



TAIPAN RESOURCES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED OCTOBER 31, 2015

Set out below is a review of the activities, results of operations and financial condition of Taipan Resources Inc. ("TPN", "Taipan", or the "Company") and its subsidiaries for the year ended October 31, 2015. The discussion below should be read in conjunction with the Company's audited consolidated financial statements for the year ended October 31, 2015. Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All dollar figures included in the following Management Discussion and Analysis ("MD&A") are quoted in Canadian dollars unless otherwise indicated. This MD&A has been prepared as at February 25, 2015.

The Company is listed on the Toronto Venture Stock Exchange under the symbol TPN.

Additional information related to the Company is available on SEDAR at www.sedar.com and the Company's website is www.taipanresources.com.

1. BACKGROUND AND CORE BUSINESS

Taipan Resources Inc. (the "Company") was incorporated on June 5, 2006 in British Columbia under the Business Corporations Act. The Company is in the business of exploring for or purchasing, economically viable oil and gas resource deposits.

The Company's head office and principal address is 2630 – 1075 West Georgia Street, Vancouver, BC, V6E 3C9.

2. COMPANY HIGHLIGHTS

During the year ended October 31, 2015

- On September 15, 2015 the Company received the approval of the TSX Venture Exchange to the consolidation of its issued and outstanding common shares on the basis of one new common share for every ten common shares currently issued and outstanding. On a post-consolidation basis, there are approximately 10,548,631 common shares issued and outstanding. The Company's name and trading symbol will remain the same.
- Following completion of operations on the Badada-1 well on Block 2B, Kenya, Premier Oil and Tower Resources exercised their rights to withdraw from the license. As a result, the working interests for Taipan through its Kenya-based subsidiary Lion Petroleum was adjusted to 100%.
- On February 09, 2015 the Company commenced an arbitration action against EAX. In addition, Taipan has been notified by Afren/East African Exploration, its partner on Block 1, Kenya that as a result of security concerns in the area, the Government of Kenya, Ministry of Energy have granted a fifteen-month extension to the current Second Additional Exploration Period from the 8th October 2014 to the 7th January 2016.
- Taipan reported that de-mobilization efforts with the Badada-1 well are complete, and that despite the disappointment of not locating commercial levels of hydrocarbons in the well, Badada-1 was drilled on budget and with no security or lost time incidents.
- Taipan entered into a non-binding letter of intent dated July 29, 2015 with Petroleum Exploration Limited ("PEL") to acquire a 50% interest in PEL's Block 2769-13 (Salam) located in the Jacobabad and Ghotki Districts of the Sindh Province in Pakistan. On December 14, 2015 the Company announced that it will not be proceeding with the proposed acquisition of a 50% interest in Salam from PEL.

3. CORPORATE DEVELOPMENTS AND SIGNIFICANT TRANSACTIONS AND FACTORS AFFECTING RESULTS OF OPERATIONS

Financings

During the year ended October 31, 2014, the Company completed a non-brokered private placement issuing 1,782,481 units at a price of \$3.60 per unit for gross proceeds of \$6,416,934. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at a price of \$5.00 until April 4, 2018. In connection with the offering, the Company paid certain finders a cash commission and other costs totaling \$167,980, issued 41,344 units valued at \$186,440, and issued to the finders 36,273 common share purchase warrants exercisable with the same terms as the warrants attached to the units.

Properties

Block 1 Property, Kenya

The Company has a 20% participating interest in a Production Sharing Contract ("PSC") with the government of Kenya for Block 1.

On November 19, 2007, Lion Petroleum Corp. ("Lion") signed a PSC with the government of Kenya and acquired an undivided 100% participating interest in Block 1. Lion was obligated to incur exploration expenditures of US\$9,550,000 during the initial three-year exploration period. The majority of this expenditure obligation was transferred to a farm-in partner, East African Exploration (Kenya) Ltd, ("EAX"), a subsidiary of Afren PLC, who acquired a 50% interest in Block 1, acting as the operator, by taking over the expenditure obligations capped at US\$6,000,000 plus certain other costs capped at US\$500,000. Lion and EAX equally split all other expenditure obligations. EAX acquired an additional 30% interest in Block 1 by incurring an additional US\$6,000,000 in exploration expenditures. Following an extension of the initial exploration period to November 19, 2012 and the acquisition of a total of 1,900 kilometers of 2D seismic data meeting all outstanding commitments, Lion and EAX exercised their option to continue into the first additional exploration period of two contract years with a minimum expenditure obligation of US\$6,000,000.

