

## WESCAN ENERGY CORP.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of WesCan Energy Corp. ("WesCan" or the "Company") dated August 29, 2018, which includes its subsidiaries, is for the three months ended June 30, 2018. For a full understanding of the financial condition and results of operations of the Company, the MD&A should be read in conjunction with the Company's audited consolidated financial statements at March 31, 2018 together with the documents filed on SEDAR, including historical financial statements and MD&A. These documents are available at [www.sedar.com](http://www.sedar.com).

#### DESCRIPTION OF BUSINESS

WesCan is an evolving exploration and production company with a key objective of providing shareholders with attractive longer term sustainability by developing and exploiting the Company's assets in east-central Alberta in a financially disciplined manner and by acquiring and consolidating additional oil and gas assets that are analogous to its infrastructure and focus area(s). WesCan's assets are comprised primarily of 100% operated, oil-weighted properties characterized by multi-zone crude oil reservoirs with relatively low declines, a number of low risk development drilling locations with the potential for a high quality waterflood project. WesCan continues to identify and actively pursue strategic acquisitions with synergistic characteristics of long life producing assets and opportunities with significant low risk, upside potential.

#### RESULTS OF OPERATIONS

##### PRODUCTION

	Three months ended June 30		
	2018	2017	% Change
Total BOE			
Oil & NGL (BBL/D)	94	83	13
Natural Gas (MCF/D)	184	151	22
Total (BOE/D)	125	108	15
Oil & NGL % of Production	75%	77%	

Oil production increased 15% from 108 BBL/D in the three months ended June 30, 2017 to 125 BBL/D in the three months ended June 30, 2018. The associated natural gas production increased 22% from 151 MCF/D in 2017 to 184 MCF/D in 2018. Oil and NGL production as a percentage of total production was 75%.

**REVENUE****Three months ended June 30**

	2018	2017	% Change
Oil & NGL Sales (\$)	545,813	372,915	46
Natural Gas Sales (\$)	16,210	34,014	(52)
Oil & Natural Gas Sales (\$)	562,023	406,929	38

A 20% increase in the realized price for crude oil from \$41.44 per BBL during the quarter ended June 30, 2017 to \$49.68 per BBL for the same quarter of 2018 resulted in a 38% increase in oil and NGL sales. The realized price for an MCF of natural gas was \$2.47 in 2017. The realized price for an MCF of natural gas for the same period in 2018 was \$0.97.

**PRICES****Three months ended June 30**

	2018	2017	% Change
<b>Average Benchmark Prices:</b>			
WTI crude oil (US\$/BBL)	65.36	49.95	31
US\$/CDN\$ exchange rate	0.77	0.75	3
WCS crude oil (CDN\$/BBL)	54.32	49.85	9
AECO daily spot (\$/GJ)	1.10	2.70	(59)
<b>Average Realized Prices:</b>			
Light and medium oil (\$/BBL)	64.85	50.13	29
Natural gas (\$/MCF)	0.97	2.47	(61)
Average price (\$/BOE)	49.68	41.44	20

WTI crude traded up 31% from an average price of \$49.95 (US\$/BBL) during 2017 to an average price of \$65.36 (\$US/BBL) during 2018. WCS crude traded up 9% from an average price of \$49.85 (\$CDN/BBL) during 2017 to an average price of \$54.32 (\$CDN/BBL) during 2018. The average realized price for AECO natural gas decreased 61% from \$2.70/MCF during 2017 to \$1.10/MCF during 2018.

**ROYALTIES****Three months ended June 30**

(\$ except BOE)	2018	2017	% Change
Crown Royalties	4,200	4,482	(6)
Freehold Royalties	57,926	40,023	45
Royalty Expense	62,126	44,505	40
Royalty Expense as a % of Sales	11%	11%	
Royalty Expense per BOE	5	5	

There was a 40% increase in total royalty expense from \$44,505 in the period ended June 30, 2017 to \$62,126 for the same period in 2018 due to the re-activation of four (gross) shut-in wells at Provost. Royalties as a percentage of revenues remain low at 11% in 2018.

