

GEOROX RESOURCES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS AND QUARTERS ENDED
DECEMBER 31, 2017 AND 2016

GENERAL

The following Management Discussion and Analysis ("MD&A") prepared as of December 31, 2017, and dated April 11, 2018, is provided for the purpose of reviewing the results for the quarter ended December 31, 2017 and is intended to assist in the full understanding of the trends and significant changes in the global financial condition and results of operations as at December 31, 2017 and year ended December 31, 2016. This discussion and analysis of the performance, financial condition and future prospects of Georox Resources Inc. (the "Corporation" or "Georox") should be read in conjunction with the Corporation's audited financial statements for the year ended December 31, 2017 together with the notes thereto.

Petroleum and natural gas reserves and volumes are converted to a common unit of measure on a basis of six thousand cubic feet (Mcf) of gas to one barrel (bbl) of oil. BOEs may be misleading, particularly if used in isolation. The forgoing conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms to the Canadian Securities Regulators' National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities. For the purpose of this MD&A, oil is defined to include the following commodities: light and medium oil and primary heavy oil.

Amounts are shown in Canadian dollars unless otherwise stated. All production volumes disclosed herein are sales volumes.

BASIS OF PRESENTATION

Georox prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS").

Forward Looking Statements

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts that address activities, events or developments that Georox expects are forward looking statements. The Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions which the Corporation is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Management's assessment of future plans and operations, capital expenditure requirements, methods of financing and the ability to fund financial liabilities, changes in royalty rates and the timing and impact of accounting policies may constitute forward-looking statements under applicable laws and necessarily involve risks including and without limitation, risks associated with oil and gas exploration, development and exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations imprecision of reserve estimates, environmental risks, competition from, other producers, the inability to fully realize the benefits of acquisitions, delays resulting from, or inability to obtain, required regulatory approvals and ability to access sufficient capital from internal and external sources. Readers and investors are cautioned that such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include market prices, exploration and exploitation successes, continued availability of capital and financing and general economic, market or business conditions.

Although the Corporation believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realised. The use of any of the words "anticipate", "believe", "continue", "estimate", "expect", "may", "will", "forecast", "project", "plan", "should" and similar expressions are intended to identify forward-looking information. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The risks associated with these forward-looking statements include, but are not limited to, the following:

- *Fluctuations in oil production levels;*
- *Volatility in market prices for gas, liquids and oil*
- *Uncertainties associated with estimating reserves;*
- *Well production and decline rates;*
- *Changes in the general economic conditions in Canada and Worldwide;*
- *The effects of weather conditions;*
- *The ability of Georox to obtain financing including equity and debt, and*
- *Actions taken and policies by governmental or regulatory authorities including changes to tax laws, incentive programs, royalty calculations and environmental regulations.*

Additional information related to the Corporation is available on SEDAR at www.sedar.com, and on the Corporation's website at www.georoxresources.com.

General Risk Factors

The continuation of the Corporation as a going concern is dependent upon the ability of the Corporation to obtain necessary equity or other financing to continue exploring its oil and gas properties and to attain sufficient profitable operations.

DESCRIPTION OF BUSINESS

Georox is a Canadian natural resources corporation presently engaged in the acquisition, exploration and development of oil and gas properties in Western Canada.

The Corporation was incorporated on April 14, 2003, under the *Canada Business Corporations Act* ("CBCA"). The Corporation's shares initially began trading on the TSX Venture Exchange under the trading symbol "ORR" on March 29, 2005 and on the Frankfurt Exchange under the trading symbol "OF6" on June 21, 2006. On August 25, 2008, the Corporation's name was changed to "Georox Resources Inc." and the TSX Venture Exchange trading symbol changed to "GXR".

OVERALL PERFORMANCE

Revenues from operations were \$391,064 for December Q4, 2017 with royalty expenses of \$12,278. The Corporation recorded a loss for Q4 (\$1,043,807), 2017 as compared to a loss of (\$676,442) for Q4, 2016. The loss for the quarter arose partly because of a write down of expired land and impairment of the Meekwap property of \$364,694, additional interest from the breach of covenant on credit facilities of \$291,293, a correction of amount on deferred share units of \$63,071 and lower volume production due to shutting in of wells for the waterflood project at the Red Earth property. The Corporation received higher prices for the sale of its crude oil in Q4 as compared to an average price of \$54.26 for the year and an average price of \$43.00 in 2016. The Corporation's average selling price for the four quarters in 2017 are as follows: Q4 \$58.38, Q3 \$47.91, Q2 \$55.07 and Q1 \$55.58 Cdn \$ per boe. Currently, the seven wells at the Red Earth property are operated by the Corporation. The Corporation received all pipeline and facility approval permits from the AER for its waterflood program, the waterflood project is complete, and with all wells tied into the waterflood facility and are producing.

