TAIPAN RESOURCES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED OCTOBER 31, 2014

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 twelve months ended October 31, 2014. The discussion below should be read in conjunction with the Company's audited consolidated financial statements for the year ended October 31, 2014. 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 and developing economically viable oil and gas resource deposits in East Africa and other prospective hydrocarbon provinces.

The Company's head office and principal address is 2630 – 1075 West Georgia Street, Vancouver, BC, V6E 3C9. The Company's operational office (Lion Petroleum Corp.) is 1st Floor, Empress Plaza, Corner of Ring Road and Jalaram Road, Westlands, Nairobi, Kenya.

2. COMPANY HIGHLIGHTS

During the year ended October 31, 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.
- Completed a farm-out agreement with Tower Resources (Kenya) Ltd., a subsidiary of Tower Resources Inc. ("Tower"), whereby Tower acquired a 15% participating interest in Block 2B. As part of the agreement, Tower paid US$4,500,000 and issued 9,000,000 common shares of Tower to the Company and will make a contingent payment of US$1,000,000 upon the spud of a second well on Block 2B.

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 17,824,812 units at a price of $0.36 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 $0.50 until April 4, 2018. In connection with the offering, the Company paid certain finders a cash commission and other costs totaling $167,980, issued 413,444 units valued at $186,440, and issued to the finders 362,734 common share purchase warrants exercisable with the same terms as the warrants attached to the units. As of October 31, 2014, $117,000 in subscriptions is still receivable related to this private placement

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 had the option to acquire an additional 30% interest in Block 1 by incurring an additional US$6,000,000 in exploration expenditures. On April 5, 2012 EAX exercised its option to acquire an additional 30% interest in Block 1. Following an extension of the initial exploration period to October 8, 2012 and the acquisition of a total of 1,900 kilometres 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 in order to drill a well to 3,000 meters for 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 the into a second additional exploration period which expires October 31, 2016. EAX is in the second addional 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.

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. Subsequent to October 31, 2014 the Company commenced an arbitration action against EAX (see Subsequent events).

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).

The Company has notified the Government of Kenya that the Company has entered 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 would include 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, a second additional exploration period of two contract years will also be available to the Company with an estimated expenditure obligation of US$19,000,000 including further seismic and two exploration wells to 3,000 metres each. Subsequent to entering the first additional exploration period, the Company reached agreement with the Ministry of Energy to substitute 200km 2D seismic data acquisition for the 25 square kilometres of 3D seismic.

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 in to a farm-out agreement with Premier Oil Investments Ltd. ("Premier") a subsidiary of Premier Oil PLC whereby Premier has acquired a 55% participating interest in Block 2B. Under the terms of the farm-out, Premier will carry the Company through the cost of work for the first additional exploration period. Premier will also provide 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 for back costs. During the year ended October 31, 2014 the Company cash called and received US$6,543,793 (2013 - $Nil) which has been recorded as a reduction of exploration and evaluation expenditures in the statement of 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 and issued 9,000,000 common shares of Tower to the Company. Tower will make a contingent payment of US$1,000,000 upon the spud of a second well on Block 2B.

Breakdown of exploration expenditures as follows:

For the year ended October 31		2014		2013
EXPENSES				
Block 1 Cash calls	$	1,168,791	$	2,203,580
Block 2B Geological and geophysical studies		583,033		929,646
Block 2B Geophysical data and acquisition and processing		3,150,266		6,743,586
Block 2B Depreciation		8,877		-
Block 2B Drilling		2,914,462		-
Block 2B Training and license fees		146,638		-
Indirect and taxes		2,480,566		1,586,447
Management fees		357,519		1,040,421
		10,810,152		12,728,099
Cash call from Premier		(9,383,109)		-
Cash call from Tower		(1,521,240)		-
Total exploration expenditures for the year	$	(94,197)	$	12,728,099

4. OUTLOOK

Following the completion of the amalgamation with Lion, and after the required relinquishment in Block 2B, Taipan retains a significant onshore acreage holding in East Africa of 27,712 square kilometres or 6.85 million acres. The region has seen growing exploration activity in recent years and a number of oil and gas discoveries have been announced. A report produced by Sproule Associates Limited of Calgary, identified estimated net un-risked prospective resources of approximately 1.6 billion barrels of oil equivalent in Block 2B whilst Taipan's share of gross un-risked prospective resources reported by the operator of Block 1 is net 153 million barrels of oil equivalent. Both blocks are located in Kenya making Taipan one of the largest acreage holders. Taipan is currently drilling the Badada-1 well, which if successful, Taipan estimates gross mean unrisked recoverable resources of 251 million barrels of oil equivalent.

