Management's Discussion and Analysis

For the year ended December 31, 2017

Date of Report: April 27, 2018

The following Management's Discussion and Analysis ("**MD&A**") of Westcore Energy Ltd. ("**Westcore**" or the "**Company**") provides an analysis of the Company's performance and financial condition for the year ended December 31, 2017. This MD&A should be read in conjunction with the Company's audited financial statements and notes thereto as at and for the year ended December 31, 2017 (the "current statements"). Except as otherwise noted, all dollar figures included therein are quoted in Canadian dollars. The annual financial statements, and additional information, including the Company's Certifications of Interim Filings and press releases, are available on SEDAR at www.sedar.com.

THE COMPANY

Westcore was incorporated under the *Business Corporations Act* (Alberta) on March 30, 2007, and it common shares are listed and posted for trading on the TSX Venture Exchange under the symbol WTR. As of December 31, 2017, the Company's assets consisted primarily of its 100% working interest in two oilfields in south western Saskatchewan.

Effective May 26, 2016 the Company consolidated its share capital on the basis of 1 new share for 5 old shares. All common share, per share, option, warrant and weighted average price amounts are restated in the current financial statements to reflect this consolidation.

RESULTS OF OPERATIONS

On May 26, 2016, the Company closed its transaction with Allstar Energy Ltd. ("Allstar"), a formerly consolidated subsidiary of 49 North Resources Inc. ("FNR"), wherein the Company acquired a 100% working interest in the oil and gas properties of Allstar and FNR, in addition to the subsequent acquisition of all associated oil and gas property and equipment of Allstar and FNR. The total purchase price for the acquisition was $2,625,000. The purchase price payable was paid via the issuance upon closing of an aggregate of 15,000,000 common shares in the capital of the Company at a fair value of $0.075 per share, after giving effect to a one-for-five consolidation of the Company's shares, and a promissory note in the aggregate principal amount of $1,500,000. The promissory note bears interest at the rate of 5% per annum, maturing on the date that is two years from the date of issuance and repayable from the cash flows of operations. Upon repayment of all amounts outstanding under the promissory note, title to the associated property and equipment will be conveyed from FNR and Allstar to the Company.

As stated above, the Company acquired certain property and equipment in respect of the Riverside oil and gas field (the "Riverside Project") and reclassified exploration and evaluation asset costs to the Riverside Project as well. As impairment indicators were present immediately preceding the reclassification of the exploration and evaluation asset costs, the Company wrote down the amount previously classified as exploration and evaluation assets in the amount of $921,983 in the year ended December 31, 2016. Further, the Company wrote down the Riverside Project (considered a single cash-generating unit) as a whole in the amount of $2,309,098 as at December 31, 2016, to approximate its recoverable amount. The impairment provision was recorded based on consideration of the difficult economic nature of oil and gas operations in Saskatchewan, and could potentially be reversed based on future support for a higher carrying value.

The Properties subject to the transaction are summarized as follows:

- The Riverside field is located approximately 16 kilometers north of the town of Leader in Saskatchewan, covering total acreage of approximately 20,536 acres. The Riverside field is highly optimized, with its own water disposal facility, interfield water-hauling capabilities and the production well burning casing gas to reduce the cost of reliance on propane. With one well on production, Riverside is producing approximately 15 net barrels of oil per day.

- The Flaxcombe field consists of approximately 3,840 acres of heavy oil land adjacent to the town of Flaxcombe, Saskatchewan, inclusive of 2 net sections of additional land added in 2017. With 7 production wells, Flaxcombe produces approximately 115 (75 net) barrels of oil per day. The Flaxcombe field also has a number of standing wellbores and shut-in production, which can be reinitiated at any time with limited incremental cost per barrel produced. The Flaxcombe field also benefits from the disposal well located at Riverside, which provides for greater per-barrel economics than disposing of production water at third party facilities. A portion of the production wells are also burning casing gas for power instead of propane.

