

## **Strikewell Energy Corp.**

Management's Discussion and Analysis  
December 31, 2014

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The following management's discussion and analysis ("MD&A") for Strikewell Energy Corp. was prepared by management based on information available as at April 27, 2015. This MD&A should be reviewed together with the audited annual consolidated financial statements (the "Annual Financial Statements") for the year ended December 31, 2014 and the MD&A and audited annual consolidated financial statements for the year ended December 31, 2013. The Company's unaudited condensed interim consolidated financial statements and the year-end audited annual consolidated financial statements are filed on SEDAR and are available for review at [www.sedar.com](http://www.sedar.com).

As used in this MD&A, the terms "we", "us", "our", "Strikewell" and "our Company" refer to Strikewell Energy Corp. and our subsidiary, Strikewell Capital Corp., unless the context clearly requires otherwise.

Unless otherwise noted, all dollar amounts are expressed in Canadian dollars ("C\$" or "\$") and any references to common shares are in the capital of Strikewell Energy Corp., unless the context clearly requires otherwise.

Barrels of oil equivalent ("boe") amounts have been calculated using a conversion rate of six thousand cubic feet ("Mcf") of natural gas per barrel ("bbl") of oil or natural gas liquids ("6:1"). A conversion ratio of six Mcf to one bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Boe disclosure may be misleading, particularly if used in isolation.

### **Forward-Looking Statements**

Certain information in this MD&A and the documents incorporated by reference contain forward-looking statements, which includes forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking statements are statements which relate to future events or our future performance, including our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", or "potential" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks described in the section titled "Risk Factors" commencing on page 10 and "Risks Relating to the Industry" commencing on page 12 of this MD&A, that may cause the Company's or the industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. No assurance can be given that any of the events anticipated by the forward-looking information and statements will occur or, if they do occur, what benefits we will obtain from them. This MD&A contains forward-looking information and statements, which may include, but are not limited to: statements with respect to the financial and operating performance of the Company and its subsidiary; investment objectives and strategies; the business goals and strategies; forecast operating and financial results; planned capital expenditures; potential future market for our products; our plans for, and results of, exploration and development activities; our treatment under governmental regulatory and royalty regimes and tax laws; competitive advantages; business prospects and opportunities; costs and timing of developmental new projects; our management's assessment of future plans and operations; our anticipated liquidity and various matters that may impact such liquidity; and requirements for additional capital.

While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgement regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this MD&A. These assumptions, which include: management's current expectations; estimates and assumptions about certain projects and the markets we operate in; the global economic environment; interest rates; estimates of quantities of oil and natural gas from our properties; our ability to generate

sufficient cash flow from operations to meet our current and future obligations and other risks and uncertainties described from time to time in the filings we make with securities regulatory authorities; the impact of increasing competition; our ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability of the operator of the projects in which we have an interest to operate the field in a safe, efficient and effective manner; future commodity prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which we operate; may prove to be incorrect. A number of risks and uncertainties could cause our actual results to differ materially from those expressed or implied by the forward-looking information and statements, including, but not limited to: the failure of the Company to execute our business plans; general economic conditions as they affect us; risks arising from our operations generally; competition; volatility of, and assumptions regarding oil and gas prices; accuracy of cost estimates; fluctuations in commodities prices; fluctuations in product supply and demand; accuracy of our reserves, resources and future production estimates; our ability to replace and expand oil and gas reserves; the reliability of our assets; risks associated with technology and its application to our business; changes in the applicable regulatory framework, including changes in regulatory approval process and land-use designations, royalty, tax, environmental, greenhouse gas, carbon and other laws or regulations, or changes to the associated with compliance; our ability to control our operating costs, general administrative and other expenses; other factors beyond our control; insufficient investor interest in our securities which may impact on our ability to raise additional financing as required; and those factors described in the section titles "Risk Factors" in this MD&A.

The forward-looking information is based on the estimates and opinions of our management at the time they are made. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Readers of this MD&A are cautioned not to rely on such forward-looking information and statements. The forward-looking information in this MD&A is made as of April 27, 2015 and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law.

## **Description of Business**

We are a reporting issuer in the Provinces of British Columbia and Alberta and our common shares are listed on the TSX Venture Exchange (the "TSXV") under the symbol "SKK".

