. The financial statements were authorized for issue by the Board of Directors on January 28, 2016.

Basis of measurement

These financial statements have been prepared on a historical cost basis except for share-based payment transactions and certain financial instruments which are measured at fair value.

Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company’s functional currency.

Use of estimates and judgements

The preparation of the Company’s financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting year. By their nature, these estimates are subject to measurement uncertainty and effect on financial statements or changes in such estimates in future years could be material. The estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to estimates are recognized in the year in which the estimate is revised. In the process of applying the Company’s accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements.

Cash-generating-units (“CGUs”) determination

The determination of CGUs requires judgement in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risk and materiality. The Company has determined that at September 30, 2015 it has two (September 30, 2014 – three) CGUs being Thornbury and Bashaw.

Oil & gas reserves

Oil and gas development and production properties are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with the Society of Petroleum Engineers rules and incorporating the estimated future cost of developing and extracting those reserves. Oil and gas reserves are also used to evaluate impairment of petroleum and natural gas

interests. Commercial reserves are determined using estimates of oil and natural gas in place, recovery factors, discount rates and forward future prices. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. There are numerous uncertainties inherent in estimating oil and gas reserves. Estimating reserves is very complex, requiring many judgments based on geological, geophysical, engineering and economic data. These estimates may change, having either a positive or negative impact on the statement of operations and comprehensive loss as further information becomes available and as the economic environment changes.

Depletion and depreciation

Depletion of petroleum and natural gas interests is provided using the unit-of-production method and is based on production volumes (before royalties) in relation to total estimated gross proved and probable reserves as determined at year-end by the Company's independent engineers. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil. Calculations for depletion of petroleum and natural gas interests including production equipment and facilities are based on total capitalized costs plus estimated future development costs of proved and probable reserves less the estimated net realizable value of production equipment and facilities after the reserves are fully produced. Exploration and evaluation costs are excluded from depletion calculations. The calculation of the unit-of-production rate of depletion could be impacted to the extent that actual production in the future is different from current forecast production. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. These factors could include changes in proved and probable reserves, changes in estimates of future development costs, the effect on proved and probable reserves of differences between actual production as compared to forecasts as well as commodity price assumptions and unforeseen operational issues.

Impairment indicators

The Company assesses its petroleum and natural gas ("P&NG") interests for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets may not be recoverable. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage and significant downward revisions to estimated recoverable volumes or increases in estimated future development expenditures. The assessment of impairment for P&NG interests involves comparing the carrying value of the CGU with the higher of value in use and fair value less costs to sell. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional supply-and-demand conditions for crude oil, natural gas and liquids.

Decommissioning obligations

Decommissioning obligations will be incurred by the Company at the end of the operating life of certain facilities and properties. Decommissioning obligations are estimated based on current legal and constructive requirements, technology, price levels and expected plans for remediation and are inflated to the date of decommissioning of the asset and discounted at a risk-free rate. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Financial instruments

The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Company may use derivative instruments to manage commodity price, foreign currency and interest rate exposures. The fair values of these financial derivative instruments are determined using valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data including quoted commodity prices and volatility, interest rate yield curves and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and as such are subject to measurement uncertainty.

Share based payments

The fair value of stock options granted is recognized using the Black-Scholes option pricing model. Measurement inputs include the Company's share price on the measurement date, the exercise price of the options, the expected volatility of the Company's shares, expected life of the options, expected dividends and the risk-free rate of return. The Company estimates volatility based on the historical volatility of similar entities following a comparable period in their lives. The expected life of the options is based on historical experience and estimates of the holder's behaviour. Dividends are not factored in as the Company does not expect to pay dividends in the foreseeable future. Management also makes an estimate of the number of options that will be forfeited and the rate is adjusted to reflect the number of options that actually vest.

Deferred Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

Significant Accounting Policies

Joint arrangements

The Company conducts many of its oil and gas production activities through jointly controlled operations and the financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing the Company's assets whereby the Company has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company does not have any joint arrangements that are structured through joint venture arrangements.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, accounts receivable and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at amortized cost using the effective interest method. Any gains or losses on the realization of receivables are included in the statement of operations and comprehensive loss. A provision for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in earnings. When a loan or receivable is uncollectible, it is written off against the allowance account for loans and receivables. The Company has designated accounts receivable as loans and receivables.

