**ACL INTERNATIONAL LTD.**

MANAGEMENT DISCUSSION AND ANALYSIS FOR

THE THREE MONTHS ENDED

JUNE 30, 2016

The following Management Discussion and Analysis ("MD&A") prepared as of June 30, 2016, and dated August 29, 2016, is provided for the purpose of reviewing the results for the three months ended June 30, 2016 and is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations as at the three months ended June 30, 2016 and 2015. This discussion and analysis of the performance, financial condition and future prospects of ACL International Ltd. (the "Company" or “ACL) should be read in conjunction with the Company’s audited financial statements for the year ended March 31, 2016 together with the notes thereto.

Petroleum and natural gas reserves and volumes are converted to a common unit of measure on a basis of six thousand cubic feet of gas to one barrel (bbl) of oil. BOEs may be misleading, particularly if used in isolation. The forgoing conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms to the Canadian Securities Regulators’ National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities. For the purpose of this MD&A, oil is defined to include the following commodities: light and medium oil and primary heavy oil.

Amounts are shown in Canadian dollars unless otherwise stated.

**FORWARD LOOKING STATEMENTS**

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts that address activities, events or developments that ACL expects are forward-looking statements. The Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions which the Company is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Management’s assessment of future plans and operations, capital expenditure requirements, methods of financing and the ability to fund financial liabilities, changes in royalty rates and the timing and impact of accounting policies may constitute forward-looking statements under applicable laws and necessarily involve risks including and without limitation, risks associated with oil and gas exploration, development and exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations imprecision of reserve estimates, environmental risks, competition from, other producers, the inability to fully realize the benefits of acquisitions, delays resulting from, or inability to obtain, required regulatory approvals and ability to access sufficient capital from internal and external sources. Readers and investors are cautioned that such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include market prices, exploration and exploitation successes, continued availability of capital and financing and general economic, market or business conditions.

Although the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realized. The use of any of the words "anticipate", "believe", "continue", "estimate", "expect", "may", "will", "forecast", "project", "plan", "should" and similar expressions are intended to identify forward-looking information. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The risks associated with these forward-looking statements include, but are not limited to, the following:

Fluctuations in oil production levels; Volatility in market prices for gas, liquids and oil; Uncertainties associated with estimating reserves; Well production and decline rates; Changes in the general economic conditions in Canada and Worldwide; The effects of weather conditions; The ability of ACL to obtain financing including equity and debt; and Actions taken and policies by governmental or regulatory authorities including changes to tax laws, incentive programs, royalty calculations and environmental regulations.

Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the forward-looking statements are expressly qualified in their entirety by this cautionary statement.

Additional information related to the Company is available on SEDAR at www.sedar.com, and on the Company's website at http://acinternational.ca/

**DESCRIPTION OF BUSINESS**

ACL is a Canadian Natural Resources company presently engaged in the acquisition, exploration, development and production of oil and gas properties in Indonesia. Shares of the Company trade on the TSX Venture Exchange ("Exchange") under the symbol "ACL".

The Company owns a 50% interest in a Technical Assistance Contract for a block in production referred to as "Langsa TAC". Located in the East Aceh Offshore contract area in North Sumatra, Indonesia Langsa TAC covers an area of approximately 77 square kilometers. The Company also owns a 38.25% working interest in a Production Sharing Contract for the block referred to as "South Block A" ("SBA") located onshore, North Sumatra, Indonesia.

On April 30, 2015, the Company entered into an agreement with Blue Sky Langsa Ltd., pursuant to which the Company agreed to acquire, from Blue Sky Langsa Ltd., a 50% interest in a Technical Assistance Contract for a block referred to as "Langsa TAC". Located in the East Aceh Offshore contract area in North Sumatra, Indonesia the block covers an area of approximately 77 square kilometers. The purchase price of C$9,924,600 was settled with C$100,000 in cash and the issuance of 81,871,667 Common Shares in the capital of the Company at C$0.12 per Common Share. The Effective Date of the transaction was January 1, 2015.

On June 8, 2015 the Exchange conditionally approved the proposed acquisition.

On June 11, 2015 the Company closed its Amended and Restated Asset Purchase Agreement dated April 30, 2015 with Blue Sky Langsa Ltd. with an effective date of January 1, 2015. Closing price adjustments aggregated for a total purchase price of C$11,882,972.