Working capital for the year ended December 31, 2017 was (\$7,204,444) as compared to the year ended December 31, 2016 of (\$6,097,842). The Corporation's default in all the loan covenants with its lender increased the interest rate to 19% for the outstanding loan balance.

NON – IFRS MEASURES

The financial data presented herein has been prepared in accordance with IFRS. The Corporation has also used certain measures of financial reporting that are commonly used as benchmarks within the oil and natural gas production industry in the following MD&A discussion. The measures are widely accepted measures of performance and value within the industry, and are used by investors and analysts to compare and evaluate oil and natural gas exploration and producing entities. Most notably, these measures include “operating netback”, “funds flow from (used in) operations”.

Operating netback is a benchmark used in the crude oil and natural gas industry to measure the contribution of oil and natural gas sales and is calculated by deducting royalties and operating expenses from revenues. Management utilizes this measure to analyze operating performance.

Funds from operations is cash flow from operating activities before changes in non-cash working capital and certain other items, and is used to analyze operations, performance and liquidity. The Corporation considers funds flow from operations a key measure as it demonstrates the Corporation's ability to generate the cash flow necessary to fund future growth through capital investment and to repay debt. The Corporation's calculation of funds flow from operations may not be comparable to that reported by other companies.

These measures are not defined under IFRS and should not be considered in isolation or as an alternative to conventional IFRS measures. These measures and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of another entity. When these measures are used, they are defined as “Non IFRS” and should be given careful consideration by the reader as non-IFRS financial measures do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

NOTE REGARDING BOES AND MCFs

In this MD&A, barrels of oil equivalent (“boe”) are derived by converting gas to oil in the ratio of six thousand cubic feet (“Mcf”) of gas to one barrel (“bbl”) of oil (6 Mcf: 1 bbl) and one thousand cubic feet of gas equivalent (“Mcfes”) are derived by converting oil to gas in the ratio of one bbl of oil to six Mcf (1 bbl: 6 Mcf). Boes and Mcfes may be misleading, particularly if used in isolation. A boe conversion of 6 Mcf of natural gas to 1 bbl of oil, or a Mcfe conversion ratio of 1 bbl of oil to 6 Mcf of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. Given that the value ratio based on the current price of oil as compared to natural gas is significantly different from the energy equivalency of 6:1 utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

SELECTED FINANCIAL INFORMATION

Year Ended	Dec 31, 2017 \$	Dec. 31 2016 \$	Dec31 2015 \$
Petroleum Revenues (Gross)	1,780,057	\$ 1,885,044	\$ 2,415,664
Funds From Operations	(665,506)	(539,099)	(633,257)
Net Income/(Loss) from Operations	(1,967,921)	(1,725,137)	(2,876,637)
Per share – Basic and diluted	(0.08)	(0.10)	(0.2)
Total Assets	7,055,949	7,627,893	8,529,723
Total Current liabilities	7,561,173	(6,857,313)	(6,069,819)
Weighted average common shares	24,435,679	19,463,267	13,584,645

	Dec 31 2017 \$	Sept 30, 2017 \$	June 30, 2017 \$	March 31, 2017 \$	Dec 31, 2016 \$	Sept 30, 2016 \$	June 30, 2016 \$	Mar 31, 2016 \$
Revenue	391,064	344,932	526,353	517,707	590,226	485,219	474,244	335,355
Net Profit/(Loss)	(1,043,807)	(261,052)	(418,228)	(244,834)	(676,442)	(309,426)	(368,072)	(371,197)
Net Profit (Loss) per Share	(0.08)	(0.01)	(0.06)	(0.01)	(0.03)	(0.01)	(0.02)	(0.01)

Over the past eight quarters, the Corporations's oil and gas revenues have fluctuated due to changes in production, movement in CDN\$ WTI benchmark price, the oil differentials and partially offset by a stronger Canadian dollar. The fluctuation was also caused by a decrease in production due to natural declines and temporary shut-in of wells in Red Earth for the waterflood project. Net loss has also fluctuated due to depletion, impairment, share based compensation, finance cost and administrative expenses. Average selling price was \$58.38 per boe in Q4.

Netback

Total production and sales for the Q4 ended December 31, 2017 and 2016 was 6,698 and 7,200 boes, with a production decrease of 502 boes compared to 2016. Average netback for the three months in Q4 of 2017 and 2016 were \$30 and \$17. Increase in netback for Q4 occurred because the Corporation operated its own wells and did not use third party facilities for water disposal and oil processing. The average production for the year is 90 boes per day.

Royalties

Total royalties are the combination of royalties paid on crown lands, royalties paid on freehold lands, and gross overriding royalties. However, the overall corporate royalty rates under the Alberta Royalty Framework ("ARF") are sensitive to both commodity prices and production levels. Therefore royalty rates and royalties under ARF will fluctuate with commodity prices, well production rates, production decline of existing wells and performance and locations of new wells drilled. Royalty expense for Q4, 2017 was \$1.83 per boe as compared to Q4 \$4.30 per boe in 2016.