During fiscal 2017, the Company entered into a number of joint venture agreements to increase production in the Flaxcombe field, while limiting the cost of drilling and recompleting these wells.

On February 3, 2017, the Company entered into a Farm-out Arrangement with Eros Resources Corp. ("EROS") whereby EROS would fund the drilling and completion of 3 new wells on the Flaxcombe section of the Company's Riverside Project. Pursuant to the Arrangement, EROS advanced $1,600,000 to the Company to fund the development, which was the estimated budget for costs agreed to by the parties.. Additional terms of the Arrangement include a 90% interest before payout and a 50% interest in the three wells after payout. All of the wells were completed an on production towards the end of the third quarter, with the three wells yielding an additional 100 barrels of oil per day gross production. The Company is very pleased with the results of the program as it further confirms the Company's drilling approach and further validates the field. Under the terms of the Arrangement, EROS has a right of first refusal to complete an additional two drilling programs on the same terms, subject to the same maximum investment per program. The Company and EROS are currently formulating drilling plans for the third quarter of fiscal 2018.

On April 5, 2017, the Company completed the acquisition of 2 wells from Teine Heavy Oil Partnership ("Teine") for cash proceeds of $101,000.

On September 14, 2017, the Company entered into an agreement with a private heavy oil producer to sell its interest in the Red Pheasant assets. In exchange for the assets, Westcore received the following:

- A 25% right of first refusal to participate in future drill plans on the Red Pheasant lands;
- 10% of the proceeds from any future sale of the Red Pheasant lands; and
- A 25% interest in one suspended vertical Success oil well and the associated lands in the Kindersley area.

In addition to the above, the Company also relinquished the associated costs and liabilities of carrying both the lands and the wells. With current heavy oil pricing and no plans for further development of the assets, the Company felt that this was a an accretive disposition.

On October 12, 2017, the Company announced its joint venture with Saturn Oil & Gas Inc. ("SMI") to recomplete two wells in the Flaxcombe field. Under the terms of the Joint Venture, SMI was required to pay 100% of the cost to bring the wells on production in exchange for a 50% interest in production. However, due to both technical and formation challenges, neither of the wells were successfully brought online. The Company and SMI are currently evaluating alternatives on the two wells to determine if there is a different methodology from recompleting the wells which may allow for economic production.

On November 7, 2017, the Company completed the sale of 1 well to Saturn for cash proceeds of $10,150. In connection with the disposition, the Company derecognized the remaining carrying value and the decommissioning liability of the well, and recognized a gain of $1,737 on the transaction.

In December of 2017, the Company announced that it had entered a joint venture with Hillcrest Petroleum Ltd. ("HRH"). Under the terms of the agreement, HRH was required to pay 100% of the cost to bring two wells on production in the Flaxcombe field. Both wells were recompleted and brought online by February 2018. Initial results on the program are encouraging, with combined production of approximately 25 barrels of oil per day. Under the terms of the joint venture, HRH retains a right to recomplete a third well on the same terms as the initial two wells.

In fiscal 2017, the Company was focused on increasing net production with the lowest possible cash cost and reducing operating costs to the greatest extent possible. This is the primary reason that the Company has been targeting recompletion wells and joint venture partners. The result of this work has improved the production results. From an operating cost reduction stand-point, the company expanded its ability to service our wells in the year with the addition of a pressure truck into our fleet of rolling stock. The Company expects the pressure truck to become operational in the second quarter of 2018 and will allow the Company to load its own wells, which should further prevent against the wells going down to sand influx into the pump, which is a common issue in cold heavy oil production wells. This addition will allow the Company to load its wells more frequently, while drastically reducing the cost to due to, saving both workover cost and the amount of production days lost due to wells going offline. Depending on the availability of our operators, the addition of this truck also provides the Company with the opportunity to put the pressure truck to work for third parties, which presents a potential additional revenue stream.

Production

	Year-ended December 31,	
	2017	2016
Oil production (bbl/d)	57.2	42.3

As at December 31, 2017 the Company had nine production wells making an average of 130 barrels per day when all wells are active.