On June 30, 2015 the TSX Venture Exchange accepted the Company's change of business from a general insurance brokerage issuer to an oil and gas issuer. The Company met the requirements to be listed as a TSX Venture Tier 1 issuer. Effective July 2, 2015, listing of the Company's shares was transferred from the NEX to the TSX Venture exchange.

On June 29, 2015 the Company paid C$762,786 ($800,000 Australian) to acquire a 38.25% working interest in a Production Sharing Contract for SBA located onshore, North Sumatra, Indonesia, from Peak Oil & Gas (Australia) Pty Ltd. ("Peak"). The acquisition had an effective date of May 1, 2015 and closed on July 2, 2015. The Company acquired all of the issued and outstanding shares of Peak, ("POGSBA") and a loan receivable in the amount of US$4,164,763 which was due to Peak from POGSBA. POGSBA owns 75% of the issued and outstanding shares of Renco Elang Energy Pte. Ltd. which owns a 51% working interest in SBA and is the operator.

**OVERALL PERFORMANCE**

Revenues from operations were $1,811,097 for the three months ended June 30, 2016 and $35,810 for the three months ended June 30, 2015. The increase in revenue is contributed solely to the sale of crude inventory from the Langsa TAC joint operation. The net loss for the three months ended June 30, 2016 was $204,645 as compared to a net loss of $2,429,391 for the three months ended June 30, 2015. The net loss for the period ended June 30, 2016 was primarily attributed to depreciation costs of $686,712. For the comparative, the net loss was $2,224,746 higher due to acquisition related costs and the commencement of operations of the Langsa TAC oil production, a one-time listing cost associated with the accounting of the takeover transaction of $957,272 and a finder's fee expense of $528,272.

Working capital ratio improved from 2.04 to 2.44 for the three months ended June 30, 2016 and overall working capital increased to $2,010,284 from $1,489,144 at the year ended March 31, 2016. The increase was attributed to an increase in accounts receivable of $185,819 from the oil operations, a further advance for cash calls and increase to the joint venture advances of $164,317 and increase to prepaids and deposits of $168,438 for the deposit on the previously announced Share Sale Agreement ("SSA") with Cooper Energy Limited (ASX:COE).

On June 11, 2015, the Company closed its Amended and Restated Asset Purchase Agreement dated April 30, 2015 with Blue Sky Langsa Ltd. pursuant to which ACL acquired from Blue Sky Langsa Ltd. a 50% interest in a Technical Assistance Contract for a block referred to as "Langsa TAC" located offshore, North Sumatra, Indonesia. As consideration, ACL paid $100,000 cash and issued 81,871,667 common shares to certain nominees of Blue Sky Langsa Ltd. (the "Transaction"). The Transaction results in a change of business and a reactivation of ACL pursuant to Policy 5.2 of the TSX Venture Exchange.

For accounting purposes, the Langsa TAC was deemed to be a business while ACL, at the date of the Transaction, was deemed not to be a business. As a result of the shares issued on the Transaction, the nominees of Blue Sky Langsa Ltd. controlled 85.39% of the issued and outstanding common shares of ACL. The substance of the Transaction was therefore a reverse take-over ("RTO") of ACL by the nominees of Blue Sky Langsa Ltd. with Langsa TAC deemed to be the accounting acquirer.

The Langsa TAC met the definition of a business under IFRS but it is not a legal entity. IFRS does not provide specific accounting guidance for an RTO involving a non-legal-entity accounting acquirer. Therefore, the Transaction has been accounted for as a continuation of Langsa TAC from the date of the acquisition whereby the shares issued to effect the Transaction are issued for the net assets of ACL, resulting in a public company listing expense of $957,272. The fair value of the consideration was determined based on the percentage of ownership of the merged entity that was transferred to the shareholders of ACL upon completion of the Transaction. This value represents the fair value of the number of shares that Langsa TAC would have had to issue for the ratio of ownership interest in the combined entity to be the same as if the Transaction had taken the legal form of Langsa TAC acquiring 100% of the shares of ACL. The percentage of ownership that ACL shareholders had in the combined entity upon completion of the Transaction was 14.61%. On the date of the Transaction, IFRS 1 was applied to the assets and liabilities of Langsa TAC resulting in a fair value determination of oil and gas properties and equity to be $10,925,700 determined using internal estimates as well as independent reserve evaluation using proved and probable reserves discounted at 12%.

