Emerald Bay Energy

President's Message

2013 was a year we executed on multiple strategic objectives in Texas and Alberta. Through the Company's ownership and management of Production Resources, Inc. production increased 39% in the Taylor-Ina field of Medina County Texas, and 27% in the Somerset field of Atascosa County, Texas. In Guadalupe County, Texas the Company completed the acquisition of approximately 3000+ acres of land for exploration and development activities. The lands are divided into 4 core projects:

1. Wooden Horse
2. Nash Creek
3. Cottonwood Creek
4. Holmes Lake

In Alberta the company proceeded with a pilot project to jointly develop, own and operate a natural gas fired electrical power generation plant rated at approximately 980 kW in the Nevis area. Emerald Bay has 4 coal bed methane wells that will be used as the fuel for the power plant. It is expected to be completed by mid-year 2014.

2013 Highlights:

- Production increases of 39% at Taylor-Ina and 27% at Somerset
- Acquired 93 Olmos wells at Somerset.
- Drilled our initial horizontal test well at Wooden Horse and tested initial Edwards "C" interval.
- Re-entered existing wellbore at Wooden Horse and currently producing from the Austin Chalk formation.
- Installed new lifting equipment at our initial exploratory vertical well at Wooden Horse and currently producing from the Buda formation.
- Acquired an existing well at Nash Creek and received approval for our salt water disposal well.
- Drilled exploratory well at Cottonwood Creek, which is currently producing from the Navarro sand.

2014 Highlights and Objectives:

- Re-stimulation program at Somerset and Taylor Ina to increase production from the Olmos formation.
- Completed one more vertical test well at Wooden Horse to test the Edwards "A" interval. Currently producing oil from the Edwards "A".
- Production from the Edwards "A" opens up numerous possibilities at Wooden Horse.
- Designed 3D seismic program at Nash Creek. Survey and clearing is complete. Acquisition, processing and interpretation is expected to be completed by early June.
- 3D seismic programs to be planned at Wooden Horse and Holmes Lake.
- The Company continues its land and production acquisitions in South Texas, and formations of interest will continue to be where the Company has specific experience; such as the Escondido, Olmos, Austin Chalk, Eagle Ford, Buda, and Edwards formations.

In Closing

We will continue to pursue a carefully designed capital expenditure program, including acquisitions and dispositions, which would allow us to add production, reserves and cash flow in a cost effective manner.

Best Regards,

Shelby Beattie, President and Chief Executive Officer

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis (MD&A) should be read in conjunction with Emerald Bay Energy Inc. (the "Company") audited annual Consolidated Financial Statements for the year ended December 31, 2013. Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

Additional information relating to the Company is available on SEDAR at www.sedar.com. The Company is listed on the Canadian Stock Exchange under the symbol "EBY". The MD&A is dated April 30, 2014.

BASIS OF PRESENTATION

The financial data presented below has been prepared in accordance with International Financial Reporting Standards. All amounts are reported in Canadian dollars unless otherwise indicated.

Application of Accounting Estimates

The significant accounting policies used by the Company are disclosed in Note 3 to the annual Consolidated Financial Statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a periodic basis. The emergence of new information and changed circumstance may result in actual results or changes to estimates that differ materially from current estimated amounts.

Non-IFRS and Non-GAAP Measures

This MD&A includes the following measures that are from time to time used by the Company, but do not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies:

a) "Funds from operations" - should not be considered an alternative to, or more meaningful than "cash flow from operating activities" as determined in accordance with IFRS as an indicator of the Company's financial performance. Funds from operations is determined by adding non-cash expenses to the net income or loss for the period, deducting decommissioning liability expenditures and does not include the change in working capital applicable to operating activities. Management believes that in addition to cash flow from operating activities, funds from operations is a useful supplemental measure as it provides an indication of the results generated by the Company's principal business activities before the consideration of how such activities are financed.

b) "Operating netback" - Operating netbacks are calculated by deducting royalties and operating costs, including transportation costs, from revenues.

c) "Working capital" – working capital includes total current assets and total current liabilities. The working capital ratio is calculated by deducting total current liabilities.

Going Concern

At December 31, 2013, the Company had not yet achieved profitable operations, had accumulated a deficit of $15,929,544 since its inception (December 31, 2012 - $13,778,755, had negative cash flows from operations of $19,622 (December 31, 2012 - $2,176,975) and had a working capital deficiency of $4,445,030 (December 31, 2012 - $3,077,609) (defined as current assets less current liabilities), and expects to incur further losses in the development of its business. The ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing, or generating profitable operations in the future. Management is committed to raising additional capital to meet its exploration and operating obligation, however, additional equity financing is subject to the global financial markets and economic conditions, which have recently been disrupted and are volatile, and the debt and equity markets, which have been distressed, particularly for junior petroleum and natural gas companies. All of these factors, together with weak natural gas prices and the current unstable economic conditions, indicate the existence of material uncertainies related to events or conditions that may cast significant doubt as to whether the Company can continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. These Consolidated Financial Statements do not reflect the adjustments to the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications that would be necessary if the going concern assumption was not appropriate. Any adjustments necessary to the Consolidated Financial Statements if the Company ceases to be a going concern could be material.

BOE Presentation

The term “barrels of oil equivalent” (BOE) may be misleading, particularly if used in isolation. A BOE conversion of six thousand cubic feet of natural gas to one barrel of oil (6:1) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers should be aware that historical results are not necessarily indicative of future performance.

