



**MOLORI ENERGY INC.**

**(FORMERLY TAIPAN RESOURCES INC.)**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**PERIOD ENDING July 31, 2017**

**MOLORI ENERGY INC.**  
**(FORMERLY TAIPAN RESOURCES INC.)**  
Management's Discussion and Analysis  
Period ended July 31, 2017

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*Set out below is a review of the activities, results of operations and financial condition of Molori Energy Inc. ("MOL", "Molori", or the "Company") for the period ended July 31, 2017. The discussion below should be read in conjunction with the Company's condensed interim financial statements ("financial statements") for the period ended July 31, 2017. 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 September 26, 2017.***

*The Company is listed on the Toronto Venture Stock Exchange and trades under the symbol MOL. The Company is also listed on the OTCQB, operated by OTC Markets Group, and trades under the symbol MOLOF.*

*Additional information related to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website is [www.molorienergy.com](http://www.molorienergy.com)*

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## **1. BACKGROUND AND CORE BUSINESS**

Molori Energy 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. On January 5, 2017 the Company announced that it has changed its name from Taipan Resources Inc. to "**Molori Energy Inc.**" ("Molori" or "the Company").

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

## **2. COMPANY HIGHLIGHTS**

During the period ended July 31, 2017:

- J On July 20, 2017 the Company reported that its Texas-based operating partner, Ponderosa Energy, LLC ("Ponderosa") has secured a reserve based loan ("RBL") facility from a Texas bank. The proceeds of the RBL, together with cash on hand and current cash flows, will initially be applied towards the accelerated development of its well re-completion program. The initial facility size is USD \$5,000,000 with a term of three (3) years. Outstanding funds used for development will accrue interest at a rate of Prime Rate + 25 basis points (0.25%) with a floor of four percent (4.00%). The RBL is a crucial milestone for operational growth and will provide additional liquidity for well re-completions, acquisitions, new drilling and working capital. In addition, Ponderosa has applied for permits to drill three drill-ready targets, the first of which it anticipates completing and testing by mid-August. The wells will be drilled in conjunction with Molori's and Ponderosa's plans to test the Red Cave formation at approximately 2500 feet, and are anticipated to cost approximately USD \$250,000-\$300,000 per well.
- J On June 5, 2017 the Company announced that on May 31, 2017, the Company completed upon an agreement to acquire a 25-per-cent working interest in certain leases owned and operated by Ponderosa Energy LLC. This acquisition is in addition to the 25-per-cent working interest in certain leases originally acquired on June 6, 2016. The additional properties comprise 24 leases and 156 wells, of which 70 are presently producing.
- J On May 4, 2017 the Company published an updated National Instrument 51-101 reserve report. The updated NI 51-101 report, effective April 01, 2017 and prepared by Amiel David, Ph.D of PeTech Enterprises Inc, has resulted in US\$30.1 million 1P (Total Proven Reserves), including USD\$21.9 million in PDP and USD\$8.2 million in PDNP. Molori's interest is 25%.
- J On February 24, 2017, the Company has been verified to trade on OTCQB®, the venture marketplace for entrepreneurial and development stage companies operated by OTC Markets Group. Trading commenced on February 22, 2017 under the symbol "MOLOF".
- J On February 16, 2017, the Company completed a private placement and issued 3,000,000 units at a price of \$0.10 per Unit for gross proceeds of \$300,000. Each Unit consisted of one common share and one common share purchase warrant. Each full warrant gives the holder the right to purchase one additional common share of Molori at an exercise price of \$0.20 for one year following the closing of the Private Placement.
- J On January 5, 2017, the Company announced that it has changed its name to "Molori Energy Inc." ("Molori" or "the Company"). As the Company advances its business model in oil and gas production in Texas, the core business has shifted from oil and gas exploration to oil and gas production. Management believes our new name better reflects the core business activities of the company.