5. SELECTED FINANCIAL INFORMATION

	October 31, 2014	**October 31, 2013**	**October 31, 2012**
Net sales	$Nil	$Nil	$Nil
Net loss	$4,020,255	$15,807,507	$2,203,392
Loss per share – basic and diluted	$0.04	$0.19	$0.05
Total assets	$17,918,261	$16,299,585	$21,942,621
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, 2014 compared to 2013

The net loss for the period decreased by $11,787,252 to $4,020,255 (2013 – $15,807,507). This decrease in net loss is primarily due to the recovery of exploration expenditures on Block 1 and 2B in Kenya from the farm-out agreements with Premier and Tower. Individual items are as follows:

- Exploration (recovery) net expenditures decreased by $12,822,286 to a recovery of $94,197 (2013 - $12,728,089) as a result of the farm-out agreements with Premier and Tower.

- Filing and regulatory fees increased by $82,478 to $131,244 (2013 - $48,766) due to the Company's listing on the OTCQX.

- Foreign exchange loss of $133,888 (2013 – $36,291) represents unrealized foreign exchange related to operations in Kenya.

- Management and consulting fees increased by $451,622 to $790,489 (2013 - $338,867) due to the addition of management as the Company further develops its Blocks in Kenya.

- Office, rent and administrative increased by $368,205 to $549,986 (2013 – $181,781) as the Company had a larger staff as well as a new office in the UK.

- Accounting and legal increased by $150,361 to $398,781 (2013 - $248,420) as a result of increased work on special transactions including the Tower and Premier farm-ins and private placements.

- Promotion and shareholder communication increased by $365,633 to $635,714 (2013 - $270,081) as a result of increased activity and promotion of the Company's resource properties and an increase in allocation of senior managements time towards to promotion.

- Share-based payments of $947,470 (2013 - $1,687,192) reflecting the recognition of the option expense from stock options that were granted and vested during the year.

- Travel increased by $190,831 to $386,943 (2013 - $196,112) due to travel for farm-out and travel to and from Kenya for senior management.

- Receivable allowance of $31,106 (2013 - $71,888) relates to an allowance created for GST receivable in Canada which the Canada Revenue Agency is disputing.

- Write-off of accounts payable and accrued liabilities of $55,553 (2013 - $Nil) relates to old payables from Lion Petroleum Corp. that are no longer considered liabilities of the Company.

5.2 Cash flows for the year ended October 31, 2014 compared to 2013

Cash outflows from operating activities increased by $1,076,184 to $10,084,107 (2013 – $9,007,923) primarily as a result of the Company paying outstanding accounts payable and accrued liabilities with the funds raised from the recent private placement. The bulk of that was offset by a large cash call receivable.

Cash inflows from investing activities of $4,817,898 (2013 – $3,250,000) were as a result of cash received from farm out partners Tower and Premier.

Cash inflows from financing activities increased by $3,279,899 to $6,619,454 (2013 - $3,339,555) from the completion of a non-brokered private placement and the exercise of stock options.

5.3 Summary of Quarterly results

	2014				2013			
	Q4 $	Q3 $	Q2 $	Q1 $	Q4 $	Q3 $	Q2 $	Q1 $
Net Sales	-	-	-	-	-	-	-	-
Net loss	1,078,032	2,495,844	127,834	318,545	4,525,272	1,453,499	7,148,409	2,680,327
Basic and diluted net loss per share	0.01	0.02	0.00	0.00	0.05	0.02	0.08	0.04

The reduced net loss realized in Q1 and Q2 of 2014 related to the income from the Premier farm-in agreement and related expenditure recoveries.

5.4 Results of Operations for the three month period ended October 31, 2014 compared to 2013

The net loss for the period decreased by $3,447,240 to $1,078,032 (2013 – $4,525,272). This decrease in net loss is primarily due to an exploration recovery 2B in Kenya. Individual items are as follows:

- Exploration expenditures decreased by $4,288,997 to recovery of $321,214 (2013 - $3,967,783) mainly as a result of the exploration recovery from the farm out agreements.
- Filing and regulatory fees increased by $35,692 to $38,009 (2013 - $2,317) as the Company incurred additional regulatory fees in order to be listed on the OTCQX.
- Foreign exchange gain of $111,508 (2013 – $36,643) represents unrealized foreign exchange related to operations in Kenya.
- Management and consulting fees increased by $350,229 to $413,845 (2013 - $63,616) due to an increased staff as the Company further develops its Blocks in Kenya.
- Office, rent and administrative increased by $85,837 to $129,563 (2013 – $43,726) due to larger staff and a new office in the UK.
- Accounting and legal fees increased by $55,231 to $123,556 (2013 - $68,325) due to legal costs in relation to the farm-out agreements.
- Promotion and shareholder communication increased by $74,627 to $128,499 (2013 - $53,872) as a result of increased activity and promotion of the Company's resource properties and an increase in allocation of senior managements time towards to promotion.
- Share-based payments of $515,392 (2013 - $156,716) reflecting the recognition of the warrants and option expense from stock options that were granted and vested during the year.
- Travel increased by $84,177 to $144,553 (2013 - $60,376) due to travel for farm-out and travel to and from Kenya for senior management.