FORWARD-LOOKING STATEMENTS

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

In particular, this MD&A may contain the following forward looking statements pertaining to, without limitation, the following:

The Company’s future production volumes and the timing of when additional production volumes will come on stream; the Company’s realized price of commodities in relation to reference prices; the Company’s future commodity mix; future commodity prices; the Company’s expectations regarding future royalty rates and the realization of royalty incentives; the Company’s expectation of future operating costs on a per unit basis; future general and administrative expenses; future development and exploration activities and the timing thereof; the future tax liability of the Company; the expected rate of depletion, depreciation and accretion; the estimated future contractual obligations of the Company; the future liquidity and financial capacity of the Company; and, the Company’s ability to fund its working capital and forecasted capital expenditures. In addition, statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

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

We believe the expectations reflected in forward looking statements contained herein are reasonable but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this Management's Discussion and Analysis, as the case may be. The actual results could differ materially from those anticipated in these forward looking statements as a result of the risk factors set forth below and elsewhere in this MD&A, which include volatility in market prices for oil and natural gas; counterparty credit risk; access to capital; changes or fluctuations in production levels; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; stock market volatility and market valuation of the Company's stock; geological, technical, drilling and processing problems; limitations on insurance; changes in environmental or legislation applicable to our operations, and our ability to comply with current and future environmental and other laws; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry, changes in the regulatory regimes under which the Company operates, changes in the political and social environment that may impact the Company and the other factors discussed under "Risk Factors" in the following annual MD&A. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward looking statements contained in this document speak only as of the date of this document and the Company does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

SELECTED YEAR TO DATE FINANCIAL INFORMATION

	Three months ended December 31		Year ended December 31	
	2013	2012	**2013**	2012
FINANCIAL				
Gross revenue	**28,289**	12,387	**168,839**	147,315
Total assets	**2,768,306**	3,034,972	**2,768,306**	3,004,972
Cash flow from (used in) operations	**433,396**	(753,636)	**(19,622)**	(2,176,975)
Net comprehensive loss	**(1,306,304)**	(567,355)	**(2,149,646)**	(1,816,297)
Per share – basic and diluted	**(0.01)**	(0.01)	**(0.02)**	(0.02)
Capital expenditures	**(1,844)**	38,365	**19,874**	64,198
Exploration and evaluation expenditures	**216,087**	203,672	**850,754**	397,668
Loan	**1,200,000**	1,121,565	**1,200,000**	1,121,565
OPERATIONS				
Production sales				
Oil (BBLs/d)	**2**	-	**3**	3
Natural gas (MCF/d)	**56**	46	**44**	39
NGL (BBLs/d)	**-**	-	**-**	-
Total (BOE/d @ 6 MCF: 1 BBL)	**11**	8	**11**	10
Average pricing				
Natural gas ($/MCF)	**2.99**	3.19	**3.21**	2.63
Oil and NGL's($/BBL)	**90.71**	(17.10)	**96.34**	81.27
Combined ($/BOE)	**28.23**	16.17	**43.52**	39.44
Expenses				
Production expense & transportation ($/BOE)	**43.95**	83.00	**35.38**	59.23
Royalty expense ($/BOE)	**3.36**	28.50	**3.30**	4.31
Net Back Combined ($/BOE)	**(19.08)**	(95.32)	**4.84**	(24.10)

Financial and Operations Results

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

Petroleum and natural gas revenue was $28,289 and $168,839 for the three and twelve months ended December 31, 2013, respectively, from revenue of $12,387 and $147,315 for the three and twelve months ended December 31, 2012, respectively.

Natural gas prices decreased to $2.99/MCF in the three months ended December 31, 2013 versus $3.19/MCF for the three months ended December 31, 2012. Natural gas prices increased to $3.21/MCF in the twelve months ended December 31, 2013 versus $2.63/MCF for the twelve months ended December 31, 2012. Oil and NGL combined prices increased to $90.71 in the three months ended December 31, 2013 from ($17.10) in the three months ended December 31, 2012 and increased to $96.34 in the twelve months ended December 31, 2013 from $81.27 in the twelve months ended December 31, 2012. The average sales price on a BOE basis was $28.23 and $43.52 in the three and twelve months ended December 31, 2013, respectively, compared to $16.17 and $39.44 in the three and twelve months ended December 31, 2012.

During the three and twelve months ended December 31, 2013, the average sales volume on a BOE/d basis increased to 11 BOE/d and 11 BOE/d, respectively, compared with 8 BOE/d and 10 BOE/d for the three and twelve months ended December 31, 2012.

During the three and twelve months ended December 31, 2013, cash flows from (used in) operations decreased to $433,396 and ($19,622), respectively, from ($753,636) and ($2,176,975) during the three and twelve months ended December 31, 2012.

Year over year, the Company's revenue increased slightly mainly due to the increase in oil price received on its US production. The increase in oil prices was off-set by the sale of certain producing US oil and natural gas assets. The revenue generated from the Canadian operations remained flat year over year as certain Canadian assets remained shut-in to preserve existing reserves while the natural gas prices remain low. The Canadian assets will remain shut-in and additional natural gas drilling programs within Canada will remain on hold until prices rebound.