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

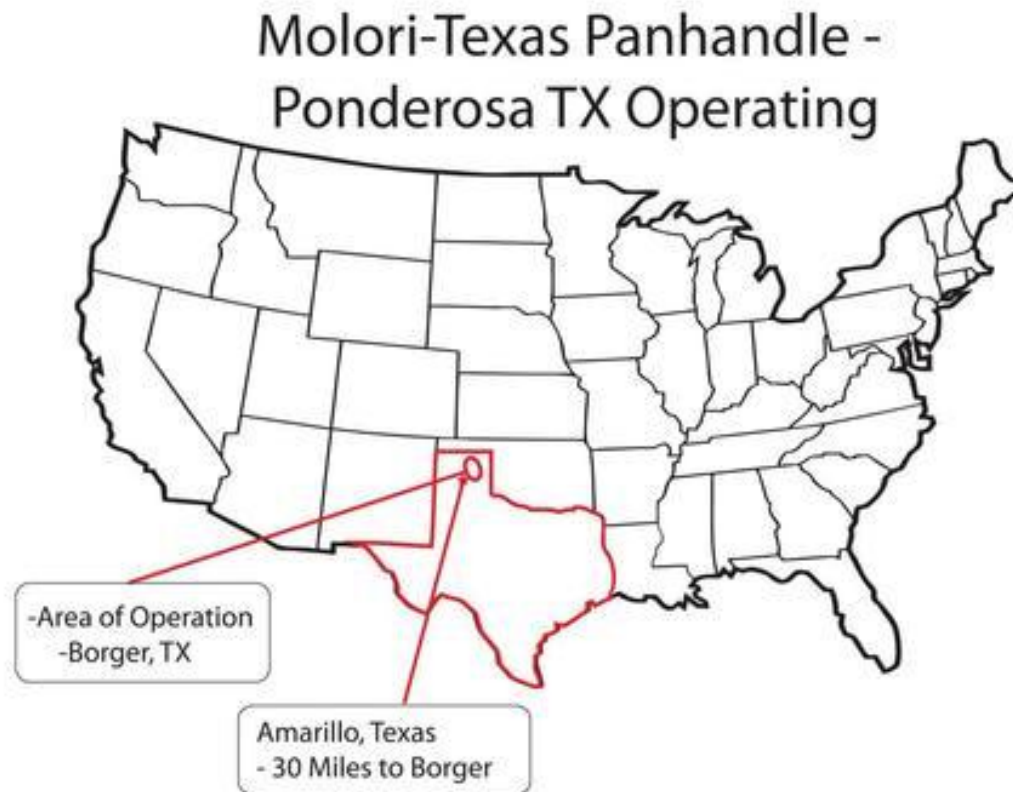
The Company is an oil and gas production company with current operations in the Texas Panhandle. Molori's goal is to be successful in an environment of low oil prices. The fact that Molori has no debt, has positioned the company extremely well to benefit from the continuing rebound in oil prices. Having no debt, and cash on hand, is crucial to Molori's strategy to acquire assets and production during this period of low energy prices.

On June 6, 2016, Molori closed on the purchase of a 25% working interest in the oil and gas production from certain leases owned by Texas-based Ponderosa Energy, LLC. In conjunction with the purchase, Molori committed USD \$1,000,000 in working capital towards a program to complete workovers on the Texas-based leases in order to increase production.

Ponderosa, a domestic USA oil and gas production company, is the operator on the leases and is presently focused on aggregating and developing shallow conventional oil reserves in Texas. Ponderosa purchased these leases when oil prices dipped below \$30 per barrel from distressed operators with highly-leveraged balance sheets and an inability to fund operations.

Molori and Ponderosa have chosen to collectively pursue assets which specifically exhibit the following properties: ***shallow reservoir, low geologic risk, moderate decline rates, and existing infrastructure.***

The focus of Molori and Ponderosa's activities has been in the "Hugoton-Panhandle" field in Northern Texas. In aggregate, Molori has a 25% interest in the approximately 400 wells purchased by Ponderosa. Molori Energy Inc is continuing to back Ponderosa as it fulfills its operational obligations in redeveloping non-operating wells and bringing them back into production.



