

## 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 July 29, 2021, which includes its subsidiaries, is for the three and twelve months ended March 31, 2021. 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, 2021 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 its shareholders with attractive, long term sustainability by developing and exploiting the Company's assets at 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 of 100% operated, oil-weighted properties characterized by multi-zone oil reservoirs with low declines that include a number of low risk, multi-lateral horizontal development drilling locations. WesCan continues to pursue and evaluate strategic acquisitions with synergistic characteristics of long life producing assets and opportunities with low risk, upside potential.

	FY-2021	FY-2020	FY-2019
<b>Financial (\$ except per share amount)</b>			
Petroleum and natural gas revenue	833,698	1,411,335	1,870,806
Cash flow (deficiency) from operations (1)	(644,007)	(350,058)	(73,330)
Cash flow per share - basic and diluted (1)	(0.02)	(0.01)	-
Net income (loss) for the year	432,809	(2,948,172)	(592,380)
Net income (loss) per share - basic and diluted	0.01	(0.09)	(0.02)
Working capital deficit	(1,946,865)	(1,528,545)	(1,108,539)
Total assets	5,328,549	4,403,059	6,956,490
Total shares outstanding at year end	35,359,658	31,359,658	31,359,658
<b>Operations</b>			
<b>Production</b>			
Oil and NGL (Bopd)	51	69	92
Gas (Mcf/d)	51	115	181
BOEd (6 Mcf=1 Bbl)	59	89	123
<b>Product Prices</b>			
Oil (\$/Bbl)	43.34	54.29	53.09
Gas (\$/Mcf)	2.30	1.54	1.37

(1) See Non-GAAP and Additional GAAP Measures in MD&A.

## RESULTS OF OPERATIONS

PRODUCTION	Year ended March 31		
	2021	2020	% Change
Total BOE			
Oil & NGL (BBL/D)	51	69	(26)
<b>Natural Gas (MCF/D)</b>	51	115	(56)
Total (BOE/D)	59	89	(34)
Oil & NGL % of Production	86%	78%	

Oil and NGL production decreased 26% from 69 BBL/D in the year ended March 31, 2020 to 51 BBL/D in the year ended March 31, 2021. The decrease is a result of a combination of a decrease in commodities prices, routine field maintenance and workovers of four wells during the year. Associated natural gas production decreased 56% from 115 MCF/D in 2020 to 51 MCF/D in 2021. Oil and NGL production as a percentage of total production was 86% in 2021.

PRICES	Year ended March 31		
	2021	2020	% Change
<b>Average Benchmark Prices:</b>			
WTI crude oil (US\$/BBL)	40.08	46.75	(14)
US\$/CDN\$ exchange rate	0.75	0.75	-
Bow River crude oil (CDN\$/BBL)	38.33	31.63	21
AECO daily spot (\$/GJ)	2.40	1.75	37
<b>Average Realized Prices:</b>			
Light and medium oil (\$/BBL)	43.34	54.29	(20)
Natural gas (\$/MCF)	2.30	1.54	49
Average price (\$/BOE)	38.63	43.80	(12)

WTI crude traded down 14% from an average price of \$46.75 (US\$/BBL) during 2020 to an average price of \$40.08 (\$US/BBL) in 2021. Bow River crude traded up 21% from an average price of \$31.63 (\$CDN/BBL) in 2020 to an average price of \$38.33 (\$CDN/BBL) during 2021. The average realized price for AECO natural gas increased 37% from \$1.75/MCF in 2020 to an average price of \$2.40/MCF in 2021.

**REVENUE**

<b>Year ended March 31</b>			
<b>(\$)</b>	<b>2021</b>	<b>2020</b>	<b>% Change</b>
Oil & NGL Sales	791,041	1,346,757	(41)
Natural Gas Sales	42,657	64,578	(34)
Oil & Natural Gas Sales	833,698	1,411,335	(41)

Decrease in WTI crude from an an average price of \$46.75 (US\$/BBL) during 2020 to an average price of \$40.08 (\$US/BBL) in 2021 coupled with reduced oil production resulted in a 41% decrease in oil and NGL sales. The realized price for an MCF of natural gas was \$1.54 in 2020. The realized price for an MCF of natural gas for the same period in 2021 was \$2.30.