OPERATING RESULTS

			Average Prices	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Natural Gas (MCF/d)	**44**	39	**3.21**	2.63
Oil (BBLs/d)	**3**	3	**97.48**	82.76
NGL (BBLs/d)	**-**	-	**24.32**	69.29
Barrels of Oil Equivalent (BOE)	**11**	10	**43.52**	39.44

During the year ended December 31, 2013, the Company continued to focus its resources toward an exploratory program in Guadalupe County, Texas. The Company sold the remaining producing assets in Somerset and Taylor-Ina counties for proceeds of $167,000 USD and certain of its Canadian assets remained shut-in due to low natural gas prices.

For the year ended December 31, 2013 natural gas sales remained flat at 44 MCF/d compared to 39 MCF/d the previous year, which was mainly due to certain Canadian assets continuing to be shut-in to preserve existing reserves while the natural gas prices remain low, as well as previously drilled wells not being brought on line until natural gas prices rebound.

Natural gas prices increased slightly during the year ended December 31, 2013 to $3.21/MCF versus $2.63/MCF during the same period in 2012.

Oil production for the year ended December 31, 2013 remained constant at 3 BBLs/d when compared to the year ended December 31, 2012, primarily due to the sale of the remaining US producing assets in the fourth quarter of 2013.

During the year ended December 31, 2013, the average price received for oil was $97.48/barrel versus $82.76/barrel during the previous year. The majority of the Company's production is medium viscosity crude which receives higher pricing.

NGL sales on a daily basis remained negligible, generating only minimal revenue of $462 during 2013. The average NGL price decreased to $24.32/BBL compared to $69.29/BBL received in 2012.

During the year ended December 31, 2013, the average sales volume on a BOE/d basis increased to 11 BOE/d compared with 10 BOE/d for the period ended December 31, 2012.

The average sales price on a BOE basis was $43.52/BOE in 2013, an increase from $39.44/BOE received in 2012.

On a barrel of oil equivalent basis, during the year ended December 31, 2013 oil and NGL accounted for 27% of total sales and natural gas accounted for 73% of total sales, compared to 2012 when oil and NGL accounted for 30%, with natural gas accounted for 70% of total sales.

FINANCIAL RESULTS

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

Year ended December 31,	**2013 ($)**	2012 ($)
Petroleum and natural gas revenue	**168,839**	147,315
Royalties, petroleum and natural gas	**(12,793)**	(16,105)
Production expenses, petroleum and natural gas	**(137,266)**	(221,221)
Operating netback, petroleum and natural gas	**18,780**	(90,012)
Net loss	**(2,150,789)**	(1,813,673)
Net loss per share (basic and diluted)	**(0.02)**	(0.02)
Revenue per BOE	**43.52**	39.44
Royalty per BOE	**3.30**	4.31
Operating costs per BOE	**35.38**	59.23
Operating netback per BOE	**4.84**	(24.10)

Petroleum and natural gas revenue increased to $168,839 for the year ended December 31, 2013 from revenue of $147,315 during the year ended December 31, 2012. Revenue on a BOE basis increased to $43.52/BOE from $39.44 during the year ended December 31, 2012.

Royalties decreased to $12,793 during the year ended December 31, 2013 compared to the same period in 2012 of $16,105. Royalty per BOE for the year ended December 31, 2013 averaged $3.30/BOE, which was decrease from $4.31/BOE during the year ended December 31, 2012.

Production expenses in the year ended December 31, 2013 decreased to $137,266 from the year ended December 31, 2012 of $221,221. Operating costs/BOE for the year ended December 31, 2013 decreased to $35.38/BOE from $59.23/BOE in the year ended December 31, 2012.

Operating netback from petroleum and natural gas sales increased to $18,780 during the year ended December 31, 2013 from ($90,012) during the year ended December 31, 2012.

Operating netback/BOE increased to $4.84/BOE from ($24.10)/BOE.

The Company's slight revenue increase was due to the increase in oil prices during 2013 compared to 2012, which was offset by certain Canadian assets continuing to be shut-in to preserve existing reserves while the natural gas prices remain low; and the fourth quarter disposal of the remaining producing assets in the Somerset and Taylor-Ina counties. Operating costs decreased as a proportion of revenue as the Company worked toward generating operating efficiencies combine with increased revenue per BOE resulting from the increase in oil prices. These factors also contributed to the positive operating netback during the current year, which was a significant increase from the prior year.

Royalties per unit of Production

Year ended December 31,	**2013**	2012
Gas ($/MCF)	**0.27**	(0.35)
Oil ($/BBL)	**4.19**	9.61
NGL ($/BBL)	**0.84**	63.88
Total ($/BOE)	**3.30**	4.31

The royalties per MCF for natural gas increased to $0.27/MCF from ($0.35)/MCF in 2012. Oil royalties decreased to $4.19/BBL from $9.61/BBL in 2012. NGL royalties decreased to $0.84/BBL from $63.88/BBL in 2012. Combined royalties for all products decreased to $3.30/BOE in 2013 from $4.31/BOE the previous year.

GENERAL & ADMINISTRATIVE EXPENSES

After recoveries, general and administrative expenses ("G&A") decreased to $1,097,517 during the twelve months ended December 31, 2013 from $1,525,259 for the same period during 2012. The decrease in the Company's G&A is reflective of the Company's efforts to control overhead cost while it continues to expand its activities and progress with the exploration program in Texas.

	Year Ended December 31,	
	2013 ($)	2012 ($)
Net G&A Expenses	**1,097,517**	1,525,259

STOCK BASED COMPENSATION

During the year ended December 31, 2013, the Company granted 6,700,000 stock options, 50,000 stock options were cancelled, and there were no exercises or stock options that expired unexercised. During the year ended December 31, 2013, the Company recognized share-based payment expense of $219,964 in the statement of comprehensive loss (December 31, 2012 - $nil).