Financial assets at fair value through profit or loss

A financial instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management and investment strategy. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in earnings. The Company has designated cash as fair value through profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables or financial assets at fair value through profit or loss. Subsequent to initial recognition, they are measured at fair value, with gains or losses recognized within other comprehensive income. Accumulated changes in fair value are recorded as a separate component of equity until the investment is impaired, sold or otherwise disposed of, then the cumulative gain or loss in other comprehensive income is transferred to profit or loss. The Company does not have any financial instruments classified as available for sale.

Other financial liabilities

Other financial liabilities are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method. Any gains or losses in the realization of other financial liabilities are included in net earnings. The financial liabilities that are designated as other financial liabilities include accounts payable and accrued liabilities.

Financial Instruments (continued)

Derivative financial instruments

Commodity contracts

Commodity contract assets and liabilities are derivative financial instruments classified as “fair value through profit or loss” unless designated for hedge accounting. Derivative instruments that do not qualify as hedges, or are not designated as hedges, are recorded at fair value. Instruments are recorded in the statement of financial position as either an asset or liability with changes in fair value recognized in net earnings. Realized gains or losses from financial derivatives related to natural gas and crude oil commodity prices are recognized in net earnings as the contracts are settled. Unrealized gains and losses are recognized in earnings at the end of each respective reporting period based on the changes in fair value of the contracts. The estimated fair value of all derivative instruments is based on quoted market prices or, in their absence, third-party market indications and forecasts. The Company does not have any commodity contracts.

Revenue recognition

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party and is based on volumes delivered to customers at contractual delivery points, and rates and collectability are reasonably assured. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

Petroleum and natural gas (“P&NG”) interests

P&NG interests are carried at cost, less accumulated depletion, depreciation and accumulated impairment losses. The cost of an item of P&NG interests consists of the purchase price, any costs directly attributable to bringing the asset into the location and condition necessary for its intended use, a discounted current estimate of the decommissioning costs and borrowing costs for qualifying assets. Oil and gas capitalized costs are depleted using the unit-of-production method. Depletion is calculated using the ratio of production in the period to the remaining total proved and probable reserves before royalties, taking into account future development costs prior to inflation necessary to bring those reserves into production. These estimates are evaluated and reported on by independent reserve engineers annually. Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Changes in estimates such as quantities of proved and probable reserves that affect unit-of-production calculations are applied on a prospective basis. An item of P&NG interests is derecognized upon disposal or is impaired when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the net proceeds and the carrying amount of the asset, is recognized in earnings in the period incurred.

Exploration and evaluation (“E&E”) properties

E&E properties include land acquisition costs, geological and geophysical costs, exploratory drilling, directly attributable expenses and activities relating to evaluating the technical feasibility and commercial viability of our resources. All other expenditures are recognized in earnings as incurred. E&E costs are capitalized and are not depleted until such time as the exploration phase is complete and technical feasibility and commercial viability of extracting the mineral resource has been demonstrated. Once demonstrated, E&E assets are tested for impairment and transferred to P&NG

interests, and further development costs are capitalized to P&NG interests. E&E assets are also tested for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. If it is determined that technical feasibility and commercial viability has not been achieved in relation to a property, the resulting impairment is included in loss.

Impairment of assets

Non-financial assets

At each financial reporting date, the carrying amounts of P&NG interests and E&E assets are reviewed to determine whether there is any indication that those assets are impaired. If such indication exists, an estimate of the recoverable amount of the asset is calculated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “CGU”). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less cost to sell is derived by estimating the discounted after-tax future net cash flows. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the reserves and discounted market-based rates to reflect a market participant view of the risks associated with the assets. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in earnings. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in earnings.

Financial assets

Financial assets are assessed at each reporting date in order to determine whether objective evidence exists that the assets are impaired as a result of one or more events which have had a negative effect on the estimated future cash flows of the asset. If there is objective evidence that a financial asset has become impaired, the amount of the impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows from the asset discounted at its original effective interest rate. Impairment losses are recorded in earnings. If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed up to the original carrying value of the asset. Any reversal is recognized in earnings.