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**Properties**

**Ponderosa – 25% Working Interest (“WI”)**

CREST Engineering Services, Inc. prepared a NI 51-101 reserve report dated April 1, 2016, representing Molori's 25% WI on certain leases owned by Ponderosa Energy, LLC. The April 1, 2016 report showed USD\$5.15 million of 1P (Total Proven Reserves) consisting of US\$1.25 million PDP (Proved Developed Producing) and USD\$2.89 million PDNP (Proved Developed Non-Producing).

Subsequent to April 30, 2017 and on May 4, 2017 the Company published a new updated NI 51- 101 report, effective April 01, 2017 and prepared by Amiel David, Ph.D of PeTech Enterprises Inc. The updated report shows US\$30.1 million 1P (Total Proven Reserves), including USD\$21.9 million in PDP and USD\$8.2 million in PDNP.

The NI 51-101 was prepared in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook"), prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

**Proved Reserves Discounted Cash Flow Million \$ - 100%**

	Apr-17
PDP (Proved Developed Producing)	\$ 21,900
PDNP (Produced Developed Not Producing)	\$ 8,186
PV-10 (1P) (Total Proven)	\$ 30,086

-All numbers are in USD

-Molori interest is 25%

**Geologic Summary**

The Panhandle West Field was discovered in Wheeler County in 1910. It is a giant gas and oil field covering 200,000 acres in eight counties in the Texas Panhandle. The total production from the field is approximately 1.5 billion barrels of oil and 8.4 trillion cubic feet of gas. Production is almost entirely from the Granite Wash and Brown Dolomite intervals found at approximately 2400 feet and the Red Cave formation at approximately 1500 feet.

The reservoir is a pressure depletion gas cap expansion reservoir with pressure maintenance being handled through water and gas injection which was initiated in 1946. The field is in the late stages of production, but several wells have become economically viable as commodity prices have increased and remain viable, even in the current price downturn. The natural gas is high BTU and is sold at a significant premium to NYMEX.

The recompletion projects identified in the NI 51-101 report include reactivations of existing wells, and all Proved reserves are based on decline curve analysis and continuation of previous declines. Extensive research has been done in the field and a type curve has been generated for a typical reactivation. These reserves have been included in a Possible category when the performance of the type curve exceeds the previous decline and indicates a lower probability for success. Each well reactivation has been estimated to cost \$12,000 based on the previous experience of the operator.

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**Statement of 100% Ponderosa's income expressed in US dollars**  
**(For the nine- month period ending July 31, 2017)**

Some of the indicators used by us to analyze and evaluate our results represent non-IFRS financial measures. We provide non-IFRS financial performance measures as they may be used by some investors to evaluate our financial performance. Since the non-IFRS performance measures do not have any standardized definition prescribed by IFRS, they may not be comparable to similar measures presented by other companies. Accordingly, they are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. For the non-IFRS financial performance measures not already reconciled within the document, we have defined the IFRS financial performance measures below and reconciled them to reported IFRS measures.

<i>For the period</i>	<b>November 2016 to July 2017</b>	June 2016, date of acquiring working interest, to July, 2016
Oil (Bbl)	39,144	-
Natural Gas (Mcf)	212,395	-
Total Production (Boe)	74,543	-
<b>Average daily production</b>	<b>273.05</b>	-
	<i>USD \$</i>	<i>USD \$</i>
<b>Operating Results per Boe:</b>		
Oil sales (\$/Bbl)	45.99	-
Natural gas sales (\$/Mcf)	4.89	-
Total sales (\$/Boe)	38.09	-
<b>Lease operating expenses (\$/Boe)</b>	<b>12.85</b>	-
<b>Operating Results</b>		
Oil sales	1,800,213	-
Natural gas sales	1,038,934	-
<b>Operating revenues</b>	<b>2,839,148</b>	-
Lease operating expenses	957,674	-
Oil and gas production taxes & royalties	716,748	-
Depreciation, depletion and amortization	1,368,254	-
General and administrative	1,005,383	-
<b>Total operating costs and expenses</b>	<b>4,048,059</b>	-
<b>Net income (loss)</b>	<b>(1,208,911)</b>	-
Add Depletion	1,368,254	-
<b>Total EBITDA</b>	<b>159,343</b>	-

The above statement shows operations in the currency in which revenue prices are denominated. It also presents the combined operation as viewed by investors, lenders, and USA readers of the financial performance of the combined entity. (Please also refer to the Company's 25% WI share in Canadian dollars under IFRS on page 6.)