DECOMMISSIONING LIABILITIES

Decommissioning liabilities are the present value of management's estimate of future costs to be incurred to properly abandon and reclaim the properties held by the Company. Accretion expense is the increase in the decommissioning liability resulting from the passage of time. Decommissioning liabilities increased from $182,278 as at December 31, 2012 to $559,751 as at December 31, 2013. The increase was primarily due to the increase in abandonment and reclamation costs as prescribed by the Alberta Energy Regulators.

DEPLETION & DEPRECIATION

Depletion and depreciation expense, an accounting measure of our finding and on-stream costs, is calculated using the ratio of capital costs to proven reserves. Capital costs include the net book value of historical costs incurred and estimated future expenditures to develop proved reserves.

	Year Ended December 31,	
	2013 ($)	2012 ($)
Depletion and depreciation	**117,254**	85,251

During the year ended December 31, 2013, depletion and depreciation expenses increased to $117,254 compared to $85,251 during the same period in 2012. The increase was primarily due to increased production during the first three quarters of the year, which was offset by the fourth quarter sale of the remaining producing assets in the Company's Somerset and Taylor-Ina counties in Texas.

IMPAIRMENT

	Year Ended December 31,	
	2013 ($)	2012 ($)
Impairment of property and equipment	**550,596**	160,967

As at December 31, 2013, the Company reviewed its oil and gas assets for indicators of impairment such as changes in future prices, future costs and reserves. Based on this review, certain of the Company's CGUs were tested for impairment. The recoverable amount of each CGU was estimated based on the higher of the value in use and the FVLCTS. The estimate of FVLCTS was determined using a discount rate of 10% percent and forecasted cash flows, with escalating prices and future development costs, as obtained from the reserve report. The prices used to estimate the FVLCTS are those used by independent industry reserve engineers.

Based on the assessment at December 31, 2013, the carrying amount of the property and equipment in the Company's Canadian CGU was determined to be $550,596 higher (December 31, 2011 – Canadian CGU $160,967) than its recoverable amount, and an impairment loss was recognized.

CASH FLOWS FROM OPERATIONS

During the year ended December 31, 2013, cash flows used in operations decreased to ($19,622) from ($2,176,975) during the same period in 2012. This decrease was primarily due to a higher operating netback during the current year, lower general and administrative costs and lower interest expense, combine with working capital fluctuations.

Funds used in operations during the year ended December 31, 2013 decreased to ($1,112,253) from the previous year's ($1,896,226). The decrease in funds used in operations was predominately due to a higher operating netback during the current year, lower general and administrative costs and lower interest expense.

CAPITAL EXPENDITURES

	Year Ended December 31,	
	2013 ($)	2012 ($)
Exploration and evaluation expenditure	**850,754**	397,668
Capital expenditures	**19,874**	64,198

The increase in exploration and evaluation assets is due to the exploration program on the Company's Texas assets. The assets have yet to show technological feasibility and commercial viability and accordingly are considered exploration and evaluation assets.

The slight decrease in capital expenditures during 2013 as compared to 2012 continue to reflect the low natural gas prices, which continue to delay certain projects in Canada until there is a rebound in the commodity price. Capital expenditures during the year are primarily lease rental payments.

EQUITY INVESTMENT IN PRI

The Company holds a 25% equity interest in Production Resources Inc ("PRI"), and records 25% of PRI's net income or loss into its records. During the year ended December 31, 2013, the Company's portion of PRI's net income was ($19,722), which has been reflected into the Company's comprehensive loss (December 31, 2012 – $109,228). The decrease in PRI's net income was primarily due to increased non-cash items including depletion and accretion costs; as well as expenses incurred to facilitate the on-going drilling program. Through two acquisitions PRI acquired approximately 150 wells, and it drilled 10 new wells during 2013 compared to 15 in 2012. It is anticipated that PRI will drill an additional 10 wells during 2014.

QUARTERLY FINANCIAL INFORMATION

The following is a summary of selected quarterly information that has been derived from the unaudited Consolidated Financial Statements of the Company. This summary should be read in conjunction with unaudited Consolidated Financial Statements of the Company as contained in the public record.

Quarterly Financial Information ($000 except per share and unit values)	**Dec 31 2013**	**Sept 30 2013**	**Jun 30 2013**	**Mar 31 2013**	**Dec 31 2012**	**Sep 30 2012**	**Jun 30 2012**	**Mar 31 2012**
Petroleum and natural gas sales	28	63	55	23	12	46	27	62
Net loss	(1,306)	(258)	(362)	(223)	(597)	(305)	(641)	(270)
Net loss per share								
Basic and diluted	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.01)	(0.00)
Average daily sales								
Natural gas (MCF/d)	56	26	59	34	46	16	14	81
Oil/NGL (BBLs/d)	2	6	4	1	-	6	4	4
Barrels of oil equivalent (BOE/d)	11	10	14	7	8	8	7	18
Average sales prices								
Natural Gas ($/MCF)	2.99	2.80	3.93	2.62	3.19	1.59	1.68	2.68
Oil/NGL ($/BBL)	90.71	99.24	89.35	110.70	(17.10)	85.70	60.55	110.70
Barrels of oil equivalent ($/BOE)	28.23	65.49	43.07	35.27	16.17	61.16	43.19	38.49
Operating costs ($/BOE)	43.95	50.72	27.81	13.93	83.00	51.58	116.72	29.06
Royalty Expense ($/BOE)	3.36	3.42	5.02	(.40)	28.50	1.16	(19.84)	3.47
Operating netback ($/BOE)	(19.08)	11.35	10.24	21.74	(95.33)	8.42	(53.69)	5.95

Explanation of Quarterly Variances

Since December 31, 2011, and on a quarter by quarter basis, production volumes began trending downward as natural gas prices decreased significantly, resulting in the sale of certain assets. Throughout 2012 and 2011 projects were delayed and certain Canadian wells were shut in until such time that commodity prices begin to increase. The net loss in the quarters is largely a result of these factors. During the year ended December 31, 2013, production volumes began rising slightly when compared to the same period during 2012. This upward trend is primarily due to the increase in commodity prices enabling the Company to increase production at certain of its assets.