Taxes

Tax expense is comprised of current and deferred tax expenses. Tax expense is recognized in earnings except to the extent that the tax expense related to items recognized in other comprehensive income or directly in equity. Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Taxes (continued)

Deferred tax is recognized using the liability method. Under this method, deferred tax assets and liabilities are recognized in relation to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

Per share amounts

Basic earnings per share are computed using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that proceeds received from the exercise of “in-the-money” stock options and warrants would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Shares held in escrow that are only released upon contingent events are not included in the calculation of the weighted average number of common shares.

Decommissioning liability

The Company’s activities give rise to dismantling, decommissioning and site remediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning liabilities are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the statement of financial position date. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation discounted using a market risk-free rate, updated at each reporting date. The increase in the provision due to the passage of time is recognized as accretion expense, within financing fees, whereas increases or decreases due to changes in the estimated cost are capitalized as P&NG interests. Actual costs incurred upon settlement of the decommissioning liability reduce the liability to the extent the provision was established. The related decommissioning asset is depleted on the same basis as the P&NG interests to which it relates.

Contingencies

When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the financial statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot

be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the financial statements.

Business acquisitions

The acquisition method is used to account for acquisitions of subsidiaries and assets that meet the definition of a business. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in earnings. An acquisition is recorded on the date on which the Company obtains control of the acquired subsidiary or business.

Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in earnings such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service.

Recent Accounting Pronouncements

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

Adoption of new or amended accounting standards

As required, effective October 1, 2014, the Company adopted the following new or amended accounting standards on a retrospective basis. These new or amended standards did not have a significant impact on the Company's financial statements.

In May 2011, the IASB issued IFRS 11 – Joint Arrangements, which requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor. For joint ventures depending on the contractual rights and obligations of each investor. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method.

In December 2011, the IASB amended IFRS 7 – Financial Instruments: Disclosures, to require disclosures to better assess the effect or potential effect of offsetting arrangements in the statement of financial position.

In May 2011, the IASB issued IFRS 13 – Fair Value Measurement, which established a single source of guidance for fair value measurement under IFRS. IFRS 13 defines fair value, provides guidance on measurement and introduces certain disclosure requirements.

In January 2012, the IASB issued IAS 32 – Financial Instruments: presentation, establishing principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities.

In May 2013, the IASB issues IFRIC 21 Levies, providing guidance on the accounting for levies within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Recent accounting pronouncements not yet adopted

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IFRS 9 Financial Instruments (New)

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 (2014) as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. This Standard will replace IAS 39 Financial Instruments: Recognition and Measurement.

IFRS (2014) is effective for reporting periods beginning on or after January 1, 2018 with early adoption permitted (subject to local endorsement requirements). IFRS 9 (2014) supersedes all previous versions including IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013). However, an entity may elect to apply those earlier versions of IFRS 9 instead of applying IFRS (2014) if, and only if, the entity’s relevant date of initial application is before February 1, 2015.

IFRS 15 Revenue from Contracts with Customers (New)

In May 2014, the International Accounting Standard Board (IASB) issued a new International Financial Reporting Standard (IFRS) on the recognition of revenue from contracts with customers. IFRS 15 specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services. The Standard provides a single, principles based five-step model to be applied to all contracts with customers, with certain exceptions. The five steps are (1) Identify the contract(s) with the customer. (2) Identify the performance obligation(s) in the contract. (3) Determine the transaction price. (4) Allocate the transaction price to each performance obligation in the contract. (5) Recognize revenue when (or as) the entity satisfies a performance obligation. The standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

Acquisition

During the year ended September 30, 2014, the Company acquired producing assets from Gold Note Resources Inc. (“Gold Note”), an unrelated party, in various areas of Alberta for cash consideration of \$100,000 and 2,352,941 common shares (“Consideration Shares”) of the Company. The completion of the acquisition was approved by the TSXV as the Qualifying Transaction of the Company, as a result, the Company was no longer considered a Capital Pool Company as of January 29, 2014.

In accordance with IFRS, a property acquisition is accounted for as a business combination when certain criteria are met, such as the acquisition of inputs and processes to convert those inputs into beneficial outputs. The Company assessed this acquisition and determined that it constitutes a business combination. In a business combination, acquired assets and liabilities are recognized by the acquirer at their fair market value at the time of purchase. Any variance between the determined fair value of the assets and liabilities and the purchase price is recognized as either goodwill or a gain in the statement of operations and comprehensive loss in the year of acquisition.