**OPERATING EXPENSE****Three months ended June 30**

(\$ except BOE)	2018	2017	% Change
Operating costs	309,801	194,048	60
Operating costs as a % of Sales	55%	48%	
Operating costs per BOE	27	20	

IFRS rules require that the cost to re-enter or workover existing wells are to be expensed and not capitalized into property plant and equipment. During the period ended June 30, 2018 the Company expended \$102,500 on the re-activation of four shut-in wells (2017 - \$nil) on its core property. These additional expenses resulted in the total operating costs as a percentage of revenues moving from 55% to 48% over both periods.

**GENERAL AND ADMINISTRATIVE EXPENSE ("G&A")****Three months ended June 30**

(\$ except BOE)	2018	2017	% Change
Gross G&A	121,534	139,970	(13)
Capitalized G&A	-	-	-
Net G&A expense	121,534	139,970	(13)
Net G&A expense per BOE	11	10	

The Company does not capitalize any G&A expenses.

## INTEREST AND FINANCE EXPENSE

---

Interest expense is generated entirely by the interest payable on the convertible loans outstanding. The Company has no bank debt.

## NETBACKS

---

	Three months ended June 30		
(\$ / BOE)	2018	2017	% Change
Oil and Natural Gas Sales	49.68	41.44	20
Royalties	(5.49)	(4.53)	21
Operating costs	(27.39)	(19.76)	39
Operating Netback	16.80	17.15	(2)

Operating costs increased 39% due to the re-activation of four shut-in wells; netbacks per BOE were essentially the same from \$17.15/BOE in 2017 to \$16.80/BOE in 2018.

## DEPLETION, DEPRECIATION AND ACCRETION

---

	Three months ended June 30		
(\$ except BOE)	2018	2017	% Change
DD&A	149,400	143,352	4
DD&A per BOE	13	15	

## FUNDS FROM OPERATIONS

---

	Three months ended June 30	
(\$ except per share amount)	2018	2017
Cash flow from (used in) operating activities	68,562	28,406
Changes in non-cash working capital	(161,716)	9,184
Funds from operations	(93,154)	37,590
Per share - basic / diluted	(0.00)	0.00

**CAPITAL EXPENDITURES**

	Three months ended June		
	30		%
	2018	2017	Change
Acquisition of oil and gas assets	-	-	
Expenditures on E&E assets	-	-	
Total capital expenditures	-	-	

The Company did not incur any capital expenditures during the year ended of 2017 or 2018.

**IMPAIRMENT**

Impairment is recognized when the carrying value of an asset or group of assets exceeds its recoverable amount, defined as the higher of its value in use or fair value less costs of disposal. Any asset impairment that is recorded is recoverable to its original value less any associated DD&A expense should there be indicators that the recoverable amount of the asset has increased in value since the time of recording the initial impairment.

As at June 30, 2018, the Company evaluated its developed and producing (“D&P”) assets and exploration and evaluation (“E&E”) assets on a Cash Generating Unit basis for indicators of any potential impairment or related recovery. As a result of this assessment, no indicators were identified and no impairment or related reversal was recorded on the Company’s D&P assets and E&E assets for the three-months ended June 30, 2018.

**DECOMMISSIONING LIABILITIES**

(\$)	June 30	March 31
	2018	2018
Balance, beginning of the year	1,579,962	1,472,536
Accretion	8,200	32,000
Change in estimates	-	75,426
Balance, end of year	1,588,162	1,579,962
Less: current portion	(60,448)	(60,448)
<b>Long-term portion</b>	<b>1,527,714</b>	<b>1,519,514</b>

## SHARE CAPITAL

	Number of common shares	Amount \$
<b>Balance at March 31, 2017 and 2016</b>	21,753,991	12,899,689
Shares issued for debt settlement <sup>(i)</sup>	2,939,000	202,920
Shares issued for private placement <sup>(ii)</sup>	6,666,667	500,000
Share subscription receivable		(30,250)
Share issuance costs	-	(11,092)
<b>Balance at June 30, 2018</b>	<b>31,359,658</b>	<b>13,561,267</b>