Net comprehensive loss increased during the fourth quarter for both the year ended December 31, 2013 and December 31, 2012, primarily due to the impairment of property and equipment taken during both years and during 2012, the recognition of the shareholder indemnities. During the fourth quarter of 2013, the Company issued stock options and recorded a share-based payment expense, contributing to the rise in the fourth quarter net loss.

The impairments have all been recognized in the fourth quarter.

LIQUIDITY & CAPITAL RESOURCES

In order to resolve its working capital deficiency of $4,445,030, and to access additional share equity, the Company will continue to emphasize its exploration program in Texas. The Company's US prospects should produce better returns due to higher oil prices compared with natural gas, it has greater drilling potential and more locations. Given the Company's recurring operating losses it is critical that the Company refocus to an area with the potential of growth and positive cash flow and income that the U.S. has.

Loan

On June 15, 2012, a corporation owned by a party who has a common significant shareholding (the "Lender") advanced $1,500,000 to the Company under a loan agreement (the "Original Loan Agreement") with a maturity date of August 15, 2013. The proceeds of the original loan ("Original Loan") were used primarily to repay the Non-revolving Loan with the remaining proceeds used for general working capital. Interest on the loan is 10% per annum, payable monthly, on the outstanding principal amount. Pursuant to the Original Loan Agreement, the Company was required to make a principal repayment in the amount of $500,000 on or before August 15, 2012, which was amended to require a principal repayment of $300,000 due on November 30, 2012. The Company fulfilled this requirement through a cash repayment of $133,845 and through the transfer of certain of its US assets to the party at a deemed value of $166,155. On August 15, 2013, the Original Loan with an outstanding balance of $1,200,000 was cancelled, and a new loan in the amount of $1,200,000 was issued with a maturity date of August 15, 2014 (the "New Loan"). Included in the New Loan is a conversion feature, which at the option of the Lender, and subject to regulatory approval, the entire principal amount of the New Loan, or any portion outstanding, may be converted to shares in the Company at a price of $0.05 per common share until August 15, 2014. As of the date of December 31, 2013, and up to the date of this MD&A, the conversion feature had not yet received regulatory approval.

The Company may, at any time, repay the loan in full without notice or penalty. If the Company is in default of the requirements included in the New Loan agreement or the Lender believes the Company's ability to repay the loan is impaired, the Lender may demand repayment of the loan or accelerate the date for payment. During the year ended December 31, 2013, pursuant to the New Loan, the Company incurred interest of $120,000 (December 31, 2012 - $74,083).

Pursuant to the Original Loan Agreement, the Company issued to the Lender 5,000,000 share purchase warrants (the "Original Warrants"). Each Original Warrant was exercisable into one common share of the Company at a price of $0.10 per common share until the expiry date of August 15, 2013. The Original Warrants were valued at $147,195 and were treated as a transaction cost, and accordingly were netted against the principal balance of the Loan, which was accreted back up to the principal balance at the maturity date. The accretion of the Original Warrants is recorded as a non-cash finance expense in the profit or loss. On August 15, 2013, the Original Warrants expired unexercised. Pursuant to the New Loan agreement, the Company issued to the Lender 5,000,000 share purchase warrant (the "New Warrants"). Each New Warrant is exercisable into one common share of the Company at a price of $0.05 per common share until the expiry date of August 15, 2014. As of December 31, 2013, the New Warrants had not yet received regulatory approval and therefore have not been valued until such time as approval is received. Subsequent to December 31, 2013, regulatory approval was received.

Security for the loan consists of a $1,500,000 promissory note plus interest at the rate of 10% per annum, compounded monthly, a General Security Agreement in favour of the Lender to include a specific assignment of production proceeds, and security over the US assets of the Company. The Lender has required the Company to submit to them certain reports including monthly production reports.

Convertible debt

On January 1, 2012, the Company entered into a loan agreement (the "Loan Agreement") with a corporation owned and controlled by a party who is also a significant shareholder of the Company (the "Lender") whereby the Company received a $150,000 USD loan with a maturity date of December 31, 2012. On January 1, 2013, it was mutually agreed upon between the Lender and the Company to extend the loan under the same terms to December 31, 2013. The proceeds of the loan were used to continue the Company's exploration program in Texas. Interest on the loan is 12% per annum, payable monthly, on the outstanding principal amount and compounds monthly. During the year ended December 31, 2013, pursuant to the loan, the Company incurred interest of $19,726 (December 31, 2012 - $21,643).

Security for the loan consists of a $150,000 promissory note and monthly production from certain Texas assets equivalent to the principal portion of the loan and any unpaid interest.