The first additional exploration period expired on October 31, 2014. Prior to the expiry, EAX reached an agreement with government of Kenya to roll the commitments under the first additional exploration period into a second additional exploration period which expires October 31, 2016. EAX is in the second additional exploration period with a minimum expenditure obligation of US\$6,000,000 and a commitment to drill two wells as part of the arrangement with the government.

Before the end of the initial exploration period, 30% of the original area of Block 1 was surrendered to the government of Kenya. As part of the agreement reached with the government, EAX was not required to relinquish an additional 30% of the remaining area of Block 1 before the end of the first additional exploration period. The government of Kenya has the option acquire an interest of up to 18% of the total interest in any development area. The government of Kenya will assume its share of costs, expenses and obligations based on its participating interest.

During fiscal 2014 Taipan resolved its default on the Block with Afren PLC by paying US\$3,566,377, restoring the Company's rights and entitlements to a 20% interest in Block 1.

On February 09, 2015 the Company commenced an arbitration action against EAX. In addition, Taipan has been notified by Afren/East African Exploration, its partner on Block 1, Kenya that as a result of security concerns in the area, the Government of Kenya, Ministry of Energy have granted a fifteen-month extension to the current Second Additional Exploration Period from the 8th October 2014 to the 7th January 2016. At the expiry of the extension period, the situation will be further reviewed. Afren/EAX and Lion continue to have a two well commitment on the block during the current exploration period.

On October 30, 2015 Octant Energy Corp. ("Octant") announced that it had entered into an agreement with Afren PLC to acquire certain assets in the Republic of Kenya including block 1 in Kenya. At the date of this report Octant appears to still be awaiting approval from the Republic of Kenya on the transfer of Afren/EAX's interest in the license.

Block 2B Property, Kenya

On September 17, 2008, Lion signed a PSC with the government of Kenya and acquired an undivided 100% participating interest in Block 2B, located in North East Kenya. Lion negotiated a study period whereby Lion could determine if it would take on the minimum expenditure obligations of the initial exploration period. On May 5, 2010, Lion decided to move from the study period into the initial exploration period of the PSC.

The initial exploration period of three contract years, originally had a minimum expenditure obligation of US\$11,750,000 of which US\$6,000,000 represented a contingent well. The Company paid to the Ministry of Energy, Kenya a US\$4,000,000 extension fee to extend the initial exploration period to June 1, 2013. In doing so, the minimum work program for the initial exploration period was agreed at 400 kilometres of 2D seismic for US\$4,500,000 and a block wide Full Tensor Gravity ("FTG") survey for US\$2,000,000 (completed).

Block 2B Property, Kenya (cont'd...)

In 2013 the Company notified the government of Kenya that the Company elected to enter into the first additional exploration period of two contract years with a minimum expenditure obligation of US\$13,000,000. The work program in the first additional exploration period included the acquisition of 25 square kilometres of 3D seismic and the drilling of one well to 3,000 metres. After completion of the first additional exploration period, the Company had the option of entering a second additional exploration period of two contract years with an estimated expenditure obligation of US\$19,000,000 including further seismic and two exploration wells to 3,000 metres each. On June 01, 2015 the Ministry of Energy granted the Company a 6-month extension to December 01, 2015 on the first additional exploration period.

The Company reached agreement with the Government of Kenya to relinquish 30% of the original area of Block 2B less any area under development per the PSC. Before the end of the first additional exploration period, an additional 30% of the remaining area of Block 2B will be required to be surrendered to the government of Kenya. The government of Kenya has the option to acquire a participating interest of up to 18% of the total interest in any development area. The government of Kenya will assume its share of costs, expenses and obligations based on its participating interest.

Farm-out agreement with Premier Oil Investments Ltd.