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**Current Period results**

The table below represents Molori's 25% share of net loss in Ponderosa for the nine-month period ending July 31, 2017

	<b>Nine-month period ending July 31, 2017</b>	June 2016, date of acquiring working interest, to July, 2016
	<u>USD\$</u>	<u>USD\$</u>
	<u>Molori - 25%</u>	<u>Molori - 25%</u>
Gross oil & gas revenue	709,787	-
Royalties, Taxes and Distribution charges	179,187	-
<b>Net Revenue</b>	<b>530,600</b>	<b>-</b>
Lease operating expenses	239,419	-
G&A	251,346	-
Depreciation, depletion and amortization	342,063	-
<b>Molori Net (Loss) in USD\$</b>	<b>(302,228)</b>	<b>-</b>
<b>Molori Net (Loss) in CAD\$</b>	<b>(402,096)</b>	<b>-</b>

Refer to the company's accompanying financial statements for the period ended July 31, 2017, for full accounting disclosure under IFRS.

**4. OUTLOOK**

In June 2016 the Company closed an acquisition of a twenty-five percent (25%) working interest in fifty-seven (57) oil and gas leases covering 7,314 acres located in the bifurcated Texas Panhandle with the goal to benefit from producing oil & gas assets. The Company's plan is to continue acquire additional interest in producing oil and gas leases to increase its share of production.

On May 31, 2017, the Company completed upon an agreement to acquire a 25-per-cent working interest in certain additional leases owned and operated by Ponderosa Energy LLC. The additional properties comprise 24 leases and 156 wells, of which 70 are presently producing. The agreement is effective January 1, 2017.

As evident by the May 4, 2017 reserve report, Molori continues its strategy of acquiring non-producing oil wells, cost-effectively re-working those wells, and bringing them back into production. Since June 2016, Molori's partners at Ponderosa have increased gross PDP ("Proved Developed Producing") values from USD \$1.3 million to over \$21.9 million at the end of March 2017. Molori is committed to expanding upon this core business strategy, while at the same time assembling additional prospective acreage.

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**5. SELECTED FINANCIAL INFORMATION**

For the	Three-months ended July 31, 2017 \$	Three-months ended July 31, 2016 \$	Nine-months ended July 31, 2017 \$	Nine-months ended July 31, 2016 \$
<b>OIL AND GAS PRODUCTION</b>				
Revenue	228,160	-	701,734	-
Production costs	(189,861)	-	(650,459)	-
Depletion	(114,459)	-	(453,371)	-
Loss from oil and gas production	(76,160)	-	(402,096)	-
<b>EXPENSES</b>				
Accounting and legal	(42,108)	35,066	4,467	91,024
Exploration recovery	(128,791)	145,556	(128,791)	(1,306,493)
Accretion of decommissioning liabilities	2,406	-	7,218	-
Filing and regulatory	18,999	9,621	49,587	12,145
Foreign exchange loss (gain)	(61,933)	(138,253)	(34,020)	(47,191)
Interest income	(323)	-	(1,052)	-
Management and consulting	363,977	118,654	589,477	911,652
Office, rent and administrative	36,666	39,519	93,459	118,477
Marketing and shareholder communication	169,598	-	299,586	(17,073)
Share-based payments	172,553	56,630	333,407	56,630
Unrealized loss on marketable securities	-	2,352	-	14,258
Travel	23,180	20,904	44,482	79,074
<b>Income (loss) for the period</b>	<b>(630,384)</b>	<b>(290,049)</b>	<b>(1,659,916)</b>	<b>87,497</b>
<b>Income (loss) for the period</b>	<b>(630,384)</b>	<b>(290,049)</b>	<b>(1,659,916)</b>	<b>87,497</b>
<b>Other comprehensive loss</b>				
Change in cumulative translation adjustment	-	(40,751)	-	(32,190)
<b>Comprehensive income (loss) for the period</b>	<b>(630,384)</b>	<b>(330,800)</b>	<b>(1,659,916)</b>	<b>55,307</b>
<b>Basic and diluted earnings (loss) per common share</b>	<b>(0.02)</b>	<b>(0.03)</b>	<b>(0.07)</b>	<b>0.01</b>
<b>Weighted average number of common shares outstanding</b>				
	<b>31,235,492</b>	<b>10,548,632</b>	<b>23,507,185</b>	<b>10,548,632</b>