Reserves

Deloitte. has prepared a report evaluating the Company’s reserves on its Riverside and Flaxcombe oil field as at December 31, 2017. The following is a summary of the Company’s interest in those reserves, prepared from that report.

	Gross Oil - Mbbl	NPV 0% (before tax)	NPV 5% (before tax)	NPV 10% (before tax)
		(in thousands)	(in thousands)	(in thousands)
Proved	129	$610	$366.6	$175.2
Probable	211	$2,345.3	$1,696.2	$1,232.9
Proved plus probable	340	$2,955.3	$2,062.8	$1,408.1

SELECTED FINANCIAL INFORMATION

For the year ended December 31, 2017, the Company recorded a loss of $1,496,245 (December 31, 2016 – $4,454,933). The Company recorded operating revenue of $870,595 (2016 - $529,587) and royalties of $119,799 (2016 – $53,595). Operating expenses were $1,734,625 (2016 - $1,104,148). The Company's general and administrative expenses for the year ended December 31, 2017 were $304,643 (2016 - $270,809). Amortization, depletion and accretion expense in the year totaled $205,650 (2016 – $130,887). Share-based compensation in the year totaled $166,300 (2016 – $224,000). The Company had recorded impairments in fiscal 2017 of $nil (2016 - $3,231,081).

($, except shares amounts)	Year ended Dec. 31, 2017	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
Operating revenue	870,595	529,587	17,304
Royalties	119,799	53,595	-
Total expenses	2,411,218	4,960,925	266,789
Other income	164,177	30,000	10,000
Net loss	1,496,245	4,454,933	239,485
Loss per share – basic and diluted	0.04	0.20	0.03
Funds used in operations	761,000	93,287	51,498
Total assets	2,716,627	2,137,086	1,907,950
Total current liabilities	1,458,733	838,058	294,711
Total non-current liabilities	2,307,803	2,808,061	16,339
Weighted average shares outstanding – basic and diluted	36,236,968	22,652,593	7,825,196

SUMMARY OF QUARTERLY RESULTS

($, except shares amounts)	Three months ended Dec. 31, 2017	Three months ended Sept. 30, 2017	Three months ended June 30, 2017	Three months ended Mar. 31, 2017
Total revenue	189,742	282,587	193,467	204,799
Total expenses	513,689	783,529	518,739	595,261
Net loss	193,229	546,148	346,310	410,558
Loss per share – basic and diluted	0.00	0.01	0.01	0.01
Funds provided by (used in) operations	452,857	(387,976)	(376,016)	(449,865)
Total assets	2,716,627	2,913,818	3,355,505	3,814,769
Total liabilities	3,766,536	3,822,998	4,339,036	5,234,860
Weighted average shares outstanding – basic and diluted	40,437,237	37,911,678	33,306,396	30,054,800

($, except shares amounts)	Three months ended Dec. 31, 2016	Three months ended Sept 30, 2016	Three months ended June 30, 2016	Three months ended Mar. 31, 2016
Total revenue	250,950	140,674	133,629	4,334
Total expenses	3,934,183	513,481	448,352	64,909
Net loss	1,328,181	342,807	2,753,370	30,575
Loss per share – basic and diluted	0.06	0.02	0.17	0.00
Funds provided (used) in operations	859,887	(331,008)	(329,201)	(292,965)
Total assets	2,137,086	3,039,472	3,157,011	1,852,971
Total liabilities	3,646,119	3,314,774	3,089,507	270,182
Weighted average shares outstanding – basic and diluted	22,669,099	20,646,244	16,578,305	13,693,689

Three Months Ended December 31, 2017 and 2016:

For the three months ended December 31, 2017, the Corporation recorded net loss of $193,229 ($0.00 loss per share), compared to a net loss of $1,328,181 ($0.06 loss per share) for the three months ended December 31, 2016.