The Langsa TAC expires in May 2017. The company has commenced discussions to renew the TAC beyond May 2017. There are no assurances that the Government of Indonesia will renew the concession. Should the government decide not to renew the Langsa TAC, then the TAC will revert back to the government at expiry without further compensation to ACL and its partner Blue Sky Langsa Ltd.

***SOUTH BLOCK A***

Also significant to the Company's operations, the Company obtained a 38.25% working interest in a Production Sharing Contract for SBA located onshore, North Sumatra, Indonesia. Those interests are held through a 75% interest in the issued and outstanding shares of Renco Elang Energy Pte. Ltd. ("REE") which owns a 51% working interest in the SBA and is the operator. As part of the acquisition of REE, the Company acquired loans receivable of $690,862 and subsequently advanced further funds bringing total advances to $1,222,796. These advances are interest free loans. As part of the REE shareholder's agreement, all after-tax proceeds from the operations of SBA are first paid against the shareholder loans, prior to any distributions relative to each parities share interests. As at June 30, 2016, SBA had not reached technical feasibility or commercial viability and as such the amounts remain outstanding.

On May 18th, 2016, ACL announced its subsidiary REE, the operator of South Block A, has received regulatory approval to drill the Amanah Timur #1 well ("AT1") before November 30th 2016. AT1 is located within the South Block A ("SBA") concession onshore and offshore North Sumatra, Indonesia.

AT1 will test the Paya Bili Prospect at a depth not exceeding 700 m TD and will evaluate reservoir productivity in a pre-1940 oil field as well as evaluate untested deeper sandstone reservoirs which are known to be well developed in the area. The prospect is located on a productive trend and has near term commercialization potential.

## FINANCIAL CONDITION

The Company's management of its financial condition for the period ending June 30, 2016 was relatively unchanged from the year ending March 31, 2016. The Company continues to use its assets to fund new exploration activities through its ownership of REE and SBA and the Company entered into an agreement to purchase a production interest, which is disclosed in detail in the Proposed Transactions section of this management discussion and analysis.

Overall, current assets increased by $485,732 due to cash produced by the Langsa TAC production and then subsequently reinvested into a deposit for another production property and further funds advanced for the SBA exploration.

Total liabilities decreased by $35,409 as the majority of cash produced by the operations were used to fund the development and growth of the business, which resulted in the increase to current assets. To assist with funding this objective, an officer loaned $58,000 to the entity with a maturity date on July 28, 2016; the officer extended the maturity date to September 15$^{th}$, subsequent to the period end.

## RESULTS OF OPERATIONS FOR THE PERIODS ENDING JUNE 30, 2016 AND 2015

### Production

During the three months ended June 2016, total production, net to ACL from wells L3 and H4 was 40,608 bbls from the Langsa TAC operations. During the three months ended June 2015, ACL had production attributed to it from the period subsequent to the date of acquisition on June 12, 2015. During this short period of time, total production, net to ACL was 12,949.

### Expenses

***Operating cost***

All activities associated with operating the wells and facilities are included in the operating expenses. They include such items as gathering, processing, lifting, treating and storage production. The operating costs for the three months ended June 30, 2016 was $1,230,997 compared to $248,475 for the three months ended June 30, 2015. The significant differences between periods were due to the only 18 days of production attributed to the period ended June 30, 2015.

***Salaries and wages***

Salaries and wages increased from $42,298 to $54,614 for the three months ending June 30 due to an increase in the stock compensation charges related to the issuance of stock options. Stock based compensation increased by $16,108 due to the timing of the issuances; stock options were not granted until June 11, 2015.

***General and administrative***

The general and administrative cost for the three months ending June 30, 2016 decreased by $204,626 over the same comparative period from $225,121 to $20,495. The totals reflect the cost of managing the Company's properties and associated activities and includes employees' salaries and wages, office rent, computer services, legal, transfer agent fees, reserve evaluation fees, audit and accounting and other professional fees. General and administration was proportionally higher in quarter 1 of March 31, 2016 due to a number of one-time charges for due diligence and other exchange approval related work for the acquisitions of Blue Sky Langsa Ltd. and Peak. ACL continually directs significant efforts to maintaining or reducing its controllable costs.

***Other expenses***

The Company incurred a one-time listing expense cost during the period ending June 30, 2015 of $957,272.

Also, a finder's fee expense of $528,272 was recorded from the issuance of stock. This stock was subsequently returned to treasury prior to the end of the fiscal year, March 31, 2016 and the expense was reversed at that time.