**5.1 Results of Operations for the period ended July 31, 2017 compared to 2016**

The net loss for the period increased by \$1,747,413 to \$1,659,916 (2016 – income of \$87,497). This increase in net loss is primarily due concluding exploration operations in Kenya, abandonment of subsidiary at the end of October 31, 2016 and loss from oil and gas production in Texas that was not present in prior period. Individual items are as follows:

- J Net oil and gas production resulting in a net loss of \$402,096 (2016 - \$NIL). The company's 25% share of oil and gas operations in Texas.
- J Accounting and legal decreased by \$86,557 to \$4,467 (2016 - \$91,024) due to completion of final audits relating to Kenyan operations in prior period and some reclassification of legal costs to share issuance costs.

**5.1 Results of Operations for the period ended July 31, 2017 compared to 2016 (cont'd...)**

- J Exploration recovery decreased by \$1,177,702 to \$128,791 (2016 – recovery \$1,306,493) as a result of no further oil and gas exploration in Kenya and completion of exploration reconciliations.
- J Filing and regulatory fees increased by \$37,442 to an expense of \$49,587 (2016 – \$12,145). Part of the increase was the Company listing on the OTCQB in the USA and one time reclassifications in prior period.
- J Foreign exchange gain of \$34,020 (2016 –\$47,191) in current period is due to funds held in USD bank accounts and revaluation of certain accounts payable in foreign currencies. In the prior year unrealized foreign exchange mostly related to operations in Kenya. Lion's functional currency was in USD and all cash in lion was held in USD.
- J Management and consulting fees decreased by \$322,175 to \$589,477 (2016 - \$911,652). In 2016 the Company paid a large severance to the former CEO.
- J Office, rent and administrative decreased by \$25,018 to \$93,459 (2016 – \$118,477). The Company only has one office in Canada now as opposed to the U.K. and Kenyan offices in prior periods.
- J Marketing and shareholder communication increased by \$316,659 to \$299,586 (2016 – recovery of \$17,073). In the prior period there were one time adjustments to the amount which resulted in a recovery. Due to the Company's new direction and focus in Texas-based oil and gas production, the Company incurred additional expense in current period relating to marketing and shareholder communications.
- J Travel decreased by \$34,592 to \$44,482 (2016 - \$79,074) due to changes in the Company's operations and geographical focus, resulting in less travel by management.
- J Unrealized loss on marketable securities of \$NIL (2016 –\$14,258). The change is a result from the write-down of marketable securities to ZERO at year-end.
- J Accretion of decommissioning liabilities of \$7,218 (2016 – \$NIL) results from accretion expense associated with the decommissioning liability associated with the Company's 25% working interest in Ponderosa.
- J Share based payments of \$333,407 (2016 - \$56,630). The Company granted 1,970,000 stock options (2016 – 825,000) to officers, consultants and directors in the current period.

**5.2 Cash flows for the period ended July 31, 2017 compared to 2016**

Cash from operating activities (\$422,686) (2016 – \$233,679) primarily as a result change from earning to loss, change in accounts payable and accrued liabilities, decrease in receivables and increase in prepaids.

Cash inflows from financing activities of \$2,798,307 (2016 – \$NIL). The Company closed two private placements during current period.

Cash outflows from investing activities \$2,100,767 (2016 - \$NIL) resulted from property additions in the current period.