5.5 Financial Position

The increase in cash of $1,232,147 to $1,504,078 (October 31, 2013 - $271,931) is primarily due to exploration expenditures on Block 2B offset by a cash call received by Premier, funds received on the Tower farm-in and the completion of a non-brokered private placement during the year.

Deposits and prepaid expenses increased by $116,802 to $221,537 (October 31, 2013 - $104,735), as a result of the Company providing deposits on corporate credit cards and making year-long prepayments during the year.

Receivables increased by $3,793,007 to $3,803,865 (October 31, 2013 - $10,858) due mainly to cash calls receivable from the farm-in partners Tower and Premier. Also the Company created a provision for accrued Goods and Service Tax ("GST") recoverable.

Exploration and evaluation assets of $12,203,101 (October 31, 2013 - $15,912,061) relate to the oil and gas properties in Kenya. The decrease from the carrying value at October 31, 2013 relates to the sale of a 15% interest in Block 2B to Tower.

Accounts payable and accrued liabilities decreased by $3,436,868 to $3,268,290 (October 31, 2013 - $6,705,158). The reduction was primarily attributable to the Company paying its Block 1 cash call obligations during the year.

Share capital increased by $8,023,687 to $34,212,536 (October 31, 2013 - $26,188,849) principally due to the non-brokered private placement completed during the period and stock options exercised.

Reserves increased by $309,831 to $2,541,020 (October 31, 2013 - $2,231,189) represent the fair value of stock options and warrants granted and exercised during the year to officers, directors and consultants.

6. LIQUIDITY AND CAPITAL RESOURCES

At October 31, 2014, the Company had working capital of $2,394,925, including cash of $1,504,078 as compared to working capital deficiency of $6,317,634, including cash of $271,931 at October 31, 2013.

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 106,986,317 issued and outstanding common shares, 8,450,000 outstanding stock options, and 71,866,876 outstanding warrants.

8. OFF STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

At October 31, 2014, 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. SUBSEQUENT EVENT

Subsequent to October 31, 2014, the Company:

a) Received a formal notice from the High Court of Kenya of a temporary injunction at its Block 2B property that was later reversed as the court agreed to allow the Company to continue drilling Block 2B; and

b) Commenced an arbitration action against EAX with respect to what management believes are certain breaches to the joint operation agreement with respect to Block 1. The Company is seeking not less than US$10,000,000 as restitution for damages.

10. 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 Officer (Maxwell Birley), Chief Financial Officer (Joel Dumaresq), and Directors of the Company. The remuneration of the key management personnel is as follows:

- Paid or accrued management, consulting, and exploration expenditures of $1,003,832 (2013 - $1,021,092) to the CEO, CFO and non-executive director Charles Watson.
- Paid or accrued office, rent, and administration fees of $72,000 (2013 - $Nil) to a company controlled by the CFO and director of the Company.
- Issued 2,500,000 (2013 – 7,050,000) stock options with a fair value of $782,210 (2013 - $1,514,766).

The amount of $284,652 (2013 - $292,213) is due to related parties. All balances are unsecured, non-interest bearing, has no fixed repayment terms, and are due on demand.

11. 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.

12. IFRS STANDARDS NOT YET ADOPTED

The following new standards, amendments to standards and interpretations have been issued but are not effective during the period ended October 31, 2014:

- IFRS 9 New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets, deferred indefinitely
- IAS 32 (Amendment) New standard amends IAS 32 to provide clarifications on the application of the offsetting rules, effectively for annual periods beginning on or after January 1, 2014.

The Company anticipates that the application of these standards, amendments and interpretations will not have a material impact on the results and financial position of the Company.

13. 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, 2014, the Company had a cash balance of $1,504,078 to settle current liabilities of $3,268,290. 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. Receivables consist mainly of GST receivable from the Government of Canada. The Company has been successful in recovering input tax credits and believes credit risk with respect to receivables to be insignificant.

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. As at October 31, 2014, the Company did not have any investments in investment-grade short-term deposit certificates.

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.

14. 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, 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.

15. 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 incompletion 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.