**Depletion and depreciation**

For the period ending June 30, 2016, a depreciation value of $686,712 has been charged to property and equipment representing the depletion of the oil production assets and other property and equipment. Over the comparative period, depletion and depreciation of $454,491 was recorded. Oil and gas properties are depreciated using the Use Of Proceeds (UOP) method over total proved developed and probable hydrocarbon reserves. This results in a depreciation charge proportional to the depletion of the anticipated remaining production from the field.

During the year ended March 31, 2016, an impairment of the Langsa TAC assets was recorded due to changes in estimates of proved and probable reserves and differences between actual commodity prices and commodity price assumptions. This impairment left the balance to be depleted relatively lower for the first quarter ended June 30, 2016 as compared to the quarter ended June 30, 2015, so the depletion for the period ending June 30, 2015 was relatively higher per bbl.

## INTEREST AND FINANCING COSTS

| Three months ended June 30, | | 2016 | | 2015 |
|---|---|---|---|---|
| Interest | $ | 17,588 | $ | 13,470 |

The Company incurred higher interest costs due to a higher mix of operating capital generated through the issuance of promissory notes.

## CASH FLOWS FOR THE THREE MONTHS ENDING JUNE 30, 2016 AND 2015

Net cash provided by operating activities during the period ended June 30, 2016 was $219,284. The positive operating cash flows can be attributed to a cash adjustment for depletion of $686,711, which was offset against higher accounts receivable and correlating decrease in cash flow of $180,788. The accounts receivable is exclusively from the anticipated proceeds of the Langsa TAC joint operation for the period ended June 30, 2016.

In comparison to the comparative period, cash had been received from the lifts, so operations were the primary source of capital, whereas over the same period in in 2015, proceeds of $190,086 from promissory notes were used to fund the operations. For the period ending June 30, 2016, the Company received a $58,000 promissory note from an officer.

The Company continues its objective to invest its cash into oil and gas opportunities. During the period ending June 30, 2015, $1,764,575 was used to complete the purchases of Peak ($762,786) and the Langsa TAC ($1,001,789) operations. During the same period in 2016, cash used in investing activities was used to make a $169,117 refundable deposit on the Tangai-Sukananti KSO interest as disclosed in full under the Proposed Transaction section of the management discussion and analysis. $161,216 in funds were used to further develop the interests in SBA through cash calls flowed through the joint venture with REE.

## SUMMARY QUARTERLY INFORMATION

The following table summarizes the Company's key consolidated financial information for the last eight quarters.

| Quarter ended | Revenue ($) | EBITDA ($) | Net earnings (loss) ($) | EPS –Basic and Diluted ($/share) |
|---|---|---|---|---|
| June 30, 2016 | 1,811,097 | 505,011 | (204,645) | (0.00) |
| March 31, 2016 | 1,750,478 | (146,078) | (3,969,570) | (0.05) |
| December 31, 2015 | 4,034,881 | 2,550,233 | (769,679) | (0.01) |

| | | | | |
|---|---|---|---|---|
| September 30, 2015 | 2,187,235 | (204,278) | (732,930) | (0.02) |
| June 30, 2015 | 35,810 | (1,966,086) | (2,434,147) | (0.17) |
| March 31, 2015 | - | (197,629) | (170,961) | (0.05) |
| December 31, 2014 | - | (147,306) | (200,102) | - |
| September 30, 2014 | - | (40,997) | (41,253) | - |

- EBITDA is defined as Earnings before interest, income taxes, depreciation and amortization.
- EBITDA is discussed and presented here as a non-IFRS measure because it is management's major performance indicator.
- EBITDA is reconciled to Net earnings above.
- The Revenue and EBITDA exclude the results of the discontinued operations.

The Company's revenue and operating expenses are driven largely by the timing of the oil production, which can vary materially from period to period. These variations account for the apparent seasonality of revenue and earnings.

During the fourth quarter of fiscal year 2016, the Company incurred an impairment charge of $657,266 in conjunction with the issuance of the reserve report.

During the first quarter of fiscal year 2016, a $957,272 listing expense was incurred and a finder's fee expense of $528,730 which was subsequently returned to treasury prior to the end of the fiscal year, March 31, 2016 and the expense was reversed at that time.