We are in the oil and gas business. We own producing petroleum and natural gas interests near Garrington, Alberta, through our wholly-owned subsidiary Strikewell Capital Corp.

## **Overall Performance**

### ***Garrington, Alberta:***

The Company owns a 10% working interest in a producing Garrington area oil well with 640 acres of related oil and gas petroleum rights. The Garrington property was acquired effective September 1, 2009.

The Company has incurred a net loss of \$1,469,507 (2013 - \$932,325), is currently unable to self-finance operations, has a working capital deficiency of \$1,389,941 (2013 - \$7,946,744) an accumulated deficit of \$26,334,070 (2013 - \$24,864,563), limited resources, no significant source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its petroleum and natural gas interests. The Company will require additional equity financing to meet its administrative overhead costs, and to continue exploration work on its petroleum and natural gas interests in 2015.

Ongoing global economic instability has had a negative impact on many segments of the world economy due to several factors including, without limitation: the effects of the subprime lending

and general credit market crises, the European debt crisis, volatile energy costs, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions, increased unemployment and liquidity concerns. Natural gas and oil prices respond to consumer and industrial demand. Accordingly, the general current economic conditions have resulted in a decreased demand for natural gas and oil products, both domestically and abroad, and have had a negative effect on natural gas and oil prices. We cannot predict the timing or duration of economic slowdowns or the timing or strength of subsequent economic recoveries, worldwide or in our industry, and cannot predict the extent to which economic slowdowns will impact our business. However, the uncertainty regarding the financial markets and worldwide political and economic climates are expected to continue to affect the demand for natural gas and oil in the near future. Reduced consumption and demand for petroleum products, unmitigated, would have a negative impact on our business, financial condition and results of operations.

### Selected Annual Financial Information

The following table contains a summary of our financial results for the years ended December 31, 2014, 2013 and 2012:

(C\$)	Year Ended December 31		
	2014	2013	2012
Total Gross Revenues	151,475	147,130	119,599
Net Loss	(1,469,507)	(932,325)	(984,113)
Basic and Diluted Loss per Share	(0.17)	(0.11)	(0.11)
Total Assets	198,818	192,933	278,287
Total Long-term Financial Liabilities	4,732,941	45,852	5,579,675

The change in total long-term financial liabilities, is due to the loan and notes payable, described in detail below under the heading "Liquidity and Capital Resources", being renewed and therefore, becoming long-term liabilities in 2014. The increased net loss in 2014 is primarily due to the increase in interest on the long-term debt.

Our revenue performance and the income we realize varies from period to period in relation to the number of wells we have in production, our production volumes and the prices we receive for our commodities from time to time. We have not developed any new wells during the financial periods presented. Historically, commodity prices and hence the prices we realize, are subject to variations arising from market supply and demand fundamentals beyond our control.

The discussion and analysis of our financial condition and results of operations is based on our Annual Financial Statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Application of IFRS requires the use of estimates, judgements and assumptions that affect the reported amounts of assets and liabilities as of the date of the Annual Financial Statements as well as the revenues and expenses reported during the year. Changes in these estimates, judgements and assumptions will occur as a result of future events, and accordingly, actual results could differ from amounts estimated. Our reporting currency is Canadian dollars.

## Discussion of Operations

### ***Year ended December 31, 2014 compared to the year ended December 31, 2013:***

A net loss of \$1,469,507 was realized in the year ended December 31, 2014 compared to \$932,325 for the same period in 2013. The increase in net loss was primarily due to increased interest expense of \$1,411,053 compared to \$753,209 in 2013. Oil volumes decreased to approximately 6,740 MCF for the year ended December 31, 2014 from approximately 7,150 MCF for the year ended December 31, 2013. Gas volumes decreased to approximately 4,910 MCF in the year ended December 31, 2014 from approximately 5,400 MCF for the same period in 2013. Natural gas liquids volumes decreased to approximately 1,685 MCF for the year ended December 31, 2014 compared to approximately 2,055 MCF for the same period in 2013.

Gross revenue from petroleum and natural gas operations for the year ended December 31, 2014 increased to \$151,475 compared to \$147,130 for the same period in 2013.

Direct expenses for the year ended December 31, 2014 decreased to \$29,471 consisting of \$26,347 in production expenses and non-cash depletion expenses of \$3,124, compared to direct expenses of \$44,182 consisting of \$38,541 in production expenses and non-cash depletion expenses of \$5,641 for the same period in 2013. Production expenses were higher in 2013 due to well repairs conducted during the year.