The estimated value of the petroleum and natural gas interests acquired was determined based on internal review of the consideration provided. The value of the common shares was determined based on the trading price on the date of acquisition of \$0.17 per share. The decommissioning liabilities assumed were determined using the timing and estimated costs associated with the abandonment, restoration, and reclamation of the wells and facilities acquired. A summary of the acquired properties are provided below.

Estimated fair value of the net assets acquired

Petroleum and natural gas interests	\$	535,400
Decommissioning liability		<u>(35,400)</u>
	\$	<u>500,000</u>
Consideration		
Cash		100,000
Common shares issued – 2,352,941		<u>400,000</u>
Total consideration	\$	<u>500,000</u>

If the acquisition had been effective October 1, 2013, the Company would have realized an estimated additional \$145,000 of production revenue and an estimated additional \$95,000 of profit before tax.

The Consideration Shares issued are pledged by Gold Note as a general and continuing collateral security for the settlement of certain tax liabilities owing to the Canada Revenue Agency (“Tax Debt”). The Consideration Shares are held in escrow and are subject to the terms and conditions of an escrow agreement dated January 24, 2014. If the Tax Debt is not settled within 12 months of the Consideration Shares being granted, the Company will cancel the Consideration Shares. On January 27, 2015, the Company cancelled the Consideration Shares as the terms and conditions of the escrow agreement have not been achieved.

Petroleum and Natural Gas Interests

Cost

Balance at inception	\$	0
Acquisition (Note 5)		535,400
Change in decommissioning liability		<u>132,362</u>
Balance, September 30, 2014	\$	667,762
Disposals		(430,095)
Change in decommissioning liability		<u>12,454</u>
Balance, September 30, 2015	\$	<u>250,121</u>

Accumulated depletion and depreciation

Balance at inception	\$	0
Impairment		18,000
Depletion		<u>35,640</u>
Balance, September 30, 2014	\$	53,640
Impairment		13,539
Depletion		97,119
Disposal		<u>(63,831)</u>
Balance, September 30, 2015	\$	<u>100,468</u>
Net book value, September 30, 2014	\$	<u>614,122</u>
Net book value, September 30, 2015	\$	<u>149,654</u>

During the year ended September 30, 2015, the Company disposed of its interest in the Columbia CGU for cash consideration of \$700,000, incurred costs of disposal of \$17,499 and recorded a gain on sale of \$427,295.

At September 30, 2015 the Company determined that indicators of impairment existed as a result of the decline in the market price of oil and gas. The Company performed an impairment test and recorded impairment of \$13,539 (September 30, 2014 - \$18,000) on its Thornbury CGU. The Company determined the recoverable amounts for its CGUs using the fair value less costs to sell method based on internally generated cash flow projections. In determining fair value less costs to sell, the Company considered recent transactions within the industry, long-term views of commodity prices, evaluated reserve volumes, and discount rates specific to the CGU. The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates, operating costs structures and commodity prices. The estimate of fair value less costs to sell (2%) was determined using a discount rate of 15% and forecasted cash flows, with escalating prices and future development costs for the Company's proved plus probable reserves. The forecast prices used to estimate the fair value less cost to sell are based on the below managements estimates.

Year	AECO Spot (\$/MMBTU)	Year	AECO Spot (\$/MMBTU)
2016	2.90	2020	4.05
2017	3.25	2021	4.30
2018	3.50	2022	4.50
2019	3.75	Thereafter	2%

Decommissioning Liability

Balance at inception	\$	0
Liabilities assumed on acquisition (Note 5)		35,400
Accretion		3,335
Change in estimate		<u>132,362</u>
Balance, September 30, 2014	\$	171,097
Disposal (note 6)		(111,057)
Accretion		3,613
Change in estimate		<u>12,454</u>
Balance at September 30, 2015	\$	<u>76,107</u>

The Company estimates that the total undiscounted amount of cash flows required to settle its decommissioning liability is approximately \$108,000 (September 30, 2014 - \$270,000) which will be incurred over the next 18 years. Settlement of the obligations will be funded from general corporate funds at the time of retirement. An inflation rate of approximately 2.3% has been applied to the estimated abandonment and reclamation costs. Discount rates ranging from 1.97% to 2.38% (September 30, 2014 - 2.73% to 2.96%) were used to calculate the value of the decommissioning liability.