During the year ended October 31, 2014, the Company entered into a farm-out agreement with Premier Oil Investments Ltd. ("Premier") a subsidiary of Premier Oil PLC whereby Premier acquired a 55% participating interest in Block 2B. Under the terms of the farm-out, Premier was responsible for carrying the Company through the cost of work for the first additional exploration period. Premier also provided a guarantee for the minimum work and expenditure obligations for the first additional exploration period of US\$13,000,000 and paid US\$1,000,000 to the Kenyan Revenue Agency for taxes related to the transaction. During the year ended October 31, 2015 the Company cash called US\$21,106,494 (2014 - US\$6,543,793) and received US\$19,778,188 which has been recorded as a reduction of exploration and evaluation expenditures in the statement of loss and comprehensive loss.

Farm-out agreement with Tower Resources (Kenya) Ltd.

During the year ended October 31, 2014, the Company completed a farm-out agreement with Tower Resources (Kenya) Ltd., a subsidiary of Tower Resources plc ("Tower"), whereby Tower has acquired a 15% participating interest in Block 2B. As part of the agreement, Tower paid US\$4,500,000 (received US\$4,025,000 with the balance remitted to the Kenyan Revenue Agency for taxes related to the transaction) and issued 9,000,000 common shares of Tower (Note 5) to the Company. Tower will make a contingent payment of US\$1,000,000 upon the spud of a second well on Block 2B.

On February 23, 2015 the Company announced that the Badada-1 well had been drilled to a total depth of 3,500 metres measured depth below the rotary table and following completion of logging operations will be plugged and abandoned as a dry hole. The well has taken a total of 46 days to date at cost of US\$26.3-million vs. the prescribed budget of US\$25.8-million.

Following completion of operations on the Badada-1 well on Block 2B, Kenya, Premier Oil and Tower Resources exercised their rights to withdraw from the license. As a result, the working interests for Taipan through its Kenya-based subsidiary Lion Petroleum was adjusted to 100%.

Block 2B Property, Kenya (cont'd...)

Breakdown of exploration expenditures as follows:

For the year ended October 31	2015	2014
EXPENSES		
Block 1 Cash calls	102,488	1,168,791
Block 2B Geological and geophysical studies	(28,545)	583,033
Block 2B Geophysical data and acquisition and processing	34,178	3,150,266
Block 2B Depreciation	-	8,877
Block 2B Drilling	28,223,462	2,914,462
Block 2B Training and license fees	-	146,638
Indirect and taxes	(1,951,742)	2,480,566
Management fees	(2,058,190)	357,519
	28,438,031	10,810,152
Cash call from Premier	(24,106,422)	(9,383,109)
Cash call from Tower	(4,452,431)	(1,521,240)
Total exploration expenditures for the year	(120,822)	(94,197)

The exploration expenditures per the Statement of Loss can be reconciled as follows:

Block 2B	\$(120,822)
Expenditures on New Ventures in Taipan	<u>257,071</u>
Exploration expenditures	\$136,248

4. OUTLOOK

Taipan retains a significant onshore acreage holding in East Africa of 27,712 square kilometres or 6.85 million acres. The region saw growing exploration activity from the time Taipan acquired Lion through to early 2015, and a number of oil and gas discoveries were announced. However, as a result of the recent worldwide decline in hydrocarbon and particularly oil prices, exploration activity in East Africa and Kenya has slowed dramatically. Taipan is presently re-evaluating its East African assets and operations in light of the current oil and gas exploration environment.

5. SELECTED ANNUAL FINANCIAL INFORMATION

	October 31, 2015	October 31, 2014	October 31, 2013
Net sales	\$Nil	\$Nil	\$Nil
Net loss	\$13,650,583	\$4,020,255	\$15,807,507
Loss per share – basic and diluted	\$1.30	\$0.04	\$0.19
Total assets	\$3,063,942	\$17,918,261	\$16,299,585
Total long-term liabilities	\$Nil	\$Nil	\$Nil
Cash dividends declared per share	\$Nil	\$Nil	\$Nil

5.1 Results of Operations for the year ended October 31, 2015 compared to 2014

The net loss for the period increased by \$9,630,328 to \$13,650,583 (2014 – \$4,020,255). This increase in net loss is primarily due to the impairment of exploration property in Kenya. Individual items are as follows:

- Exploration net expenditures increased by \$230,445 to an expense of \$136,248 (2014 – recovery of \$94,197) as a result of the farm-out agreements with Premier and Tower.
- Filing and regulatory fees decreased by \$70,946 to \$60,298 (2014 - \$131,244) due to the Company's listing on the OTCQX in 2014.
- Foreign exchange gain (loss) of \$318,069 (2014 – \$133,888) represents unrealized foreign exchange related to operations in Kenya. Lion's functional currency is in USD and all cash in lion was held in USD.
- Management and consulting fees decreased by \$786,904 to \$3,585 (2014 - \$790,489) to the addition of management as the Company further develops its Blocks in Kenya during 2014. In 2015 any Management and Consulting were charged directly to drilling operations.
- Office, rent and administrative decreased by \$183,723 to \$366,263 (2014 – \$549,986) due to operations wrapping up after the completion of the drilling.
- Accounting and legal increased by \$157,298 to \$556,079 (2014 - \$398,781) as a result of increased work on special transactions including new ventures.
- Promotion and shareholder communication decreased by \$329,797 to \$305,917 (2014 - \$635,714) as a result of decreased activity and promotion of the Company's resource properties and a decrease in allocation of senior management's time towards to promotion as the drilling project came to an end. Also as a result of initiatives to cut non-essential expenditures.
- Share-based payments of \$NIL (2014 - \$947,470) as no options were granted during the year.
- Travel decreased by \$111,577 to \$275,366 (2014 - \$386,943) due to less travel to and from Kenya for senior management.
- Receivable allowance of \$NIL (2014 - \$31,106) relates to an allowance created for GST receivable in Canada which the Canada Revenue Agency was disputing in prior year.
- Write-off of accounts payable and accrued liabilities of \$53,759 (2014 - \$55,553) relates to old payables from Lion Petroleum Corp. that are no longer considered liabilities of the Company.
- Impairment of exploration expenditure property of \$12,203,101 (2014 - \$NIL) as a result of the Company drilling a dry well and uncertainty surrounding any future exploration and development work on block 2B in Kenya.

5.2 Cash flows for the year ended October 31, 2015 compared to 2014

Cash inflows from operating activities \$835,247 (2014 – (\$10,084,107)) primarily as a result of the Company paying outstanding accounts payable and accrued liabilities, large decrease in cash calls receivable and the write down of exploration property.

Cash inflows from investing activities of \$42,360 (2014 – \$4,817,898) were as a result of vehicles sold.

Cash inflows from financing activities \$NIL (2014 - \$6,619,454).

5.3 Summary of Quarterly results

	2015				2014			
	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$
Net Sales	-	-	-	-	-	-	-	-
Net loss (profit)	13,173,008	(1,247,191)	5,809,390	(4,084,624)	1,078,032	2,495,844	127,834	318,545
Basic and diluted net loss per share	1.25	0.01	0.06	(0.04)	0.11	0.02	0.00	0.00

The fluctuation of net loss and profit throughout the different quarters is a result of timing of cash calls made to Premier and Tower and cash calls received. Cash calls are netted against exploration and evaluation expenses. The large loss on Q4 of 2015 is result of the impairment of exploration property.

5.4 Financial Position

Cash of \$2,423,275 (October 31, 2014 - \$1,504,078). Increase is primarily due cash calls received from Partners and reconciling final accounts payable relating to the well.

Deposits and prepaid expenses \$9,369 (October 31, 2014 - \$221,537), as a result of the Company making less prepaids as operations are wrapping up.

Receivables \$613,116 (October 31, 2014 - \$3,803,865) Difference due mainly to timing of cash calls receivable from the farm-in partners Tower and Premier.

Exploration and evaluation assets of \$NIL (October 31, 2014 - \$12,203,101) is result of write down exploration property in Kenya as a result of the Company drilling a dry well and uncertainty surrounding any future exploration and development work on block 2B in Kenya.

Accounts payable and accrued liabilities \$2,022,964 (October 31, 2014 - \$3,268,290). The reduction was primarily attributable to significant reduction in trade payables and VAT and withholding tax payable. .