Operating income for the year ended December 31, 2014 was \$66,623 compared to \$46,517 for the same period in 2013. The increased operating income is primarily due to reduced production expenses and increased revenues in 2014.

During the year, the loan agreement between the Company and Mr. John R. Hislop, and the notes payable between the Company and Mr. John R. Hislop and between the Company and Caravel Management Corp. ("Caravel") were extended. Additional details regarding the loan and the notes payable are described below on pages 5 and 6 under the heading "Liquidity and Capital Resources".

The Company held its annual general and special meeting of shareholders in Vancouver, British Columbia on July 23, 2014 at 11:00 a.m. and all resolutions placed before the shareholders were voted in favour.

## Fourth Quarter

### ***Three-month period ended December 31, 2014 compared to the three-month period ended December 31, 2013:***

A net loss of \$614,142 was realized in the three-month period ended December 31, 2014 compared to a net loss of \$332,649 for the same period in 2013. The increase in net loss was primarily due to increased interest expense of \$579,449 compared to \$190,682 in 2013. Oil volumes decreased to approximately 1,630 MCF for the three-month period ended December 31, 2014 from approximately 2,015 MCF for the three-month period ended December 31, 2013. Gas volumes decreased to approximately 1,200 MCF in the three-month period ended December 31, 2014 from approximately 1,465 MCF for the same period in 2013. Natural gas liquids volumes increased to approximately 515 MCF for the three-month period ended December 31, 2014 compared to approximately 410 MCF for the same period in 2013.

Gross revenue from petroleum and natural gas operations for the three-month period ended December 31, 2014 decreased to \$27,083 compared to \$41,164 for the same period in 2013.

Direct expenses for the three-month period ended December 31, 2014 decreased to \$4,912 consisting of \$5,928 in production expenses and non-cash depletion expenses of (\$1,016). In

comparison, for the same period in 2013, direct expenses totalled \$18,537 consisting of \$16,917 in production expenses and non-cash depletion expenses of \$1,620.

Operating income for the three-month period ended December 31, 2014 was \$12,982 compared to operating income of \$6,808 for the same period in 2013. The increased operating income is primarily due to decreased production and royalty expenses in the fourth quarter of 2014 compared to the same period in 2013.

## Summary of Quarterly Results

The following table presents selected unaudited interim consolidated financial information for the last eight quarters:

(C\$)	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total Gross Revenues	27,083	41,892	39,071	43,429	41,164	26,930	38,708	40,328
Net Loss	(614,142)	(266,121)	(290,839)	(298,405)	(332,649)	(199,763)	(200,222)	(199,691)
Basic and Diluted Loss per Share	(0.08)	(0.03)	(0.03)	(0.03)	(0.05)	(0.02)	(0.02)	(0.02)

Our revenue performance and the income we realize varies from period to period in relation to the number of wells we have in production, our production volumes and the prices we receive for our commodities from time to time. We have not developed any new wells during the financial periods presented. In the last quarter of 2014, the Company recorded extinguishment of debt on the loans described below under the heading "Liquidity and Capital Resources". This resulted in higher interest expense and an increased net loss for the quarter.

## Liquidity and Capital Resources

Cash at December 31, 2014 was \$20,431 compared to \$9,633 at December 31, 2013. As of December 31, 2014, we had a net working capital deficiency of \$1,389,941 compared to a working capital deficiency of \$7,941,422 at December 31, 2013. The reduction in working capital deficiency is primarily due to the loan and notes payable being renewed and becoming long-term liabilities in 2014.

As at December 31, 2014, we had no long-term capital expenditure commitments. Our long-term liabilities are our loans and promissory notes described below, and a decommissioning liability.

On January 1, 2014, a promissory note between the Company and Mr. John R. Hislop was renewed in the amount of \$4,018,636 consisting of the principal amount of \$2,715,289 plus accrued interest of \$1,303,347 (the "New Vendor Note").

On January 1, 2014, a second promissory note between the Company and Caravel was renewed in the amount of \$2,174,584 consisting of the principal amount of \$1,555,377 plus accrued interest of \$619,207 (the "New Second Note").