The Corporation’s pre-tax loss in the three months ended December 31, 2017 of $193,229 was based on revenues of $189,742 less recorded expenses of $513,689 compared to a 2016 pre-tax loss of $1,328,181 on revenues of $250,950 less recorded expenses of $3,934,183.

For the three months ended December 31, 2017 revenues decreased $61,208, compared to the three months ended December 31, 2016 as a result of the market price received.

Expenses for the three months ended December 31, 2017 were $513,689, compared to $3,934,183 in the three months ended December 31, 2016. The significant difference is the result of $3,231,081 recorded impairments and $224,000 share-based compensation in the fourth quarter of 2016, this is partially offset by the increase amortization and depletion in the fourth quarter of 2017.

EXPLORATION AND EVALUATION ASSETS

The Company incurred $259 in exploration expense on its exploration assets during the year ended December 31, 2016. During the year ended December 31, 2016, in conjunction with the closing of the transaction with Allstar and FNR, the Company recorded an impairment of $921,983 related to the exploration and evaluation assets.

The following table details the expenditures made since January 1, 2016, and the carrying value of the Company's mineral properties.

Cost		Riverside,SK	Black Diamond, MB		Total
Balance, January 1, 2016	$	921,724	$ 3,745,010	$	9,947,768
Exploration costs		259	-		259
Balance, December 31, 2016 and December 31, 2017	**$**	**921,983**	**$ 3,745,010**	**$**	**9,947,768**
Accumulated impairment					
Balance, January 1, 2016	$	-	$ (3,745,010)	$	(9,025,785)
Impairment write-down		(921,983)	-		(921,983)
Balance, December 31, 2016 and December 31, 2017	**$**	**(921,983)**	**$ (3,745,010)**	**$**	**(9,947,768)**
Carrying amounts					
Balance, December 31, 2016	$	-	$ -	$	-
Balance, December 31, 2017	**$**	**-**	**$ -**	**$**	**-**

The net additions to the exploration and evaluation assets, during the year, by nature are detailed as follows:

		2017		2016
Net cost of sample sales	$	-	$	259
	$	-	$	259

Black Diamond, Manitoba

The Company previously held a 75% interest in 90 coal leases. These coal leases are valid for 10 years, and will expire in 2023. The Company has not made the 2015 and 2016 lease payments and does not intend on renewing the permits when they expire.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and working capital

The Company's operations currently do not provide sufficient cash flow to fully sustain the operation and advancement of the oil and gas properties and, as such, the Company is dependent upon the issuance of new equity to finance its ongoing obligations and advance its properties.

As at December 31, 2017, the Company had a total cash position of $91,988 (December 31, 2016 - $5,460) and a working capital deficiency of $1,216,193 (December 31, 2016 - $830,079). As at December 31, 2017. the Company had $278,600 (December 31, 2016 - $nil) of long term debt of which $45,179 (December 31, 2016 - $nil) is due in one year. The Company has a promissory note (the "Note") outstanding owed to Allstar in conjunction with the acquisition of the oil and gas properties of Allstar and FNR. The balance owing under the Note at the end of the year was $66,279 (December 31, 2016 - $545,212). The Note bears interest at a rate of 5% per annum, calculated monthly and matures on May 26, 2018. In addition the Company owed $883,446 (December 31, 2016 - $427,636) to Allstar and $721,180 (December 31, 2016 - $807,230) to FNR as at December 31, 2017.

Capital structure

The Company's objectives in managing capital are to safeguard its ability to operate as a going concern while pursuing opportunities for resource property exploration and development. The Company defines capital as the Company's shareholders' equity (deficiency) of $(1,049,909) at December 31, 2017 (December 31, 2016 – shareholders' equity of $1,509,033), and the Company's December 31, 2017 working capital deficiency of $1,216,193 (December 31, 2016 - working capital deficiency of $830,079). The Company sets the amount of capital in proportion to risk and corporate growth objectives. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain the capital structure, the Company may attempt to issue shares or dispose of certain assets. The Company anticipates it will require further equity issues in 2018 to meet its planned operations and administrative costs through the next fiscal year. The Company is not subject to any externally imposed capital requirements. The Company expects to enter into additional debt financing in 2018. The Company did not make any changes to the way it manages its capital in the year ended December 31, 2017.