Share capital \$33,608,036 (October 31, 2014 - \$34,212,536). Change due to shares returned to treasury.

Reserves \$2,541,020 (October 31, 2014 - \$2,541,020).

6. LIQUIDITY AND CAPITAL RESOURCES

At October 31, 2015, the Company had working capital of \$1,040,978, including cash of \$2,423,275 as compared to working capital of \$2,394,925, including cash of \$1,504,078 at October 31, 2014.

The Company's continued development is contingent upon its ability to raise sufficient financing both in the short and long-term. There are no guarantees that additional sources of funding will be available to the Company; however, management is committed to pursuing all possible sources of financing in order to execute its business plan including new equity issues and farm-outs.

7. OUTSTANDING SHARE DATA

At the date of this report the Company has 10,548,632 issued and outstanding common shares, 820,000 outstanding stock options, and 5,248,688 outstanding warrants.

On September 15, 2015 the Company completed a one-for-ten share consolidation. All references to capital stock, warrants, options and per share data have been adjusted retrospectively to reflect the Company's one-for-ten share consolidation for the years ended October 31, 2015 and 2014.

8. OFF STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

At October 31, 2015, the Company had no material off statement of financial position arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

9. RELATED PARTY TRANSACTIONS

The financial statements include the financial statements of Taipan Resources Inc. and its 100% owned subsidiary, Lion Petroleum Corp. , a company incorporated in British Columbia.

Key management personnel comprise of the Chief Executive Office, Chief Financial Officer, and Directors of the Company. The remuneration of the key management personnel is as follows:

- Paid or accrued management, consulting, and exploration expenditures of \$1,371,449 (2014- \$1,003,832) to the CEO, CFO and non-executive directors.
- Paid or accrued office, rent, and administration fees of \$93,000 (2014 - \$72,000) to a company controlled by the CFO and director of the Company.
- Issued NIL (2014 – 250,000) stock options with a fair value of \$NIL (2014 - \$705,238).

The amount of \$335,535 (2014 - \$284,652) is due to related parties. All balances are unsecured, non-interest bearing, have no fixed repayment terms, and are due on demand.

10. CRITICAL ACCOUNTING ESTIMATES

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to:

The carrying value and recoverability of exploration and evaluation assets requires management to make certain estimates, judgments and assumptions about each project. Management considers the economics of the project, including the latest resources prices and the long-term forecasts, and the overall economic viability of the project.

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

Share-based payments are subject to estimation of the value of the award at the date of grant using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected share price volatility. Because the Company's warrants have characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

11. IFRS STANDARDS NOT YET ADOPTED

A new financial instruments standard IFRS 9 replaces IAS 39 for classification and measurement of financial assets effective for annual periods beginning on or after January 1, 2018. The Company does not anticipate that the application of this standard to have a material impact on the results and financial position of the Company.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

Cash and restricted cash are carried at fair value using a level 1 fair value measurement. The carrying value of receivables and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at October 31, 2015, the Company had a cash balance of \$2,423,275 to settle current liabilities of \$2,022,964. The Company actively manages liquidity risk through financing and farm-out opportunities so that it has sufficient liquidity to meet liabilities when due.

There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipated it will need additional capital in the future to finance on-going exploration of its properties, such capital to be derived from the exercise of outstanding warrants and the completion of other equity financings. The Company has no source of operating income and has no assurance that additional funding will be available to it for future exploration and development of its projects, although the Company has been successful in the past in financing its activities through the previously mentioned financing activities. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and exploration success. In recent years, the securities markets have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents and short-term investments. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash and restricted cash. The Company's current policy will be to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

b) Foreign currency risk

The majority of the Company's business is conducted in Kenya in United States dollars and Kenyan Shillings. As such, the Company is exposed to foreign currency risk in fluctuations among the Canadian dollar, the Kenyan Shilling and the US dollar. Fluctuations in the exchange rate among the Canadian dollar, the Kenyan Shilling and the US dollar may have a material adverse effect on the Company's business and financial condition. Fluctuations do not have a significant impact on operating results.