- (i) On September 7, 2017, the Company completed shares for debt settlements with various arms-length parties, issuing 1,772,000 common shares to settle \$132,900 of convertible loans payable and issuing 1,167,000 common shares with a fair value of \$70,020 to settle \$87,525 of accounts payable and recorded a gain on debt settlement of \$17,505.
- (ii) On March 8, 2018, the Company completed a non-brokered private placement, issuing 6,666,667 units at \$0.075 per unit for total proceeds of \$500,000. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitled the holder to purchase one common share for a period of 24 months from the closing date at an exercise price of \$0.10 per share. The Company incurred share issuance costs of \$11,092 and issued 73,500 finders warrants in connection with the private placement. Each finders warrant entitled the holder to purchase one common share for a period of 24 months from the closing date at an exercise price of \$0.10 per share. As at March 31, 2018, \$421,250 of the proceeds remained outstanding and were recorded as share subscriptions receivable of which \$391,000 was received subsequent to year-end.

## CAPITAL RESOURCES AND LIQUIDITY

WesCan's major source of liquidity has been the issuance of equity capital. The Company obtains equity capital financing from private placement offerings of shares and share purchase warrants, and the exercise of share purchase warrants and stock options. The Company conducts private placement equity financings from time-to-time, based on cash flow needs and subject to investor interest.

In order to continue as a going concern and meet the Company commitments and current obligations, the Company will require additional equity financings during the next twelve months. At June 30, 2018, the Company's working capital deficiency was \$966,676 (March 31, 2018 - \$1,449,763).

Furthermore, additional equity financing will be required in order to carry out the exploration and development necessary to achieve a self-sustaining level of production and oil reserves and achieve our oil and gas business objectives. Additional financing will be required to carry out a drilling program sufficient to attain a self-sustaining level of revenue. There is no assurance that we will be successful in obtaining any such financing.

The Company has traditionally supplemented equity financing from time to time by obtaining loans from third parties. These were used to provide interim, short-term financings to meet day-to-day cash flow requirements and are not intended to be a long-term source of capital. At June 30, 2018, the Company has convertible loans owing to unrelated parties in the amount of \$849,552 including accrued interest. These loans are due on demand and bear interest of up to 10% per annum. They are unsecured and have no fixed re-payment terms. The loans are convertible at the option of the lenders on similar terms

of future private placements. As the loans are all due on demand and the conversion price is expected to be at market, the Company has estimated that the debt component of the loans are equal to the face-value and therefore, has not ascribed any value to the equity components of these convertible loans.

Our ability to obtain financing is sensitive to economic factors beyond the control of management. Declines in the Canadian dollar, commodities prices, changes in interest rates and the continued economic concerns or disruptions could significantly affect our ability to obtain adequate financing.

The Company had no long-term debt or long-term financial liabilities outstanding at June 30, 2018.