At the option of the Lender, and subject to regulatory approval, the entire principal amount, or any portion outstanding, may be converted to shares in the Company with a discount of 25% to the market trading price at the time of conversion, at any time during the term.

On January 1, 2014, it was mutually agreed upon between the Lender and the Company to extend the loan to December 31, 2014. The terms of the conversion feature were changed to establish the conversion price to be the market price of the Company's shares on January 1, 2014. All other terms and conditions remain the same. As of the date of December 31, 2013, and up to the date of this MD&A, the conversion feature had not yet received regulatory approval.

OUTSTANDING SHARE DATA

On April 3, 2013, the Company completed a private placement issuing 7,950,000 units. Each unit was issued at $0.05 for total proceeds of $397,500. Each unit consists of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at $0.10 per share, exercisable for 1 year from the original issue date. The Company has allocated $141,188 of the unit value to warrants.

Pursuant to the private placement, the Company incurred $38,259 in cash share issue costs, of which $24,672 was allocated to share capital and $13,587 was allocated to warrants. 645,000 finders options were issued, respectively, valued at $16,818, of which $10,844 was allocated to share capital and $5,974 was allocated to warrants.

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares issuable in series. As of the date hereof, the Company's issued share capital and the outstanding securities that are convertible into or exercisable or exchangeable for any voting or equity securities of the Company is as follows

	April 30, 2014	December 31, 2013
Common Shares	140,671,689	140,671,689
Warrants (i)	42,630,000	37,630,000
Stock Options (ii)	14,030,000	14,030,000

Notes:

i) 29,680,000 of the warrants entitle the holder to acquire one additional common share for $0.10 per share until October 25, 2013. 7,950,000 of the warrants entitle the holder to acquire one additional common share for $0.10 per share until April 4, 2013. 5,000,000 of the warrants entitle the holder to acquire one additional common share for $0.10 per share until August 15, 2014.

ii) 2,405,000 of the Stock Options entitle the holders to acquire an equal number of common shares at $0.10 per share until April 6, 2015. 4,925,000 of the Stock Options entitle the holders to acquire an equal number of common shares at $0.10 per share until August 25, 2016. 6,700,000 of the Stock Options entitle the holders to acquire an equal number of common shares at $0.05 per share until October 18, 2018.

OFF BALANCE SHEET ARRANGEMENTS

The Company is not party to any arrangements that would be excluded from the balance sheet.

RELATED PARTIES

a) The following amounts are due from related parties:

	December 31, 2013	December 31, 2012
	$	$
Note receivable from officer (i)	**244,719**	238,164
Fair value allowance (ii)	**(240,789)**	(216,515)
Net note receivable	**3,930**	21,649
Advance fees (iii)	**6,529**	6,529
	10,459	28,178

(i) A promissory note was issued to an officer of the Company bearing interest at 3% per annum and there is no fixed maturity date, unless the officer's employment is terminated or he is petitioned into bankruptcy wherein the note and accrued interest becomes immediately payable. The note is secured by 393,000 common shares of the Company which had a fair value of $3,930 at December 31, 2013 (December 31, 2012 - $21,649).

(ii) The fair value allowance was initially determined on December 31, 2008 based on the market value of the secured shares. During the year ended December 31, 2013, an additional allowance of $24,274 was made as the carrying value of the promissory note exceeded the fair value of the 393,000 common shares held as security (December 31, 2012 - $nil).

(iii) During the year ended December 31, 2008, a director was advanced $59,473 in relation to efforts to finance and advance the Company's drilling technology. At December 31, 2013 $6,529 (December 31, 2012 - $6,529) remains outstanding. There is no guarantee that such efforts will be successful and if such efforts are not successful, the full balance will be repaid. The original repayment date of December 31, 2010 has been extended to December 31, 2014.

b) Additional related party transactions are as follows:

(i) Aggregate fees of $3,150 (December 31, 2012 - $47,500) were charged by directors of the Company) all of which was recorded in the statement of comprehensive loss.

(ii) Aggregate fees of $44,000 (December 31, 2012 - $41,400) were charged by a U.S. corporation, which is owned and controlled by an officer and a director of the Company for costs it incurred for operation of the Company's U.S. properties, all of was recorded in the statement of comprehensive loss.

(iii) Aggregate fees of $34,465 (December 31, 2012 - $181,287) were charged by corporations, which are owned and controlled by other equity investors in PRI, and were all recorded as general and administrative costs.

(iv) Included in accounts payable at December 31, 2013 was $120,574 owing to officers of the Company (December 31, 2012 - $87,943).

(v) Aggregate fees $10,000 (2012 – NIL) were charged by an officer of the Company during the year for consulting work completed on the Companies research and development program.

(vi) Included in General and Admin Expenses is $10,000 (2012 - $10,000) of rent expense charged by an officer of Company for office rent.