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**5.3 Summary of Quarterly results**

	2017			2016				2015
	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$
Net Sales	(76,160)	(230,138)	(95,798)	(54,997)	-	-	-	-
Net (income) loss	630,384	752,220	277,312	(2,206,323)	290,049	(981,653)	604,106	13,173,008
Basic net (earnings) loss per share	0.02	0.03	0.02	(0.22)	0.03	(0.09)	0.06	1.25
Diluted net (earnings) loss per share	0.02	0.03	0.02	(0.20)	0.03	(0.09)	0.06	1.25

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 during 2015. Cash calls were netted against exploration and evaluation expenses. The large loss on Q4 of 2015 is result of the impairment of exploration property and the net income in 2016 a result of the abandonment of Lion petroleum. In 2017 there were no "one-time" adjustments but rather a reflection of operations in Texas and the Company's pickup of its 25% working interest.

**5.4 Financial Position**

Cash of \$678,020 (October 31, 2016 - \$403,166). Normal business activity, mitigated by the February and May private placements.

Prepaid expenses \$19,179 (October 31, 2016 - \$208,802), decrease is due to Molori's 25% advance paid to Ponderosa being drawn down by further capital and operational expenses during the quarter.

Receivables \$71,329 (October 31, 2016 - \$68,038). No major change. Consistent with prior period.

Property \$3,643,795 (October 31, 2016 - \$1,996,399) relates to further capital spending on oil and gas properties in Texas during the period.

Accounts payable and accrued liabilities \$393,390 (October 31, 2016 - \$366,488). The increase from year end to end of period is largely due to Molori's 25% share of costs to Ponderosa for expenses.

Long-term liabilities \$328,013 (October 31, 2016 - \$320,795) relates to the Company's ARO obligation on oil and gas leases. Increase as results of accretion expense.

Share capital \$36,733,050 (October 31, 2016 - \$33,608,036). Increase relates to the issuance of common shares net of share issuance costs on the November 2016, February 2017 and May 2017 private placements as well as exercise of warrants.

Reserves \$2,957,484 (October 31, 2016 - \$2,583,714). Increase as result of stock based compensation and broker warrants classified as share issuance costs.

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**6. LIQUIDITY AND CAPITAL RESOURCES**

At July 31, 2017, the Company had a working capital of \$375,138, including cash of \$678,020 as compared to working capital of \$313,518, including cash of \$403,166 as at October 31, 2016.

The Company's continued development and production is contingent upon its ability to raise sufficient financing both in the short and long-term and for its share in producing oil & gas properties to be profitable. There are no guarantees that additional sources of funding will be available to the Company and if and when the Company will be profitable; however, management is committed to pursuing all possible sources of financing and other resources in order to execute its business plan including new equity issues and other forms of financing.

**7. OUTSTANDING SHARE DATA**

At the date of this report the Company has 32,518,498 issued and outstanding common shares, 2,795,000 outstanding stock options, and 14,739,757 outstanding warrants.

**8. OFF STATEMENT OF FINANCIAL POSITION ARRANGEMENTS**

At July 31, 2017, 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**

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

	<b>July 31, 2017</b>	<b>July 31, 2016</b>
	\$	\$
Management and director fees	315,000	679,594
Stock based compensation	36,225	
	<b>351,225</b>	<b>679,594</b>

The Company incurred the following transactions with companies that are controlled or managed by directors of the Company:

	<b>July 31, 2017</b>	<b>July 31, 2016</b>
	\$	\$
Rent	42,750	54,000
Office expenses	5,400	31,500
	<b>48,150</b>	<b>85,500</b>

The amount of \$35,977 (October 31, 2016 - \$44,944) is due to related parties. All balances are unsecured, non-interest bearing and are due on demand.

## **10. SIGNIFICANT ESTIMATES AND ASSUMPTIONS**

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of net assets, liabilities, and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. 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.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the amortization of equipment, recoverability of the carrying value of exploration and evaluation assets, fair value measurements for, reserves and accumulated depletion, financial instruments and stock-based compensation and other equity-based payments, and the recoverability of deferred tax assets. Actual results may differ from those estimates and judgments..