#### SUMMARY OF QUARTERLY INFORMATION

Quarters ended	2019	2018			2017			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>OPERATING</b>								
Average daily production								
Oil (BBL/D)	94	83	93	84	83	101	91	93
Natural gas ((MCF/D)	184	197	134	139	151	167	138	157
Total BOE (BOE/D)	125	116	116	107	108	129	114	119
Average sales price								
Oil (\$/BBL)	64.85	50.75	55.83	49.44	49.54	47.95	47.50	42.48
Natural gas (\$/MCF)	0.97	1.85	1.98	1.98	2.47	2.42	2.73	1.97
Total (\$/BOE)	49.68	39.51	47.09	30.66	41.44	40.74	40.95	35.39
Operating netback (\$/BOE)								
Oil & gas sales	49.68	39.51	47.09	39.46	41.44	40.74	40.95	35.39
Royalty expense	5.49	4.10	4.46	4.31	4.53	4.54	4.67	4.02
Operating expense	27.39	27.87	29.90	23.57	19.76	26.35	21.90	16.45
Netback	16.80	7.54	12.73	11.58	17.15	9.85	14.38	14.92
<b>FINANCIAL</b>								
Oil & gas sales	562,023	413,176	501,680	391,578	406,929	636,857	428,175	387,599
Funds from operations	68,562	(150,206)	107,095	(3,694)	28,406	7,581	31,350	55,132
Per share - Basic/Diluted	0.00	(0.00)	0.00	(0.00)	0.00	0.00	0.00	0.00
Cash flow from (used in)	(62,904)	145,805	(4,198)	(23,603)	37,590	(69,637)	71,953	22,319
Per share – Basic/Diluted	(0.00)	(0.00)	(0.00)	(0.00)	0.00	(0.00)	0.00	0.00
Net Income (loss)	(87,308)	(155,607)	(181,117)	(161,567)	(130,512)	1,860,364	(86,620)	(123,539)
Per share – Basic/Diluted	(0.00)	(0.00)	(0.01)	(0.00)	(0.01)	0.09	(0.00)	(0.01)
Capital expenditures	-	-	-	-	-	-	-	-
Total Assets	733,417	7,195,265	7,283,805	7,307,778	7,429,229	7,581,508	6,260,122	6,332,349
Working capital (deficiency)	(966,671)	(1,449,767)	(1,500,424)	(1,469,144)	(1,685,838)	(1,696,776)	(2,241,224)	(2,303,106)
Shareholders' Equity	3,362,469	3,667,252	3,772,706	3,953,823	3,894,966	4,025,477	2,064,050	2,150,671
Shares Outstanding	31,359,658	31,359,658	24,692,991	24,692,991	21,753,991	21,753,991	21,753,991	21,753,991

The most important trend over the last eight quarters has been the increase in the price of oil from a low of \$42.48/BBL on Q2 of 2017 to a high of \$64.85/BBL in Q1 of 2019. The price of natural gas rose from a high of \$2.73/MCF in Q3 of 2017 to a low of \$0.97/MCF in Q1 2019. Netbacks per BOE were \$14.92 in Q2 of 2017, an increase to \$16.80 in Q1 of this quarter were due to a combination of higher commodity prices and an increase in operating costs.

## ***CRITICAL ACCOUNTING ESTIMATES***

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting year. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes, however, can differ from these estimates.

Areas requiring a significant degree of estimation and judgment relate to the determination of the recoverability of the carrying value of exploration and evaluation assets, estimates of oil and natural gas reserves, fair value measurements for financial instruments and share-based payments and other equity-based payments, the recognition and valuation of provisions for restoration and environmental liabilities, provision for doubtful accounts and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates and judgments.

Management relies on the estimate of reserves as prepared by the Company's independent qualified reserves evaluator. The process of estimating reserves is critical to several accounting estimates. The process of estimating reserves is complex and requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development and production activities becomes available and as economic conditions impact crude oil and natural gas prices, operating expenses, royalty burden changes, and future development costs charges. Reserve estimates impact net income through depreciation and impairment of petroleum and natural gas properties. Revision or changes in the reserve estimates can have either a positive or a negative impact on the net income of the Company.

## ***RESERVES ESTIMATES***

Commercial petroleum reserves are determined based on estimates of petroleum-in-place, recovery factors and future oil and natural gas prices and costs. WesCan engages an independent, qualified reserve evaluator to evaluate all of the Company's oil and natural gas reserves at each year-end.

Reserve adjustments are made annually based on actual oil and natural gas volumes produced, the results from capital programs, revisions to previous estimates, new discoveries, acquisitions and dispositions made during the year and the effect of changes in forecast future crude oil and natural gas prices. There is also a number of estimates and assumptions that affect the process of evaluating reserves.

Proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids determined to be economically recoverable under existing economic and operating conditions with a high degree of certainty (at least 90 percent) those quantities will be exceeded. Proved plus probable reserves are the estimated quantities of crude oil, natural gas and natural gas liquids determined to be economically recoverable under existing economic and operating conditions with a 50 percent certainty that those



quantities will be exceeded. WesCan reports production and reserve quantities in accordance with best Canadian practices and specifically in accordance with “Standards of Disclosure for Oil and Gas Activities” (“NI 51-101”).