The New Vendor Note and the New Second Note are due for repayment on December 31, 2018 and bear interest calculated quarterly at a rate of 15% per annum.

The notes were revalued to account for current comparable market interest rates. As a result, the effective interest rate was determined to be 30% per annum and a gain of \$2,367,628 was deemed to have been received upon extension of the due dates of the notes. This gain was

recorded in contributed surplus to reflect the benefit having been received by a related party. All assets of the Company have been pledged as security for the notes payable. Included in accounts payable and accrued liabilities is accrued interest of \$928,983 for the year ended December 31, 2014 (2013 - \$1,922,554).

The notes payable consists of two notes arising from the purchase consideration for the acquisition of Strikewell Capital Corp. and the restructuring of certain accounts payable and loans payable of the Company. The notes were originally issued January 1, 2006.

In June 2005, the Company entered into a loan agreement with Mr. John R. Hislop. This loan has a principal balance of \$865,924, is secured by the assets of the Company and bears interest at 10% per annum payable semi-annually. On June 1, 2014, the terms of the loan agreement were amended to reflect an update to the maturity date of the loan from June 1, 2014 to June 1, 2019. There were no other changes to the pre-existing terms of the loan. The loan was revalued to account for current comparable market interest rates. As a result, the effective interest rate was determined to be 30% per annum and a gain of \$971,178 was deemed to have been received upon extension of the due date of the loan. This gain was recorded in contributed surplus to reflect the benefit having been received by a related party. Included in accounts payable and accrued liabilities is accrued interest of \$50,512 for the year ended December 31, 2014 (2013 - \$nil).

On February 1, 2013, the Company entered into a promissory note with Caravel for an amount up to \$200,000, which bears interest calculated quarterly at a rate of 15% per annum for a period of five years (the "Caravel Promissory Note"). According to the Caravel Promissory Note, as of December 31, 2014, the Company owes Caravel the principal sum of \$46,500 and \$12,545 in accrued interest.

The Company has incurred a net loss of \$1,469,507 (2013 - \$932,325), is currently unable to self-finance operations, has a working capital deficiency of \$1,389,941 (2013 - \$7,941,442), an accumulated deficit of \$26,334,070 (2013 - \$24,864,563), limited resources, no significant source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its petroleum and natural gas interests. The Company will require additional equity financing to meet its administrative overhead costs, and to continue exploration work on its petroleum and natural gas interests in 2015. The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations, raise additional capital through debt and/or equity financing and its debtors' continued forbearance on the Company's outstanding debt. Management is actively seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost cutting measures. There can be no assurance that management's plan will be successful.

We have monthly cash inflows from the sale of our share of oil and gas products produced. Our objective is to meet our operating and capital requirements by a combination of cash flow from current and future well production, and re-investment of current capital. Production volumes and the market price that we realize for the oil and gas we produce and sell, determine our revenue from operations and consequently our ability to generate capital from operations is substantially dependent on the price of oil and natural gas. Future cash flows and the continued availability of capital from operations are subject to a number of uncertainties, such as production rates, the price of oil and gas, and the results of our drilling programs.

We have no assurance that additional funding will be available for the exploration and development of future projects. There can be no assurance that we will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delays or indefinite postponement of further exploration and development of any projects with the possible loss of such properties. There can be no assurance that we will be able to engage in such financings in light of factors such as the market demand for our securities, the state of financial markets generally and other relevant

factors. If such a method of financing is employed by our Company, it will result in increased dilution to the existing shareholders each time a financing involving equity is conducted.

## **Off-Balance Sheet and Other Financial Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

We do not have any commitments under oil and gas forward sales contracts or other types of hedging arrangements which might expose us to commodity price or production volume risks.

## **Transactions between Related Parties**

For the year ended December 31, 2014, the Company paid \$18,000 (2013 - \$18,000) to directors and officers of our Company for their services. Mr. Daniel Weisbeck, Chief Financial Officer, received \$6,000. Mr. Alistair Palmer and Mr. Peter Bryant, Directors, each received \$6,000 for their services for the year ended December 31, 2014 and 2013.

On November 1, 2011, the Company entered into a Revised Management Services Agreement ("Revised MSA") with Caravel, a private management company wholly-owned by Mr. John R. Hislop, a shareholder and debt holder of the Company. Pursuant to the Revised MSA, a monthly administrative fee of \$5,000 plus any out of pocket expenses and specialized management expenses incurred shall be paid to the management company. During the year ended December 31, 2014, a total of \$60,000 (2013 - \$60,000) has been paid or accrued to Caravel for administration fees.