Equity instruments

On May 26, 2016, the Company completed a share consolidation on the basis of 1 new share for 5 old shares.

On May 26, 2016, the Company closed the property acquisition and issued 15,000,000 common shares at a fair value of $0.075 per common share.

On May 17, 2017, the Company completed a private placement for the issuance of a total of 4,000,000 units at a price of $0.15 per unit for gross proceeds of $600,000. Each unit was comprised of one common share and one warrant, exercisable into an additional common share at a price of $0.25 until May 17, 2019. In accordance with the Company's accounting policy, the values of the share and warrant components of the units were bifurcated under the relative fair value method, attributing a value of $343,500 to the shares and $256,500 to the warrants. In assessing the value of the warrants, the Company used the Black-Scholes option pricing model with the following assumptions: expected life of 2 years, stock price volatility of 214%, no dividend yield, and a risk-free rate of 0.65%.

On July 21, 2017, the Company completed a private placement for the issuance of a total of 3,333,000 units at a price of $0.15 per unit for gross proceeds of $499,950. Each unit was comprised of one common share and one warrant, exercisable into an additional common share at a price of $0.25 until July 21, 2019. In accordance with the Company's accounting policy, the values of the share and warrant components of the units were bifurcated under the relative fair value method, attributing a value of $290,650 to the shares and $209,300 to the warrants. In assessing the value of the warrants, the Company used the Black-Scholes option pricing model with the following assumptions: expected life of 2 years, stock price volatility of 180%, no dividend yield, and a risk-free rate of 1.24%.

During the year ended December 31, 2017, 4,750,000 shares of the Company were issued in connection to warrants being exercised, for $712,500 gross proceeds.

The following table summarizes the outstanding securities issued by the Company as of the date of this MD&A, December 31, 2017, and December 31, 2016:

	April 27, 2018	December 31, 2017	December 31, 2016
Common shares	40,776,689	40,776,689	28,693,689
Warrants	8,583,000	8,583,000	6,000,000
Stock options	3,700,000	3,700,000	2,800,000
Total equity instruments outstanding	53,059,689	53,059,689	37,493,689

FINANCIAL INSTRUMENTS

Categories of financial assets and liabilities

The Company's financial assets and liabilities are categorized as follows:

Account	Category	Dec. 31, 2017	Dec. 31, 2016
Cash	Loans and receivables	$ 91,988	$ 5,460
Restricted cash	Loans and receivables	135,000	-
Receivables	Loans and receivables	552	885
Accounts payable and accrued liabilities	Other financial liabilities	1,173,260	838,058
Long term debt	Other financial liabilities	278,600	-
Recompletion funds received	Other financial liabilities	96,735	-
Related party advances payable	Other financial liabilities	721,180	807,230
Promissory note payable	Other financial liabilities	66,279	545,212
Joint venture partner payable	Other financial liabilities	143,559	-

The recorded amounts for cash, restricted cash, receivables and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. Income earned on the Company's cash has been disclosed in the statement of loss and comprehensive loss.

Fair Value Measurements

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The fair value of the Company's financial instruments recognized and measured at amortized cost approximates their fair value.

The fair value of financial instruments that are measured subsequent to initial recognition at their fair value, is measured within a 'fair value hierarchy' which has the following levels:

i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
ii) Level 2: valuation techniques using inputs other than quoted prices included in Level 1that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
iii) Level 3: valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

FINANCIAL INSTRUMENT RISKS

The Company is exposed to various risks in relation to financial instruments. This note presents information about the Company's exposure to commodity price, credit, liquidity and market risks arising from its use of financial instruments and the Company's objectives, policies and processes for measuring and managing such risks.