**ROYALTIES**

<b>Year ended March 31</b>			
<b>(\$)</b>	<b>2021</b>	<b>2020</b>	<b>% Change</b>
Crown Royalties	6,250	(2,598)	(341)
Freehold Royalties	85,298	128,693	(34)
Royalty Expense	91,548	126,095	(27)
Royalty Expense as a % of Sales	11%	9%	
Royalty Expense per BOE	4	4	

There was 27% decrease in total royalty expense from \$126,095 in the year ended March 31, 2020 to \$91,547 for the same period in 2021 due to Crown royalty allowable cost deduction credit. Royalties as a percentage of revenues remain low at approximately 11% in 2021.

**OPERATING EXPENSE**

<b>Year ended March 31</b>			
<b>(\$)</b>	<b>2021</b>	<b>2020</b>	<b>% Change</b>
Operating costs	969,543	1,066,058	(9)
Operating costs as a % of Sales	116%	76%	
Operating costs per BOE	45	44	

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 year ended March 31, 2021, the Company expended \$301,892 working over four wells (2020 - \$205,131) on its core property. The decrease in revenue from the prior year caused the percentage of operating expenses to revenues to move from 76% to 116% during the current period.

#### **GENERAL AND ADMINISTRATIVE EXPENSE ("G&A")**

(\$)	Year ended March 31		
	2021	2020	% Change
Gross G&A	414,191	569,539	(27)
Capitalized G&A	-	-	-
Net G&A expense	414,191	569,539	(27)
Net G&A expense per BOE	19	18	

Overhead cost increases resulted in a 27% decrease in G&A expenses from 2020 to 2021. 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**

(\$ / BOE)	Year ended March 31		
	2021	2020	% Change
Oil and Natural Gas Sales	38.63	43.80	(12)
Royalties	(4.24)	(3.91)	8
Operating costs	(44.92)	(33.09)	36
Operating Netback	(10.53)	6.80	(255)

Operating netbacks per BOE were down from \$6.80/BOE in 2020 to -\$10.53/BOE in 2021 due to combination of decreased commodities prices, well workovers and field-related maintenance programs.

**DEPLETION, DEPRECIATION AND ACCRETION**

	Year ended March 31		
(\$)	2021	2020	% Change
Depletion	247,385	395,116	
Depreciation	1,625	1,625	
Accretion	20,400	33,046	
DD&A	269,410	429,787	(37)
DD&A per BOE	13	13	

**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.

At March 31, 2021, the Company recorded a reversal of impairment of the oil and gas properties in the amount of \$1,347,578. The reversal of impairment resulted from a stabilization in the market prices for crude oil and gas during the year. The recoverable amount of the CGU was determined as the fair value less cost to sell ("FVLCS") using a discounted cash flow method based on the 2021 year-end reserves report prepared by an independent engineer using an after-tax discount rate of 10% for proved and probable reserves. The fair value measurement of the Company's oil and gas properties is designated Level 3 on the fair value hierarchy.

**FUNDS FROM OPERATIONS**

	Year ended March 31	
(\$ except per share amount)	2021	2020
Cash flow from (used in) operating activities	(260,307)	(30,268)
Changes in non-cash working capital	(383,700)	(319,790)
Funds from operations	(644,007)	(350,058)
Per share - basic / diluted	(0.02)	(0.01)

**CAPITAL EXPENDITURES**

	Year ended March 31		
	2021	2020	% 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 years ended March 31, 2021 or 2020.