Income Tax

The net tax provision differs from that expected by applying the combined federal and provincial income tax rates of 25% for the year ended September 30, 2015.

	2015	2014
Loss before taxes	\$ (456,538)	\$ (254,519)
Statutory tax rate	<u>25.5%</u>	<u>25%</u>
Expected income tax recovery	(116,417)	(63,630)
Permanent differences:		
Share based compensation	68,839	12,227
Non-taxable portion of capital gain	(16,554)	0
Change in deferred tax asset not recognized	(27,746)	51,403
Change in enacted tax rates	<u>(8,122)</u>	<u>0</u>
Deferred tax recovery	\$ <u>0</u>	\$ <u>0</u>

The combined statutory tax rate increased during the year due to an increase in the provincial tax rate on July 1, 2015.

The components of the net deferred tax asset at September 30, 2015 is as follows:

	2015	2014
Deferred tax liabilities:		
Petroleum and natural gas interests	\$ (30,507)	\$ (28,531)
Less:		
Deferred tax assets:		
Decommissioning liability	20,549	42,774
Share issue costs	9,587	17,755
Non-capital losses	<u>133,287</u>	<u>122,364</u>
Net deferred tax assets not recognized	\$ <u>126,616</u>	\$ <u>154,362</u>

As at September 30, 2015, the Company has a non-capital loss carry-forward balance of approximately \$493,655 available to reduce future years' income for tax purposes. These losses will begin to expire in 2032 if not utilized.

Share Capital

Authorized

Unlimited number of common shares without par value
Unlimited number of preferred shares without par value

Issued

Common shares

	Number of shares		Amount
Balance September 30, 2013	9,342,500	\$	545,610
Shares issued on acquisition (Note 5)	2,352,941		400,000
Shares issued on exercise of agent options (Note 10)	<u>30,288</u>		<u>5,383</u>
Balance, September 30, 2014	11,725,729	\$	950,993
Shares cancelled (Note 5)	(2,352,941)		0
Shares issued as compensation (Note 10)	<u>2,640,000</u>		<u>264,000</u>
Balance, September 30, 2015	<u>12,012,788</u>	\$	<u>1,214,993</u>

Escrow

As at September 30, 2015, the Company has 1,485,000 common shares (September 30, 2014 – 2,475,000) subject to an escrow agreement whereby 10% of the shares will be released upon completion and approval of the Company's Qualifying Transaction. An additional 15% of the escrowed common shares will be released on each six month anniversary thereafter unless otherwise permitted by the Exchange. Common shares issued upon the exercise of options held by officers and directors are subject to the same escrow conditions. Common shares issued upon the exercise of the agent's options are restricted such that only 50% of the issued shares on exercise of such options may be sold prior to the Company completing a Qualifying Transaction.

Share-based Compensation

The Company has adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. However, other than in connection with a Qualifying Transaction, during the time that the Company is a CPC, the aggregate number of common shares issuable upon exercise of all options granted under the stock option plan shall not exceed 10% of the common shares at the closing of the Company's initial public offering. Such options will be exercisable up to ten years from the date of grant.

On January 6, 2012, the Company granted 934,250 options at \$0.10 per share to the directors and officers of the Company. Options issued to directors and officers have a term of ten years to expiry and vest upon the completion of a qualifying transaction. The estimated fair value of these options as calculated using the Black-Scholes pricing model is \$74,650. Based on the vesting periods, \$5,955 has been recognized as share-based compensation during the year ended September 30, 2015 (September 30, 2014 - \$10,906).

On January 27, 2014, the Company granted 235,294 options at \$0.17 per share to certain officers, directors, and employees of the Company. These options have a term of ten years to expiry and vest immediately. The estimated fair value of these options, as calculated using the black-Scholes pricing model is \$38,000, all of which has been recognized during the year as share-based compensation. The fair value has been calculated based on the following assumptions: volatility of 125%; expected life of 10 years; interest rate of 2.44%; and forfeiture rate of 0%.