c) Price risk

The resource industry is heavily dependent upon the market price of the resources being extracted. There is no assurance that, even if commercial quantities of resources are discovered, a profitable market will exist for their sale. There can be no assurance that mineral prices will be such that the Company's properties can be extracted at a profit. Factors beyond control of the Company may affect the marketability of any resources discovered. The price of oil has experienced volatile and significant price movements over short periods of time, and is affected by numerous factors beyond the Company's control. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

13. RISK FACTORS

Prior to making an investment decision investors should consider the investment risks set out below and those described elsewhere in this document, which are in addition to the usual risks associated with an investment in a business at an early stage of development. The directors of the Company consider the risks set out below to be the most significant to potential investors in the Company, but are not all of the risks associated with an investment in securities of the Company. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the Directors are currently unaware, or which they consider not to be material in relation to the Group's business, actually occur, the Group's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects, are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline and investors may lose all or part of their investment.

The Company Will Require Significant Amounts of Additional Capital in the Future

The Company has limited financial resources. The Company will continue to make substantial capital expenditures related to exploration; in particular the Company will have further capital requirements as it proceeds to expand its present exploration activities at Kenyan oil and gas projects, or to take advantage of opportunities for acquisitions, joint ventures or other business opportunities that may be presented to it.

In addition, the Company may incur major unanticipated liabilities or expenses. There can be no assurance that the Company will be able to obtain necessary financing in a timely manner on commercially acceptable terms, if at all.

Volatile demand for oil and gas and the volatile prices for oil and gas may make it difficult or impossible for the Company to obtain debt financing or equity financing on commercially acceptable terms or at all. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its oil and gas projects with the possible loss of the rights to such properties. If exploration or the development of any well is delayed, such delay would have a material and adverse effect on the Company's business, financial condition and results of operation.

Stage of Development

The Company's properties are in the exploration stage and the Company does not have an operating history. Exploration and development of oil and gas resources involves a high degree of risk and few properties which are explored are ultimately developed into producing properties. The amounts attributed to the Company's interest in its properties as reflected in its financial statements represent acquisition and exploration expenses and should not be taken to represent realizable value. There is no assurance that the Company's exploration and development activities will result in any discoveries of commercial oil and gas reserves. The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors such as unusual or unexpected geological formations, and other conditions.

As a result of the Company's lack of operating history, it also faces many of the risks inherent in starting a new business.

Profitability of Operations

The Company is not currently operating profitably and it should be anticipated that it will operate at a loss at least until such time as production is achieved from one of the Company's properties, if production is, in fact, ever achieved. The Company has never earned a profit. Investors also cannot expect to receive any dividends on their investment in the foreseeable future.

The Company's Operations are Subject to Operational Risks and Hazards Inherent in the Oil and Gas Industry

The Company's business is subject to a number of inherent risks and hazards, including environmental pollution; accidents; industrial and transportation accidents, which may involve hazardous materials; labour disputes; power disruptions; catastrophic accidents; failure of plant and equipment to function correctly; the inability to obtain suitable or adequate equipment; fires; blockades or other acts of social activism; changes in the regulatory environment; impact of non-compliance with laws and regulations; natural phenomena, such as inclement weather conditions, underground floods, earthquakes, pit wall failures, ground movements, tailings, pipeline and dam failures and cave-ins; and encountering unusual or unexpected geological conditions and technical failure of extraction methods.

There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Company's oil and gas properties, personal injury or death, environmental damage, delays in the Company's exploration or development activities, costs, monetary losses and potential legal liability and adverse governmental action, all of which could have a material and adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

Exploration, Development and Operating Risk

The exploration for and development of oil and gas carries significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an oil and gas reserve may result in substantial rewards, few properties which are explored are ultimately developed into producing wells. Major expenses may be required to locate and establish oil and gas reserves. Whether an oil and gas deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size and proximity to infrastructure; oil and gas prices, which are highly cyclical, drilling and other related costs which appear to be rising; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of reserves and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Currency Risk

The Company maintains bank accounts in Canadian, Kenyan, British and American currency. The Company's equity financings are sourced in Canadian dollars but for the most part it incurs its expenditures in US dollars. The Company's operations are subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. The Company does not engage in currency hedging activities.

Environmental Risks and Hazards

All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the general, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties. Reclamation costs are uncertain and planned expenditures estimated by management may differ from the actual expenditures required.