**DECOMMISSIONING LIABILITIES**

(\$)	March 31	March 31
	2021	2020
Balance, beginning of the year	1,987,240	1,686,034
Accretion	20,400	33,046
Change in estimates	(192,995)	268,160
Balance, end of year	1,814,645	1,987,240
Less: current portion	(132,004)	(125,793)
Long-term portion	1,682,641	1,861,447

## OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. At March 31, 2021 and the date of this MD&A, 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 are as follows:

Common shares	<b>35,359,658</b>
Stock Options	<b>Nil</b>
Warrants	<b>Nil</b>

## RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions and balances entered into during the years ended March 31, 2021 and 2020 not disclosed elsewhere in these consolidated financial statements are as follows:

<u>(\$)</u>	<u>March 31, 2021</u>	<u>March 31, 2020</u>
Short-term employee benefits:		
Management salaries	185,000	185,000
<b>Total</b>	<b>185,000</b>	<b>185,000</b>

### Payable to related parties

Balances due to related parties consists of amounts owing to officers, directors (or to persons related to them or companies controlled by them) for services, travel expenses, and advances. These amounts are non-interest bearing, unsecured and due on demand, unless otherwise noted.

<u>(\$)</u>	<u>March 31, 2021</u>	<u>March 31, 2020</u>
Related party payable for services	<b>197,498</b>	<b>211,427</b>

## **CAPITAL RESOURCES AND LIQUIDITY**

WesCan's major source of liquidity has been the issuance of equity capital. The Company obtains equity capital financings 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 financing(s) during the next twelve months. At March 31, 2021, the Company's working capital deficiency was \$1,946,865 (March 31, 2020 - \$1,528,545).

Additional equity financing(s) will be required in order to carry out the exploration and development necessary to achieve a self-sustaining level of production, revenue, cashflow and to further achieve our oil and gas business objectives. There is no assurance that the Company 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 March 31, 2021, the Company has convertible loans owing to unrelated parties in the amount of \$694,495 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 and may be convertible into equity at the option of both the Company and its Lenders. As a result, the Company is unable to estimate the allocation of value between the debt and the equity component, therefore, no value is ascribed to the equity component on the convertible aspect of these loans.

Our ability to obtain financing is sensitive to economic factors and 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.



Quarters ended	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>OPERATING</b>								
Average daily production								
Oil & NGL (BBL/D)	44	51	63	45	64	64	76	73
Natural gas ((MCF/D)	8	22	106	68	106	89	159	104
Total BOE (BOE/D)	45	55	81	56	82	79	103	90
Average sales price								
Oil (\$/BBL)	57.98	44.25	43.31	27.69	35.92	52.96	59.40	66.13
Natural gas (\$/MCF)	2.00	2.56	2.24	1.91	2.03	2.53	0.95	1.13
Total (\$/BOE)	57.31	42.09	36.01	24.16	30.38	45.19	44.57	53.74
Operating netback (\$/BOE)								
Oil & gas sales	57.31	42.09	36.01	24.16	30.38	45.19	44.57	53.74
Royalty expense	6.03	5.54	4.01	1.88	2.37	4.07	4.59	4.38
Operating expense	78.63	75.65	21.85	28.27	32.63	34.50	29.71	36.14
Netback	(27.35)	(39.10)	10.15	(5.99)	(4.62)	6.62	10.27	13.22
<b>FINANCIAL</b>								
Oil & gas sales	233,776	212,427	263,041	124,454	223,360	326,376	421,211	440,388
Funds from operations	(193,025)	(291,358)	(44,561)	(72,741)	(246,489)	(61,849)	(38,056)	(3,364)
Per share - Basic/Diluted	(0.01)	(0.01)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)
Cash flow from (used in)	(180,477)	(75,978)	38,470	(42,659)	(122,395)	(8,741)	(17,958)	118,823
Per share – Basic/Diluted	(0.01)	(0.00)	0.00	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Net Income (loss)	432,809	(354,702)	(115,718)	(172,833)	(2,481,162)	(157,581)	(180,598)	(128,831)
Per share – Basic/Diluted	0.01	(0.01)	(0.00)	(0.01)	(0.08)	(0.01)	(0.01)	(0.00)
Capital expenditures	-	-	-	-	-	-	-	-
Total Assets	5,328,549	4,157,079	4,326,618	4,400,872	4,403,059	6,518,485	6,646,009	6,788,190
Working capital (deficiency)	(1,946,865)	(1,980,542)	(1,688,847)	(1,643,945)	(1,528,545)	(1,241,893)	(1,167,636)	(1,120,740)
Shareholders' Equity	1,154,009	(95,303)	259,399	375,117	547,950	3,029,112	3,186,693	3,367,291
Shares Outstanding	35,359,658	31,359,658	31,359,658	31,359,658	31,359,658	31,359,658	31,359,658	31,359,658