**LIQUIDITY**

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing in the future.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its liabilities when due. With the Company's continuing cash flow from operations, the Company may have sufficient cash equivalent to settle its trade and other payables at June 30, 2016 of $1,393,109. The Company's working capital at June 30, 2016 was $2,010,284. All of the Company's financial liabilities have contractual maturities of 30 days or less, are subject to normal trade terms or are scheduled for payment within one year.

Typically, the Company ensures that it has sufficient cash on hand to meet expected operational expenses for a period of 12 months. Management believes that the ongoing proceeds from operations of the Langsa TAC joint operation will fund its ongoing administrative expenses and to meet its liabilities for the ensuing year as they fall due.

In the event of unforeseen circumstances and the Langsa TAC joint operation was not able to continue to operate or forward proceeds from operations, the Company would be at risk and the Company would have use its capital resources to fund the operations.

The Company has a note payable of $839,081 (USD$645,000), bearing interest at 6.75% and is due and payable on February 21, 2017. If the Company cannot renegotiate this debt, or raise capital to extinguish the debt, the Company's operations will be at risk because the note carries a general security agreement over the assets of the ACL International Ltd. The Company has an additional series of notes with a face value of $100,000 that mature on October 30, 2016.

**CAPITAL RESOURCES**

During the year ended March 31, 2016, ACL issued 81,871,667 common shares to acquire 50% of the operations of Langsa TAC.

The following table sets forth the Company's future contractual and long-term obligations as at June 30, 2016:

| Debt | Total | < 1 year | 1 - 3 yrs. | 3 – 5 yrs. | >5 yrs. |
|---|---|---|---|---|---|
| Notes payable | $1,013,257 | $1,013,257 | - | - | - |

As previously disclosed, the Company has a note of $839,081 (USD$645,000), bearing interest at 6.75% and is due and payable on February 21, 2017. Three promissory notes, including interest, total $110,885, mature on October 30, 2016, bear interest at 12% per annum and have no security.

In relation to a proposed transaction discussed further in the MD&A, ACL anticipated paying USD $3.0 million for a 55% interest in share in Tangai-Sukananti KSO, an oil and gas company. The SSA had a closing date set for July 29, 2016. The closing has not occurred and management has issued a letter to terminate the SSA and does not anticipate outlaying the proposed $USD $3.0 million.

## OUTSTANDING SHARES

The Company is authorized to issue an unlimited number of Common Shares.

There were no changes in share capital from the period March 31, 2016 to June 30, 2016 and share capital is as follows:

| | Shares | Amount |
|---|---|---|
| Balance, March 31, 2016 | 92,310,184 | $ 17,649,200 |
| Balance, June 30, 2016 | 92,310,184 | $ 17,649,200 |

## STOCK OPTIONS

The Company has adopted an incentive stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the total number of issued and outstanding common shares of the Company from time to time on a non-diluted basis.

The Company had a total of 6,117,658, of which 1,835,297 were exercisable, options outstanding at a weighted average exercise price of $0.12 at June 30, 2016 and carry an average term of 3.95 years.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

The Company enters into transactions with related parties from time to time in the normal course of business, as well as key management personnel.

In May of 2016 an Officer of the Company granted an unsecured loan in the amount of $58,000 carrying interest at 12% per annum for general working capital. The above transaction was in the normal course of business and was at terms agreed to by the related parties. The note had a maturity date on July 28, 2016; the officer extended the maturity date to September 15th, subsequent to the period end.

### Compensation of Key Management Personnel

Key management personnel are comprised of all members of the Board of Directors and the Named Officers (as defined in Form 51-102F6 Statement of Executive compensation and disclosed in the Company's Management Proxy Circular in connection with its annual meeting of shareholders). The summary of compensation of key management personnel is as follows:

| For the period ended June 30, | 2016 | 2015 |
|---|---|---|
| Salary and bonuses | $ 29,186 | $ 32,978 |
| Share based compensation | 25,428 | 9,320 |
| Total compensation of key management personnel | $ 54,614 | $ 42,298 |

## PROPOSED TRANSACTIONS

ACL announced on June 14th, 2016 that its wholly owned subsidiary, Bow Energy International Holdings Inc., and Lamara Energy Pte. Ltd., a Singapore based oil and gas company, have executed a Share Sale Agreement ("SSA") with Cooper Energy Limited (ASX:COE) to acquire its 55% interest in Tangai-Sukananti KSO ("KSO"). Cooper Energy is a non-arms length party to ACL. ACL and Lamara will acquire 100% of the shares of Cooper Energy Sukananti Limited ("CESL") which operates the KSO. Specifically, ACL will acquire 70% of the shares and Lamara will acquire the balance of 30% of the shares in CESL.