All related party transactions are in the normal course of operations and have been measured at the agreed exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

Key management compensation

	December 31, 2013	December 31, 2012
	$	$
Compensation	**426,400**	409,185
Share based payments	**219,964**	-
Total	**646,364**	409,185

COMMITMENTS

a) On January 15, 2012, the Company entered into a lease agreement with a related party for the lease of office space. Under a lease agreement, the Company has committed to monthly payments of $2,771 for the lease of its office space until January 31, 2015.

b) The Company has entered into various vehicle loan agreements with total annual principal repayments for fiscal years 2014 and 2015 as follows: $26,109 and $15,869.

c) The Company raised capital through the issuance of flow through shares in 2009, 2010 and 2011 which provided indemnity to the subscriber for additional taxes payable if the Company was unable to, or failed to, renounce the qualifying expenditures as agreed. The Company was not able to spend $824,338 of the flow through funds raised. The Company is exposed to costs for the indemnification of the subscribers. The Company has estimated a potential liability on the amount of $331,551 at December 31, 2013 (December 31, 2012 - $321,497). The Company has also estimated a potential liability for penalties and taxes on the amounts of $66,735 (December 31, 2012 - $39,320) and is included in accounts payable and accrued liabilities. The accrued amount is subject to measurement uncertainty due to the tax filing positions of the subscribers, their tax rates and the amount of personal taxes that may be payable and the interpretation of the indemnity agreement, which will not be known until potentially affected subscribers are reassessed for their tax positions by the Canada Revenue Agency and these amounts become known to the Company.

RISK FACTORS AND RISK MANAGEMENT

The oil and gas industry is subject to risks in (among others):

Commodity Price Risk

The Company has sold its entire product on the spot market. While the Company currently has no hedges in place, historically the Company has participated in these contracts when it is considered beneficial.

Production Risk

The Company believes it has a stable production base from a variety of wells. However, the Company remains subject to the risk that a significant decrease in production from some wells could result in a material decrease in the Company's production and associated cash flow.

Reserve Replacement Risk

The Company's production is subject to natural declines and the Company plans to replace production with acquisitions and developing new reserves. To remain financially viable, the Company must be able to replace reserves at a lesser cost on a per unit basis than its cash flow on a per unit basis. The Company closely monitors the capital expenditures made for the purpose of increasing its petroleum and natural gas reserves.

Regulatory Risk

Government royalties, income tax laws, environmental laws and regulatory requirements can have a significant impact on the Company's finances and operations. The Company strives to remain knowledgeable regarding changes to the regulatory regime under which it operates, in both Canada and the United States. Sudden regulatory or royalty changes by future government action is unpredictable and cannot be forecast by the Company.

Climate Change Risk

North American climate change policy is evolving and changing at both regional and national levels. The Company expects that some of its operations may be subject to future regional, provincial and/or federal climate change regulations to manage greenhouse gas. The exact scope and timing of new climate change measures is difficult to predict.

FINANCIAL INSTRUMENTS

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(a) Fair values

The Company's financial instruments consist of cash and cash equivalents, short-term investments, trade and other receivables, due from related parties, accounts payable and accrued liabilities, the shareholder indemnity, the loan, the convertible debt, and long-term debt.

Financial Instrument	Classification	Carrying Value $	Fair Value $
Cash and cash equivalents	Fair value through profit and loss	160,886	160,886
Short-term investments	Fair value through profit and loss	54,256	54,256
Trade and other receivables	Loans and receivables	461,087	461,087
Due from related parties	Loans and receivables	10,459	10,459
Accounts payable and accrued liabilities	Other financial liabilities	3,463,919	3,463,919
Shareholder indemnity	Other financial liabilities	333,551	333,551
Loan	Other financial liabilities	1,200,000	1,200,000
Current portion of long-term debt	Other financial liabilities	26,109	15,869
Long-term debt	Other financial liabilities	15,869	160,886

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

At December 31, 2013, the Company's cash and cash equivalents and short-term investments have been subject to Level 1 valuation.

(b) 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, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers.

Virtually all of the Company's trade and other receivables are from companies in the oil and gas industry and are subject to normal industry credit risks. Credit risks arise principally from the amounts owing to the Company from oil and natural gas marketers and joint venture partners. Management does not believe that any significant concentration of trade and other receivables exists that will result in any loss to the Company based on past payment experience. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish relationships with large marketers. However, the receivables are from participants in the petroleum and natural gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations and escalating costs. The Company does not typically obtain collateral from petroleum and natural gas marketers or others in the event of non-payment.

At December 31, 2013, the Company's trade and other receivables have been aged as follows:

Days outstanding	**December 31, 2013** **$**	December 31, 2012 $
0-30 days	**67,653**	210,508
31-60 days	**6,204**	54,213
61-90 days	**56,561**	18,979
Greater than 90 days	**330,669**	238,124
Total	**461,087**	521,824

$330,669 of the Company's trade and other receivables are considered past due. However, the Company deems all amounts as collectible and as such, a provision for doubtful accounts has not been recorded at December 31, 2013 (December 31, 2012 - $nil).

Cash and cash equivalents consist of cash bank balances held in both interest and non-interest bearing accounts. The Company manages credit exposure of cash by selecting financial institutions with high credit ratings.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At December 31, 2013, the Company's maximum exposure to liquidity risk is the total current liabilities of $5,183,119 (December 31, 2012 - $4,345,082).

The current liabilities and commitments are due as follows:

Accounts payable and accrued liabilities	3,463,919	Due within 90 days
Loan (note 12)	1,200,000	Maturity date of August 15, 2013
Convertible debt (note 13)	159,540	Maturity date of December 31, 2013
Current portion of long-term debt (note 17(b))	26,109	Due within 12 months
Long-term debt (note 17(b))	15,869	Due within 24 months
Shareholder indemnities (note 17(c))	333,551	Due on demand

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non operated projects to further manage capital expenditures. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month.

(d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's loss or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing returns.

(i) Commodity price risk:

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand. All of the Company's oil and gas production is sold at spot rates exposing the Company to the risk of price movements.