The most important trend over the last eight quarters has been the decrease in the price of oil from a high of \$66.13/BBL on Q1 of 2020 to a low of \$27.69/BBL in Q1 of 2021. The price of natural gas from a low of \$1.88/MCF in Q1 2021, increased to \$6.03/MCF in Q4 2021. Netbacks per BOE were down to -\$27.35 in Q4 of 2021 from \$13.22 in Q1 of 2020 were due to a combination of lower commodity prices and higher 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. However, actual outcomes 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 expense, 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 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 and acquisitions and dispositions made during the year and the effect of changes in forecast future crude oil and natural gas prices. There are 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 those quantities will be exceeded. WesCan reports production and reserve quantities in accordance with 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, which can include commodity prices, new technology, changing economic conditions, and future reservoir performance and forecast development activity.

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

The carrying amounts of the Company's petroleum properties are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in

order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the cash-generating unit level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use.

The Company's impairment testing is based on discounted cash flow models prepared by management with assistance from third-party advisors when required. The inputs used are based on management's best estimates of what an independent market participant would consider appropriate and are reviewed by senior management. Changes in these inputs may alter the results of impairment testing, the amount of the impairment charges recorded in the consolidated statement of comprehensive income (loss) and the resulting carrying values of assets.

### **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 decreased to \$1,814,645 as at March 31, 2021 from \$1,987,240 as at March 31, 2020.

### **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 at 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, technology and 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 March 31, 2021 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 cashflows, 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 capital required to meet its commitments and carry out its development-stage business plans. The Company sells its production on the spot market. Management has assessed that the Company's degree of exposure to commodity price risk is material, however, it remains consistent with our development-stage oil and gas operations.

## Liquidity Risk

The Company faces material liquidity risk in that it has a total of \$2,299,895 in accounts payables, payables to related parties and convertible loans payable to un-related parties at March 31, 2021 and insufficient cash on hand to satisfy those debts should they be demanded. The Company is seeking equity financing(s) in order to obtain additional liquidity to mitigate and resolve this risk.

## ***IMPACT OF COVID-19***

In March 2020, the World Health Organization declared a world-wide pandemic resulting from the coronavirus (COVID-19) outbreak. As the disease rapidly spread across the globe, many countries have required companies to limit or suspend business operations, implemented travel restrictions, and ordered individuals to stay at home. These measures have materially impacted the demand for the Company's oil and gas products. The current lack of global demand combined with over-supply of oil has resulted in a significant decrease in spot and forward oil prices.

The Company makes significant estimates related to reserves that could be materially impacted by a sustained decrease in prices of our products. To estimate the economically recoverable crude oil reserves and related future net cash flows, management incorporates many factors and assumptions including the expected reserve characteristics, future commodity prices and costs and assumed effects of regulation by governmental agencies. Reserves are used to calculate the depletion of the capitalized petroleum properties and for impairment purposes. If the lower commodity prices continue for a sustained period,

our expectations of future commodity prices could lower the value of our reserves and result in material impairments of our long-term assets.

The COVID-19 pandemic is rapidly evolving, and its ultimate impact on our business is uncertain. At this point, management cannot reasonably estimate the duration, complexity, or severity of this pandemic, which could have a material adverse impact on the Company's business, results of operations, financial position and cash flows.

## ***OUTLOOK***

Management continues to focus its attention on the future development and exploitation of our core property and is confident that the underlying reserves will capture the future growth potential of the property. With the on-going focus of identifying low cost optimization projects and the re-activation of shut-in wells, such efforts will continue to increase the Company's cashflow while providing attractive payouts and return on capital.

In addition, Management is currently reviewing the geological and reservoir engineering evaluations for a number of new development drilling opportunities that exist on the Company's property. While the Company continues to further examine the overall potential of the project, management remains perceptive and vigilant of the international markets and the domestic commodity pricing environment. Such influences continue to be prudently reviewed and evaluated prior to any significant capital expenditure with the objective of preserving our reserves and obtaining more favorable pricing for our resources.