The SSA had a closing date set for July 29, 2016. ACL has elected to terminate the share sale agreement regarding the acquisition of 55% interest in TangaiSukananti KSO from Cooper Energy Limited (ASX:COE), as previously announced on June 14, 2016.

The election was made due to conditions precedent not being satisfied Cooper Energy Limited under the agreement which include obtaining regulatory approval for the transaction prior to the sunset date. ACL declined the request for an extension of the sunset date and exercised its right to terminate the share sale agreement.

## OTHER SIGNIFICANT EVENTS AND COMMITMENTS

None.

## RISKS

The risks in the oil and gas industry are varied and wide-ranging:

### Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves.

Without the continual addition of new reserves, any existing reserves the Company may have at any particular time, and the production there from, will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties and prospects. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of the Company may determine that current markets, terms of acquisitions and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Company.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances 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 in of connected wells for various reasons including access issues resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical issues. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time,

production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

A material change in prices of commodities may affect the Company's borrowings and ultimately affecting the raising of equity capital by the Company.

**Global Financial Crisis**
Recent market events and conditions, including disruptions in the international credit markets and to the financial systems, and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions are continuing in 2015, causing a loss of confidence in the broader Canadian and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate. These factors have negatively impacted corporate valuations and will impact the performance of the global economy going forward. Although improved, petroleum prices are expected to remain volatile for the near future as a result of the market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions, regional conflicts and the ongoing global credit and liquidity concerns.

**Commodity Price Risk**
The nature of the Company's operations results in exposure to commodity fluctuations. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. A material change in prices of commodities affected the Company's borrowings and ultimately affecting the raising of equity financing. The Company does not hedge commodity price risk and has no physical forward price or financial derivative sales contracts as at or during the period ended June 30, 2016.

**Operational Dependence**
Other companies operate various producing wells in which the Company holds interests. The Company has limited ability to exercise influence over the non-operated assets or their associated costs, which could adversely affect the Company's financial performance. The Company's return on assets operated by others therefore depends upon a number of factors that may be outside of the Company's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

**Regulatory**
Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase the Company's costs, any of which may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. In order to conduct oil and gas operations, the Company will require licenses from various government authorities. There can be no assurance that the Company will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

**Environmental**
All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations.

Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation

also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. Although the Company believes that it will be in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material adverse effect on the Company's business, financial condition, results of operations and prospects. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Company and its operations and financial condition.

**Substantial Capital Requirements**
The Company anticipates making capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future in order to replace reserves. If the Company's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. In addition, uncertain levels of near term industry activity coupled with the recent global credit crisis exposes the Company to additional access to capital risk. 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 including repayment of loan facilities when due or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations and capital requirements could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

**Dilution**
The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Company which may be dilutive.

## RECENT ACCOUNTING STANDARDS

The Company has reviewed amendments to accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. IFRS 9 is effective for annual period beginning on or after January 1, 2018.

*IFRS 11 Joint Arrangements*

Amendments to IFRS 11 Joint Arrangements clarify the accounting for acquisitions of interests in joint operations. The amendments are effective for annual period beginning on or after January 1, 2016.

*IFRS 15 Revenue from Contracts with Customers*

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15 Revenue from Contracts with Customers which specifies how and when an entity will recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 is effective for annual period beginning on or after January 1, 2018.

*IFRS 16 Leases*

In January 2016, the IASB issued IFRS 16 Leases which replaces the previous leases standard, IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or

finance leases, and account for those two types of leases differently. IFRS 16 is effective for periods beginning on or after January 1, 2019.

*IAS 7 Statement of Cash Flows*

Amendments to IAS 7 Statement of Cash Flows require disclosures that enable financial statement users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017.

*IAS 12 Income Taxes*

Amendments to IAS 12 Income Taxes clarify the recognition of deferred tax assets for unrealized losses related debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017.

*IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets clarify acceptable methods of depreciation and amortization. The amendments are effective for annual periods beginning on or after January 1, 2016.

The Company is currently assessing the impact these standards and amendments may have on its consolidated financial statements.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the consolidated financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely disclosure information.