During 2010, the Company entered into a commodity call option effective from January 1, 2012 to December 31, 2012 at a strike price of USD $90.00 per BBL. On February 2, 2012, the Company terminated the commodity call option for consideration of $116,114 and recognized an unrealized gain of $161,770 to reverse the financial contract liability recorded at December 31, 2011. The Company had no commodity call options outstanding as at December 31, 2013.

(ii) Currency risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and the United States and a portion of its expenses are incurred in US dollars. The Company does not hedge its exposure to fluctuations in the exchange rate. Future changes in exchange rates could have a material effect on the Company's business including its intended capital plans, its financial condition and results of operations.

Certain of the Company's financial instruments are exposed to fluctuations in the US dollar, including cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities. As at December 31, 2013, an increase or decrease of 10% to the foreign exchange rate between the US dollar and the Canadian dollar applied to the average level of US denominated cash and cash equivalents would have had approximately a $23,960 impact on the Company's comprehensive loss for the year.

(iii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at December 31, 2013, all of the Company's debt, including the the loan and the convertible debt, bears fixed interest rates and accordingly, is not subject to market interest rate fluctuations.

The Company has no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2013.

(e) Capital management

The Company's capital consists of shareholders' deficit, the loan, the convertible debt and working capital. The Company will adjust its capital structure to manage its current and future debt, drilling programs and potential corporate acquisitions through the issuance of shares, sourcing additional debt financing and adjustments to capital spending. The Company's objective for managing capital is to maximize long-term shareholder value by ensuring adequate capital to achieve the Company's objectives. The Company is not subject to any external capital requirements.

Management reviews its capital management approach on an ongoing basis and believes its current approach is reasonable given the size of the Company. There has been no change in management's approach to capital management during the year.

OUTLOOK

Based on the continuation of low natural gas prices, the Company will continue to focus on the exploration program in Texas, which is an oil based resource. The initial impact of this transition shows a lower production volume in our overall output, but the increases in Oil output are starting to show. The daily production rates in the Company's PRI affiliate is not reported in the Company's average daily production rate. These volumes will be periodically reported through press releases after we are confident we have completed our land acquisition efforts in the area.

The Company will continue to pursue a carefully designed capital expenditure program, including acquisitions and dispositions, which would allow us to add production, reserves and cash flow in a cost effective manner while maintaining a level of flexibility in our balance sheet. We are confident that we have prepared ourselves to emerge from this environment operationally strong, and we expect to be well positioned to respond quickly when the business environment improves. Our proven management and dedicated team of professionals are engaged and committed to developing our high-quality asset base.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. By their nature, these estimates are subject to measurement uncertainty and the effect on the Consolidated Financial Statements of changes in such estimates in future periods could be significant.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Specific amounts and disclosures affected by estimates and assumptions are:

Significant judgments

Determination of cash-generating units ("CGU")

Property and equipment are aggregated into CGUs based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment.

Significant estimates and assumptions

Reserves

Oil and gas development and production properties are depleted on a unit of production basis at a rate calculated by reference to proved 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 PP&E properties. 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 comprehensive loss as further information becomes available and as the economic environment changes.

Decommissioning liabilities

The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require estimates regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating costs, future removal technologies in determining the removal costs, and discount rates to determine the present value of these cash flows.

Exploration and evaluation ("E&E") assets

The accounting policy for E&E assets is described in note 3. The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances as to whether economic quantities of reserves have been found.

Share-based compensation

The fair value of stock options and warrants 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 option, the expected volatility of the Company's shares, the expected life of the options, expected dividends and the risk-free rate of return. The Company estimates volatility based on the historical share price in the publicly traded markets. The expected life of the options is based on historical experience and estimates of the holder's behavior. 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 actual number of options that actually vest.

Recoverability of assets

The Company assesses impairment on its assets that are subject to amortization when it has determined that a potential indicator of impairment exists. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The Company used the calculation of fair value less costs to sell to determine the fair value of its CGU's. In determining the fair value less costs to sell, the amount is most sensitive to the future commodity prices, discount rates, and estimates of proved and probable reserves, to determine an implied fair value of the CGU being tested.

Provision for doubtful accounts

The provision for doubtful accounts is reviewed by management on a monthly basis. Trade receivables are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. Management makes these assessments after taking into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

RECENT ACCOUNTING PRONOUNCEMENTS

The following pronouncements and amendments are effective for annual periods beginning on or after January 1, 2013 unless otherwise stated. Adopting these standards has had minimal or no impact on the Company's Consolidated Financial Statements.

IFRS 10 – Consolidation replaces SIC-12 Consolidation special Purpose Entities and parts of IAS 27 Consolidated and Separate Consolidated Financial Statements and requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 11 – Joint Arrangements requires venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas joint operations, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31 Interests in Joint Ventures, and SIC-13 Jointly Controlled Entities – Nonmonetary Contributions by Venturers.

IFRS 12 – Disclosure of Interest in Other Entities establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, and special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces additional disclosures addressing the nature of, and risks associated with, an entity's interest in other entities.

IFRS 13 – Fair Value Measurement is a comprehensive standard that defines fair value, requires disclosure about fair value measurement and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

IAS 27 – Separate Consolidated Financial Statements addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated Consolidated Financial Statements.

IAS 28 – Investments in Associates and Joint Ventures has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

The following standard has been issued and is effective for annual periods beginning on or after January 1, 2018. The Company has not yet begun the process of assessing the impact that the new standard will have on its Consolidated Financial Statements:

IFRS 9 – "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39 – "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.