The estimate of proved plus probable reserves is an essential part of the depletion calculation, the impairment test and hence the recorded amount of oil and gas assets. WesCan cautions users of this information that the process of estimating crude oil and natural gas reserves is subject to a level of uncertainty. The reserves are based on current and forecast economic and operating conditions, therefore, changes can be made to future assessments as a result of a number of factors that include commodity prices, new technology, changing economic conditions and future reservoir performance and forecast development activity.

### **Recoverability of Asset Carrying Values**

WesCan assesses its property, plant and equipment (“PP&E”) for impairment by comparing the carrying amount to the recoverable amount of the underlying assets. The determination of the recoverable amount involves estimating the higher of an asset’s fair value less costs to sell or its value-in-use, the latter of which is based on its discounted future cash flows using an applicable discount rate. Future cash flows are calculated based on estimates of future commodity prices and inflation and are discounted based on Management’s current assessment of market conditions.

### **Recoverability of Exploration and Evaluation Assets**

Exploration and evaluation (“E&E”) assets are assessed for impairment by comparing the carrying amount to the recoverable amount. The assessment of the recoverable amount involves a number of assumptions, including the timing, likelihood and amount of commercial production, further resource assessment plans, and future revenue and costs expected from the asset, if any.

### **DECOMMISSIONING LIABILITIES**

Decommissioning liabilities are the present value of management's estimate of future costs to be incurred to properly abandon and reclaim the Company's properties. Accretion expense is the increase in the decommissioning liabilities resulting from the passage of time. Decommissioning liabilities increased to \$1,588,162 as at June 30, 2018 from \$1,579,962 as at March 31, 2018.

### **ASSET RETIREMENT OBLIGATIONS**

WesCan recognizes a provision for future abandonment activities in the consolidated financial statements at the net present value, discounted at the risk-free rate of the estimated future expenditures required to settle the estimated obligation as of the balance sheet date. The measurement of the asset retirement obligation (“ARO”) involves the use of estimates and assumptions including the discount rate, the amount and expected timing of future abandonment costs and the inflation rate related thereto. The estimates were made by Management considering current costs, current technology and regulatory enacted legislation.

## ***FINANCIAL INSTRUMENT RISK***

Significant sources of financial instrument risk are detailed as follows:

### Interest Rate Risk

Interest rates applicable on the loans payable are fixed and accordingly are not subject to interest rate volatility during the year.

### Currency Risk

The Company currently generates revenue from a natural gas well in the USA. Changes in the U.S. denominated value of the Canadian dollar could not impact the Canadian dollar cost of meeting any future obligations under that prospect and will affect the Canadian dollar-denominated value of natural gas production.

The Company is exposed to foreign currency risk on its U.S dollar denominated assets and financial liabilities. At June 30, 2018 the Canadian dollar cost of paying the Company's US dollar denominated liabilities and property payment commitments would have no material impact with a 1% increase in the value of the US dollar relative to the Canadian dollar.

### Commodity Price Risk

The Company is exposed to material oil and gas commodity price risks. A relative decrease in the price of oil and gas would reduce the Company's cash flows, reduce the realizable market value of the Company's oil and gas assets, reduce the Company's economic reserves and make it more difficult for the Company to raise the equity required to meet its commitments and carry out its development-stage business plans. The Company sells its production on the spot market. Management's assessment has concluded that the Company's degree of exposure to commodity price risk is material, however, it remains consistent with the "development-stage" of our oil and gas operations.

### Liquidity Risk

The Company faces material liquidity risk in that it has \$769,658 in accounts payables and \$155,102 payable to related parties at June 30, 2018 and insufficient cash on hand to satisfy those debts should they be demanded. The Company is seeking equity financing in order to obtain additional liquidity to mitigate and resolve this risk.

## ***OUTLOOK***

Management will continue to focus its attention on the future development and exploitation of its core property and is confident that the underlying reserves will now be realized with the intended disciplines and experience of capturing the future growth potential of the property. The continued pursuit of identifying low cost optimization projects in addition to other re-activations of shut-in wells will continue to increase the Company's cash flow while providing attractive payouts and return on capital.

Further, Management is actively pursuing a number of equity financing opportunities and is currently evaluating new property acquisition(s) which are anticipated to close in the Q2 or Q3 of 2019.