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgement applied in preparing the Company's financial statements is the assessment of the Company's ability to continue as a going concern.

## **11. IFRS STANDARDS NOT YET ADOPTED**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning after October 1, 2016 or later periods.

The following new standards, amendments and interpretations that have not been early adopted in these consolidated financial statements, is not expected to have a material effect on the Company's future results and financial position:

- a) IFRS 9 Financial Instruments (New; to replace IAS 39 and IFRIC 9); and
- b) Amendments to IAS 32 Financial Instruments: Presentation.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

## **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.

## **12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**

### **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 July 31, 2017, the Company had a cash balance of \$678,020 to settle current liabilities of \$393,390. The Company is currently investigating financing and other 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 anticipates it will need additional capital in the future to support its business model in oil and gas production in Texas and elsewhere. The core business has shifted from oil and gas exploration to oil and gas production and to date has not created sufficient revenue to support the Company yet. Capital could be derived from the exercise of outstanding warrants and the completion of other equity financings. The Company has limited financial resources and has no assurance that additional funding will be available to it for future 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 operational success of its activities. 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. As at July 31, 2017, the Company had investments in investment-grade short-term deposit certificates. Interest earned is negligible and therefore interest rate risk is very low.

##### b) Foreign currency risk

The majority of the Company's business is conducted in United States dollars. As such, the Company is exposed to foreign currency risk in fluctuations among the Canadian dollar, the US dollar. Fluctuations in the exchange rate among the Canadian dollar 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 a profitable market will exist for the sale of oil & gas production. There can be no assurance that oil & gas prices will be such that the Company's share of production can be extracted at a profit. Factors beyond control of the Company may affect the marketability of any size and form of production. 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 future acquisitions and development and ; in particular the Company will have further capital requirements as it proceeds to expand its present development activities at Texas 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 interest in properties are early 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 expenses and should not be taken to represent realizable value. The long-term profitability of the Company's operations will be in part directly related to the cost and success of its development and any future 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 yet currently operating profitably and it should be anticipated that it will operate at a loss at least until such time as steady production is achieved from the Company's WI properties. The Company has never earned a profit. Investors also cannot expect to receive any dividends on their investment in the foreseeable future.

**13. RISK FACTORS (cont'd...)**

*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, ground movements, 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 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.

**13. RISK FACTORS (cont'd...)**

*Government Regulation*

The Company's oil and gas exploration and planned development activities are subject to various laws governing prospecting, development, production, taxes, labor 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 and with the acquisition of the 25% WI in Texas, it marks the first time that the Company has had oil & gas production. There is no assurance that commercial quantities of oil and gas will be produced and/or discovered at the Properties or other future properties nor is there any assurance that the Company's exploration programs (if any) thereon will yield positive results. 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.

**13. RISK FACTORS (cont'd...)**

*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. ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

Additional disclosures concerning Molori's expenses are provided in the Company's statement of loss and comprehensive loss and note disclosures contained in its interim condensed financial statements for the period ended July 31, 2017. These statements are available on the Molori website – [www.molorienergy.com](http://www.molorienergy.com) and its SEDAR Page. Site accessed through [www.sedar.com](http://www.sedar.com).

**Dividends**

The Company has no earnings or dividend record and is unlikely to pay any dividends in the foreseeable future as it intends to employ available funds for mineral exploration and development. Any future determination to pay dividends will be at the discretion of the board of directors and will depend on the Company's financial condition, results of operations, capital requirements and such other factors as the board of directors deem relevant.

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

In contrast to the certificate required under National Instrument 52-109 Certificate of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109, in particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

- (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with the Company's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.



**14. ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE (cont'd...)**

**Nature of the Securities**

The purchase of the Company's securities involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company's securities should not constitute a major portion of an investor's portfolio.

**Proposed Transactions**

There are currently no significant proposed transactions.

**Approval**

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the Financial Statements are approved by the Board of Directors and submitted to the shareholders of the Company. The Board of Directors of the Company has approved the financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

**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 oil & gas 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 oil & natural gas. 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..