In June 2005, the Company entered into a loan agreement with Mr. John R. Hislop. This loan has a principal balance of \$865,924, is secured by the assets of the Company and bears interest at 10% per annum payable semi-annually. The loan is described in detail on page 6 under the heading "Liquidity and Capital Resources".

On February 1, 2013, the Company entered into a promissory note with Caravel for an amount up to \$200,000, which bears interest calculated quarterly at a rate of 15% per annum for a period of five years (the "Caravel Promissory Note"). According to the Caravel Promissory Note, as of December 31, 2014, the Company owes Caravel the principal sum of \$46,500 and \$12,545 in accrued interest.

On January 1, 2014, a promissory note between the Company and Mr. John R. Hislop was renewed for the amount of \$4,018,636 consisting of the principal amount of \$2,715,289 plus accrued interest of \$1,303,347 (the "New Vendor Note").

On January 1, 2014, a second promissory note between the Company and Caravel was renewed for the amount of \$2,174,584 consisting of the principal amount of \$1,555,377 plus accrued interest of \$619,207 (the "New Second Note").

The New Vendor Note and the New Second Note are due for repayment on December 31, 2018 and bears interest calculated quarterly at a rate of 15% per year.

The notes payable balance consists of two notes arising from the purchase consideration for the acquisition of Strikewell Capital Corp. and the restructuring of certain accounts payable and loans payable of the Company. Additional details regarding the notes payable are described above on pages 5 and 6 under the heading "Liquidity and Capital Resources".

## **Proposed Transactions and Subsequent Events**

As of the date of this MD&A, there were no proposed transactions or subsequent events.

## **Critical Accounting Estimates**

The preparation of the Annual Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Following are the accounting policies subject to such judgements and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

### **Reserves**

The estimate of petroleum and natural gas reserves is integral to the calculation of the amount of depletion charged to the statements of loss and comprehensive loss and is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets have been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning provision due to changes in expected future cash flows. The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101 *Standards of Disclosure of Oil and Gas Activities*. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgement and interpretation.

### **Carrying value of petroleum and natural gas interests**

The Company assesses at each reporting date whether there is an indication that an asset or cash-generating unit ("CGU") may be impaired. A CGU is defined as the lowest grouping of assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgement and interpretation with respect to the way in which management monitors operations. If any indication exists that an asset or CGU may be impaired, the Company estimates the recoverable amount. The recoverable amounts of individual assets and CGUs have been determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions, such as estimates of proved plus probable reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions, all of which are subject to change.

A material adjustment to the carrying value of the Company's petroleum and natural gas interests could arise as a result of changes to these estimates and assumptions.

### **Decommissioning obligations**

Amounts recorded for decommissioning obligations require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. The estimates are based on internal and third party information and calculations are subject to change over time and may have a material impact on profit or loss or financial position. For more information on the Company's decommissioning obligations see Note 11 of the Annual Financial Statements.



## Income taxes

Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the Annual Financial Statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time. These differences could materially impact earnings.

## Significant Accounting Policies

The significant accounting policies used by our Company are disclosed in Note 3 of our Annual Financial Statements for the year ended December 31, 2014. There have been no significant changes to these accounting policies during the year ended December 31, 2014. Please refer to the Annual Financial Statements for a description of the Company's significant accounting policies.

### Changes in Accounting Policies Including Initial Adoption

#### New Accounting Pronouncements

The Company will be required to adopt the following standards and amendments issued by the IASB, as described below.

Applicable to the Company's annual period beginning January 1, 2017:

#### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognize revenue when (or as) the entity satisfies a performance obligation.
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Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

Applicable to the Company's annual period beginning January 1, 2018:

#### **IFRS 9 Financial Instruments (2014)**

IFRS 9 contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a "fair value through other comprehensive income" category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

- Impairment. The 2014 version of IFRS 9 introduces an "expected credit loss" model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized
- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The Company has not early-adopted these standards and is currently assessing the impact that the standards will have on the consolidated financial statements.