Commodity price risk

The value of the Company's resource properties is related to the price of various commodities and the outlook for them. Commodity prices have historically fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial retail demand, central bank lending, forward sales by producers and speculators, level of worldwide production and short-term changes in supply and demand.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, restricted cash and receivables. Cash consists of bank balances held at a Canadian Schedule I bank and amounts held in trust. The Company's receivables are comprised of Input Tax Credits receivable from the Government of Canada, trade receivables and share subscription receivable. The carrying amount of receivables represents the maximum credit exposure. The Company considers all of its receivables fully collectable, and no amounts are considered past due (greater than 90 days).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. The carrying value of accounts payables and accrued liabilities approximates its fair value due to their relatively short period to maturity.

At December 31, 2017 and December 31, 2016, the Company's current financial liabilities were $1,458,733, and $838,058 respectively. The Company ensures that it has enough cash on demand for operational expenses by preparing annual capital expenditure budgets, which are regularly monitored and updated as considered necessary.

Market risks

Market risk is the risk that changes in market prices (such as foreign exchange rates), commodity prices, and interest rates will affect the Company's operations, net loss or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing long-term returns. All of the Company's transactions are in Canadian dollars, and the Company has nominal operating revenues, therefore the Company is not exposed to any market risks.

RELATED PARTY TRANSACTIONS

Related party expenses

The Company's related parties include directors and officers and companies which have directors and officers in common.

During the year ended December 31, 2017, fees in the amount of $178,000 (2016 – $120,000) were paid or accrued to directors and officers who provided services to the Company. Included in accounts payable and accrued liabilities at December 31, 2017 is $192,995 (2016 - $312,038) owing to related parties. Amounts due to related parties do not bear any interest, are unsecured, and have no specific terms of repayment.

As at December 31, 2017, an additional amount of $883,446 is (December 31, 2016 - $427,636) owed to a related party and included in accounts payable and accrued liabilities.

As at December 31, 2017, a total of $721,180 is owing to a related party for advances received (December 31, 2016 - $807,230). The advances are repayable on demand, are unsecured and do not bear interest.

Key management personnel compensation

Key management of the Company are directors and officers of the Company and their remuneration includes the following:

	For the year ended	
	Dec. 31, 2017	Dec. 31, 2016
Short-term benefits	**$ 178,000**	$ 120,000
Share-based compensation	**79,690**	112,000
	$ 257,690	$ 232,000

(i) Short-term benefits include consulting fees.

Promissory note payable

In conjunction with the transaction with Allstar and the Company, there remains a balance of $66,279 on the promissory note payable to Allstar (December 31, 2016 – $545,212). The promissory note bears interest at a rate of 5% per annum and matures on May 26, 2018. Since the closing of the transaction, the Company has made $1,460,933 in repayments on the promissory note (December 31, 2016 - $982,000 in repayments).

Loans to a related party

In conjunction with the transaction with Allstar and the Company, the Company agreed to loan up to $250,000 to Allstar for operational purposes, bearing interest at 5% and repayable on demand. During the year ended December 31, 2016, the Company loaned a total of $234,550, and received a repayment from Allstar in the amount of $56,000. The remainder of the loans were offset against balances owing to Allstar as operator of the Company's oil and gas interests.

EVENTS AFTER THE REPORTING PERIOD

None

OFF-BALANCE SHEET ARRANGEMENTS

None

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company’s financial statements in accordance with IFRS requires management to make certain judgments, estimates, and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from these estimates. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Oil and gas reserves

Estimates

Using geological and engineering data, estimates of petroleum and natural gas reserves are determined. These reserves form the basis for the depletion of property and equipment, which are depleted on a unit-of-production basis, as well as the impairment assessment of these properties. The data used to determine reserves is based on drill results and production and reserve models, which are inherently imprecise. The Company engages a recognized reserves engineering firm to update its estimated petroleum and natural gas reserves based on new information such as additional drill results, long-term reservoir production, changes to expectations for the economic viability of reserves, and changes to property leases or intentions for property development. Changes to reserve estimates are applied prospectively, and could result in increases or decreases to future depletion expenses or the carrying value of these properties.