The following table summarizes information about stock options outstanding:

	2015			2014		
	Number of Options	Weighted Average Price	Weighted Average Remaining Life (years)	Number of Options	Weighted Average Price	Weighted Average Remaining Life (years)
Balance, beginning of year	1,743,506	\$ 0.11	5.97	1,538,500	\$ 0.10	6.13
Granted	0	0	0	235,294	0.17	5.00
Exercised	0	0	0	(30,288)	0.10	0
Balance, end of year	7,743,506	\$ 0.11	4.97	1,743,506	\$ 0.11	5.97

During the year ended September 30, 2015, the Company issued 2,640,000 common shares at a value of \$0.10 per share to management as remuneration for services provided during the year. The issuance of shares was accounted for as an equity settled share based payment transaction and was valued at the fair value of the services received (note 9).

Financial Instruments and Risk Management

The Company's financial instruments are comprised of cash, accounts receivable and accounts payable and accrued liabilities. Fair values of financial instruments and discussion of risks associated with financial instruments are presented as follows:

Fair value of financial instruments

The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument. Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets. Level 2 – inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. 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 - inputs to the valuation methodology are not based on observable market data. Level 1 assumptions are used to value cash. The carrying value for cash, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the short-term nature of these financial statements.

The Company manages risk through establishing policies that provide management oversight related to the risks of operations, including ensuring that risks are identified and assessed and appropriate policies are in place and effective. Financial instruments present a number of specific risks. Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, market risk is segregated into three categories: interest rate risk, commodity price risk and foreign currency risk. Other risks associated with financial instruments include credit risk and liquidity risk.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has no financial instruments that create interest rate risk exposure.

Commodity risk

The nature of the Company's operations result in exposure to commodity price fluctuations. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company does not hedge commodity price risk and has no physical forward price or financial derivative sales contracts as at or during the year ended September 30, 2015.

During the year if production remained constant and the Company realized commodity prices changed by \$1.00 per barrel of oil equivalent, the Company's net loss would vary by \$22,500.

Foreign Currency Risk

Prices for petroleum are determined in global markets and generally denominated in United States dollars. The Company had no forward exchange rate contracts in place nor any working capital items denominated in foreign currencies for the year ended September 30, 2015. An increase in the value of the Canadian dollar relative to the U.S. dollar decreases the revenues received from the sale of petroleum and natural gas commodities. Correspondingly, a decrease in the value of the Canadian dollar relative to the U.S. dollar increases the revenues received from the sale of petroleum and natural gas commodities. The impact of such exchange rate fluctuations is not material.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Substantially all of the Company's accounts receivable are due from petroleum and natural gas marketers and are subject to normal credit risk. The maximum exposure to credit risk is calculated as the total value of accounts receivable as at September 30, 2015. Significant changes in industry conditions and risks that negatively impact customers' ability to generate cash flow will increase the risk of not collecting receivables. Management believes the risk is mitigated by the size and reputation of the companies purchasing its oil and natural gas production. All of the Company's accounts receivables are less than 30 days aged.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages its cash inflows from operations and capital expenditures to ensure it will have sufficient liquidity to meet its liabilities when due. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic environment. The Company's financial liabilities consist of accounts payable and accrued liabilities. Accounts payable consist of invoices payable to trade suppliers for general, administrative, royalty, production and capital expenditures and are usually payable in 30 to 90 days.

Related party transactions

During the year ended September 30, 2015, the Company paid office rental fees of \$4,672 (September 30, 2014 – nil) to a company owned by the CEO of the Company. All of these transactions were entered into in the normal course of operations.

Key management include all officers and directors of the Company.

	2015	2014
Share-based compensation	\$ <u>269,955</u>	\$ <u>48,906</u>

Capital Management

The Company's policy is to maintain a strong and stable capital base for the objectives of maintaining financial flexibility, to sustain the development of the Company's current capital projects and for future development of the Company. The Company manages its capital structures and makes adjustments to it in light of changes in economic condition and risk characteristics of the underlying assets. The Company monitors its working capital and expected capital spending and issues share capital to manage its development plans. The Company is not subject to any externally imposed capital requirements. The Company considers its capital structure to include shareholders' equity and working capital.