## Financial Instruments and Other Instruments

Our Company is exposed in varying degrees to a number of risks arising from financial instruments. The Board of Directors has overall responsibility for the establishment and oversight of our Company's risk management framework. Management's close involvement in the operations allows for the identification of risks and variances from expectations. The Board approves and monitors the risk management process.

Please refer to Note 4 and 5 of our Annual Financial Statements for additional details on our Financial Instruments and Other Instruments.

## Risk Factors

**Reliance on Operators:** We are not the operator of our oil and gas properties. We depend on the operators for the timing of activities related to such properties and are largely unable to direct or control the activities of the operators. Because we are not the operators of our projects, we cannot control our potential costs. In addition, any decision about whether our properties contain commercially feasible oil and gas deposits and whether these should be brought into production will be made by the operator with little, if any, input from our Company. There is a substantial likelihood these decisions will be made without consideration of our Company and our financial position. In many cases, a decision to advance a property will require that the owners of the operating interests contribute capital. If such a decision is made at a time when we do not have capital available to satisfy a capital call, our interest in a property could be diluted or lost. If this happens, there is a substantial likelihood that our business would be adversely affected.

**Exploration, Development and Production Risks:** Oil and natural gas exploration involves a high degree of risk and there is no assurance that exploration expenditures will result in the discovery of oil or natural gas in commercially exploitable quantities.

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

In addition, oil and gas operations are subject to inherent risks, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, sour gas releases, fires, spills, power outages, labour disruptions, inability to obtain suitable or adequate

machinery, equipment or labour. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial conditions.

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

**Prices, Markets and Marketing of Crude Oil and Natural Gas:** Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond our control. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of our oil and gas reserves. We might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in our future net production revenue, causing a reduction in our oil and gas acquisition and development activities.

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

**Property Defects:** Title reports are not title insurance and they do not act as a guarantee of title. Our properties may be subject to prior unregistered agreements, native land claims or transfers which have not been recorded or detected through title research or which have been asserted since the date the research was completed.

**Environmental Risks:** All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions, federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases of emissions of various substances produced in association with oil and gas operations.

Environmental legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of regulatory authorities. Compliance can require significant expenditures and non-compliance can result in the imposition of significant fines and penalties. Environmental laws could materially increase the costs of exploration, development or production.

**Reserve Replacement:** Our future oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on our Company successfully acquiring or discovering

new reserves. Without the continual addition of new reserves, any existing reserves we may have at any particular time and the production therefrom will decline over time as existing reserves are exploited. A future increase in our reserves will depend not only on our ability to develop any properties we may have from time to time, but also on our ability to select and acquire suitable producing properties or prospects. There can be no assurance that our future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

***Need to Manage Growth:*** We could experience rapid growth in production, revenues, personnel, complexity of administration and in other areas. There can be no assurance that we will be able to manage the impact that future growth could place on our administrative infrastructure, systems, and controls. If we are unable to manage future growth effectively, our business, operating results and financial condition may be materially and adversely affected.

***Reliance on Key Personnel / Employees:*** The Company does not have any Key Personnel or Key Employees nor does the Company carry Key Person insurance.

***Conflicts of Interest:*** Situations may arise where our directors or officers will have a duty to our Company and to another company in respect of the same subject matter. In the event of a conflict of interest, our business could be harmed in any number of ways, including the loss of an opportunity to a competitor.

***Permits and Licenses:*** Our operations may require permits and licenses from various governmental authorities. There can be no assurance that we will be able to obtain all necessary permits and licenses. If we require a permit or license that we cannot obtain, we could be forced to scale back or curtail our activities and our business could be harmed.

***Substantial Capital Requirements and Liquidity:*** We anticipate that we will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. We may have limited ability to secure the capital necessary to undertake or complete these activities. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available to our Company, that it will be on terms acceptable to us. If we cannot raise capital when we need it, our business could fail.

***Availability of Drilling Equipment and Access Restrictions:*** Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to our Company and may delay exploration and development activities.

## **Risks Relating to the Industry**

The oil and gas industry is subject to extensive controls and regulations imposed by various levels of government. Outlined below are some of the more significant aspects of the legislation, regulations and agreements governing the oil and gas industry. All current legislation is a matter of public record and we are unable to predict what additional legislation or amendments may be enacted.