Impairment of property and equipment

Estimates

In situations where indicators of impairment are present for the Company’s property, plant and equipment, estimates of recoverable amount must be determined. Recoverable amount is determined as the higher of the cash generating unit’s estimated value in use of the cash generating unit’s estimated fair value less costs to sell. Value in use is based on the present value of the future cash flows expected to flow from the cash generating unit to the entity and actual cash flows may vary. Fair value less costs to sell is based on recent sales of comparable assets which may or may not be indicative of the cash generating unit’s fair value.

Judgments

Management uses judgment in determining whether or not indicators of impairment have been identified for its cash generating units. The result of management’s assessment could result in an impairment test not being performed when indicators did in fact exist, which could impact the valuation of the cash generating unit’s carrying value.

Decommissioning liabilities

Estimates

The Company’s provision for decommissioning liabilities requires management to estimate the timing and amount of cash flows required to reclaim its property and equipment. These cash flows are based on management assumptions for oil and gas reserves and production, which determine the timing of reclamation expenditures, as well as expectations for the future costs and legal or constructive requirements for environmental reclamation. Changes to either the timing or amount of the cash flows required for decommissioning, or to the discount rate used to record the present value of these cash flows, are considered prospectively. Such changes could increase or decrease the decommissioning liabilities reported by the Company, and will ultimately result in changes to the total expense for environmental reclamation.

Depletion and amortization

Estimates

Proved and probable reserves estimates for each cash generating unit are used as the denominator in the Company’s unit-of-production depletion and amortization calculations. These estimates are prepared in accordance with Canadian Securities Administrators’ National Instrument 51- 101 (“National Instrument 51-101”), but are subject to fluctuations due to changes in the price of oil, natural gas and its associates, lease operating expense cost of inflation and operations risks, reservoir performance and geological uncertainties.

Title to property interests

Judgments

Although the Company has taken steps to verify the title to the oil and gas assets in which it has an interest, in accordance with industry practices for the current stage of development of such properties, these procedures do not guarantee the Company’s title. Title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Income taxes

Judgments

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law.

Estimates

For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may be materially different than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized.

RISK FACTORS AND UNCERTAINTIES

In the normal course of business the Company is exposed to a variety of risks and uncertainties. In addition to the risks associated with liquidity and capital resources, financial instruments, credit risk and market risk described in this MD&A, the Company is exposed to various operational, technical, financial and regulatory risks and uncertainties, many of which are beyond its control and may significantly affect future results. Operations may be unsuccessful or delayed as a result of competition for services, supplies and equipment, mechanical and technical difficulties, the ability to attract and retain employees and contractors on a cost-effective basis, commodity and marketing risk and seasonality.

The Company is exposed to considerable risks and uncertainties including, but not limited to;

- finding petroleum and natural gas reserves on an economical basis;
- financial risks including access to equity or debt markets which the Company is dependent upon in order to meet obligation and liabilities as they fall due;
- technical problems which could lead to unsuccessful drilling programs and environmental damage;
- obtaining timely regulatory approvals;
- third party related operational risks including the ability to obtain access to certain properties, access to third party processing facilities, railway and other transportation infrastructure;
- fluctuations in commodity prices;
- adverse factors including climate, geographical and weather conditions and labour disputes;
- regulatory legislation and policies, including the fulfilment of contractual minimum work programs, the compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties, production restrictions, suspensions or revocations of contracts;
- changes to taxation policies, laws and interpretations thereof; and
- obtaining comprehensive and appropriate insurance coverage at reasonable rates.

ADVISORY REGARDING FORWARD LOOKING STATEMENTS

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion other than statements of historical facts, that address future acquisitions and events or developments that the Company expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements. Except as required by applicable securities laws, the Company does not undertake any obligation to publicly update or revise any forward looking statements.