Government Regulation

The Company's oil and gas exploration and planned development activities are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, safety, toxic substances, land use, water use, land claims of local people and other matters. Although the Company believes its exploration and development activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development.

Many of the oil and gas rights and interests of the Company are subject to government approvals, licenses and permits. Such approvals, licenses and permits are, as a practical matter, subject to the discretion of applicable governments or governmental officials. No assurance can be given that the Company will be successful in maintaining any or all of the various approvals, licenses and permits in full force and effect without modification or revocation. To the extent such approvals are required and not obtained; the Company may be curtailed or prohibited from continuing or proceeding with planned exploration or development of oil and gas properties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in oil and gas operations or in the exploration or development of oil and gas properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations or applicable laws or regulations.

Amendments to current laws and regulation governing operations or more stringent implementation thereof could have a substantial impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new oil and gas properties.

The Company has no History of Oil and Gas Production or Operations

The Company has never had oil and gas producing properties. There is no assurance that commercial quantities of oil and gas will be discovered at the Properties or other future properties nor is there any assurance that the Company's exploration program thereon will yield positive results. Even if commercial quantities of oil and gas are discovered, there can be no assurance that any property of the Company will ever be brought to a stage where oil and gas resources can profitably be extracted there from. Factors which may limit the ability of the Company to extract oil and gas from its properties include, but are not limited to, the spot prices of oil and gas, availability of additional capital and financing and the nature of any reserve deposits.

The Company does not have a history of oil and gas operations and there is no assurance that it will produce revenue, operate profitably or provide a return on investment in the future.

Future Sales of Common Shares by Existing Shareholders

Sales of a large number of Common Shares in the public markets, or the potential for such sales, could decrease the trading price of the Common Shares and could impair the Company's ability to raise capital through future sales of Common Shares. Substantially all of the Common Shares can be resold without material restriction in Canada.

No Assurance of Titles or Borders

The acquisition of the right to exploit oil and gas properties is a very detailed and time consuming process. There can be no guarantee that the Company has acquired title to any such surface or extraction rights or that such rights will be obtained in the future. To the extent they are obtained, titles to the Company's surface or oil and gas properties may be challenged or impugned and title insurance is generally not available. The Company's surface or oil and gas properties may be subject to prior unregistered agreements, transfers or claims and title may be affected by, among other things, undetected defects. Such third party claims could have a material adverse impact on the Company's operations.

The Issuer could be deemed a passive foreign investment company which could have negative consequences for U.S. investors.

Depending upon the composition of the Issuer's gross income or its assets, the Issuer could be classified as a passive foreign investment company ("PFIC") under the United States tax code. If the Issuer is declared a PFIC, then owners of the Common shares who are U.S. taxpayers generally will be required to treat any "excess distribution" received on their Common shares, or any gain realized upon a disposition of Common shares, as ordinary income and to pay an interest charge on a portion of such distribution or gain, unless the taxpayer makes a qualified electing fund ("QEF") election or a mark-to-market election with respect to the Common shares. A U.S. taxpayer who makes a QEF election generally must report on a current basis its share of the Issuer's net capital gain and ordinary earnings for any year in which the Issuer is classified as a PFIC, whether or not the Issuer distributes any amounts to its shareholders. U.S. investors should consult with their tax advisors for advice as to the U.S. tax consequences of an investment in the Common shares.

14. INFORMATION REGARDING FORWARD LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations contain certain forward-looking statements. Forward-looking statements include but are not limited to those with respect to the prices of oil and gas, the estimation of oil and gas resources and reserves, the realization of oil and gas reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, currency fluctuations, requirements for additional capital, Government regulation of oil and gas operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage and the timing and possible outcome of pending litigation. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such risks and uncertainties include, among others, the actual results of current exploration activities, conclusions or economic evaluations, changes in project parameters as plans continue to be refined, possible variations in grade and or recovery rates, failure of plant, equipment or processes to operate as anticipated, accidents, labour disputes or other risks of the mining industry, delays in obtaining government approvals or financing or incompleteness of development or construction activities, risks relating to the integration of acquisitions, to international operations, and to the prices of gold and other metals. While the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.