***Potential Profitability of Oil and Gas Ventures Depends upon Factors Beyond our Control:*** The potential profitability of oil and gas properties is dependent upon many factors that are beyond our control. For instance, world prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging, controls, or any combination of these and other factors, and respond to changes in domestic, international, political, social, and economic environments. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not

impossible, to project. These changes and events may materially affect our financial performance.

A productive well may become uneconomic or unmarketable in the event water or other deleterious substances are encountered which impair or prevent the production of oil and/or gas from the well. The marketability of oil and gas that we may acquire or discover could be affected by numerous factors beyond our control. These factors include the proximity and capacity of pipelines and processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production, adverse weather conditions and environmental protection. The extent of these factors cannot be accurately predicted and the combination of these factors may result in our Company not receiving an adequate return on invested capital.

**Competition in the Oil and Gas Industry:** We compete for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with other oil and gas companies, many of which have significantly greater technical, financial and operational resources and personnel. Our competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

The oil and gas industry is highly competitive. Our competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than our Company.

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

**Fluctuating Price and Demand:** The marketability of natural resources that we may acquire or discover may be affected by numerous factors beyond our control. These factors include market fluctuations in oil and gas pricing and demand, the proximity and capacity of natural resource markets and processing equipment, governmental regulations, land tenure, land use, regulation concerning the importing and exporting of oil and natural gas and environmental protection regulations. The impact of these factors cannot be accurately predicted, but the combination of these factors could have an adverse impact on our business.

**Government Regulation / Administrative Practice:** There is no assurance that the laws, regulations, policies or current administrative practices of any government body, organization or regulatory agency in Canada or any other applicable jurisdiction will not be changed, applied or interpreted in a manner which will fundamentally alter our ability to develop, operate, export or market our products. The actions, policies or regulations, or changes thereto, of any government body or regulatory agency, or other special interest groups, may have a detrimental effect on our Company. Any or all of these situations may have a negative impact on our ability to operate and make a profit.

## **Uncertainty of Estimates of Reserves**

Under applicable regulatory requirements, we will be required to identify and disclose any proved oil and gas reserves, estimated quantities of crude oil, natural gas and natural gas liquids. This geological and engineering data demonstrates with reasonable certainty the estimated quantities of crude oil, natural gas and natural gas liquids, which will be recoverable in future years from known reservoirs under existing economic and operating conditions. However, the process of

estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir, and as a result, such estimates are inherently imprecise. Actual future production, oil and gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves may vary substantially from our estimations from year to year. Any significant variance in the assumptions could materially affect the estimated quantities and present values of reserves. For example, a material drop in oil and gas prices, or a material increase in applicable taxes, will require management to reassess whether known reservoirs can continue to be reasonably judged as economically productive from one year to the next. In addition, the reserves may be subject to downward or upward revisions based upon production history, results of future exploration and development, prevailing oil and gas prices and other factors, many of which are beyond our Company's control. Actual production, revenues, taxes, development expenditures and operating expenses with respect to the reserves will likely vary from the estimates presented herein, and such variances may be material.

## Declining Reserves

In general, production rates from oil and gas properties decline as reserves are depleted. The decline rates depend on reservoir characteristics and vary from steep declines to the relatively slow declines characteristic of long-lived fields in other regions. Should one or more of the above risks materialize or should our underlying assumptions prove incorrect, our actual results may materially differ from our current expectations. Therefore, in evaluating forward-looking statements, readers should specifically consider the various factors that could cause our actual results to materially differ from such forward-looking statements.

## Reserves Data and Other Oil and Gas Information

Our independently prepared reserves assessment and evaluation of our oil and gas properties effective December 31, 2014 have been prepared in accordance with mandated National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of Canadian Securities Administrators. A summary of our reports is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Outstanding Share Data

Our common shares are listed for trading on the TSXV under the symbol "SKK". We are classified as a Tier 2 issuer on the TSXV.

We had the following securities outstanding as at December 31, 2014 and as of the date of this MD&A:

Class of Shares	Par Value	Number Authorized	Number Issued
Common	Nil	Unlimited	8,626,862
Class A Preference	Nil	Unlimited	Nil

As of December 31, 2014 and as of the date of this MD&A, there are no options, warrants or convertible securities outstanding and no common shares held in escrow.

## Additional Information

Additional information relating to our Company is available on SEDAR at [www.sedar.com](http://www.sedar.com). We also maintain a website at [www.strikewellenergy.com](http://www.strikewellenergy.com).