In 2016, the provincial government of Alberta announced the Modernized Royalty Framework (“MRF”) that came into effect on January 1, 2017. The MRF will result in the modernization and simplification of the royalty structure with changes to the royalty framework for wells drilled after the effective date. No changes will be made to the royalty structure of wells drilled prior to January 1, 2017 for a ten year period. In addition, wells drilled prior to January 1, 2017 can early opt in to the MRF as long as the well represents additional capital and it can be demonstrated that the well would not have been drilled otherwise in 2016. Georox continues to assess the impact of the changes to the royalty structure and the Corporation expects that the MRF will not have a significant impact on its operations.

Operating Cost

All activities associated with operating the wells and facilities are included in the operating expenses. They include such items as gathering, processing and treating, compression, hauling, lifting and production storage. The average operating cost per boe for Q4 of 2017 was \$27.03 as compared to Q4 of 2016 of \$31 per boe. In 2017, the average operating cost decreased due to a reduction in general well servicing, water disposal and processing fees from October to December, 2017. In addition the volume production was significantly lower thereby impacting expenses per boe. In Q4, the Corporation operated four of its wells thereby only incurring minor cost for processing and water disposal fees. However operating costs tended to fluctuate from month to month depending on the amount of well servicing required to maintain production levels. Management continues to monitor operating costs to minimize expenses where possible.

Transportation Costs

Transportation cost represents 8% of total revenue in Q4 of 2017. On a per boe basis, the cost was \$5.14 as compared to \$8.14 per boe in Q4 of 2016. The decrease in this cost in 2017 is largely due to lower volume of fluids being transported to move marketable crude oil to selling points. Transportation costs included clean oil trucking and hauling, treating and processing fees, gathering and transmission and compression fees. There has been a small reduction in trucking costs due to system modifications and upgrades in the facilities. The transportation costs are dependent on a variety of factors such as the method of transportation, the distances covered, the rates charged by the carriers, quantities shipped, cost of fuel, the type of service offered, as well as ownership of the transportation facilities.

General and Administrative

The general and administrative costs for Q4, 2017 and Q4, 2016 are \$195,107 and \$158,278. In Q4, 2017 the cost was higher due to increase in marketing, consulting, office expenses including salaries and computer software. The cost reflects the cost of managing the Corporation’s properties and associated activities and includes office rent, legal, transfer agent fees, reserve evaluation fees, audit and accounting and other professional fees. Georox continually directs significant efforts to maintaining or reducing its controllable costs. Administrative costs represent 50% of sales in Q4, 2017 as compared to 27% of sales in Q4, 2016. In Q4, 2017, administrative costs were higher and sales were lower. Increased legal costs occurred for the renewal of the loan that the company has with its lenders.

Stock Based Compensation costs are non-cash charges which reflect the estimated value of stock options granted to officers, employees and consultants. The fair value of all stock options granted is recorded as a charge to operations over the period from the grant date to the vesting date of the option. In 2017, 350,000 options were granted to directors of the Corporation. For the options issued in 2017, 150,000 expire in 2 years, and 200,000 expire in 3 years. The 350,000 options granted in 2017 vest 1/3 immediately, 1/3 on June 30, 2018, and 1/3 on December 31, 2018. The 1,000,000 options granted in 2016 vest 1/4 immediately, 1/4 on April 7, 2017, 1/4 on October 7, 2017 and 1/4 on April 7, 2018 and all of these options expire in 5 years from the grant date.

In Q4 of 2017, stock-based compensation of \$12,101 (December, 2016 – \$41,081), was recorded relating to stock options which vested during Q4.

Depletion, Depreciation and Impairment

Impairment is estimated based on the higher of fair value less costs to sell and value in use. The value in use is derived using the forecasted cash flows related to both proved and probable reserves, with escalating prices and future development costs as estimated in Sproule's report. The recoverable amounts are estimated based on the discount rates of 15%.

On a per boe basis, the rate of depletion, depreciation and impairment ("DDA") was at an average of \$86 per boe in Q4 of 2017 as compared to \$28 per boe in Q4, 2016. The increase is due to the increased impairment that occurred on one of its properties. The Corporation used proved and probable reserves under IFRS for the calculation of DDA.

Decommissioning Liabilities

The Corporation estimates the total inflation-adjusted undiscounted amount of cash flow required to settle its asset retirement obligations, before salvage proceeds, at December 31, 2017 to be \$1,559,175 and December 31, 2016 - \$1,563,881 which will be incurred at various times over the next twenty years. The fair value of the decommissioning liability was calculated using the risk free rates ranging from 1.66% to 2.22% and an inflation factor of 2.0% (December 31, 2016 - 0.51% to 2.21% and 2.0% respectively). Settlement of the obligations will be funded from general corporate funds at the time of retirement. As at December 31, 2017 no funds have been set aside to settle these obligations.

LIQUIDITY AND CAPITAL RESOURCES

The financial statements have been prepared on a going concern basis which assumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at December 31, 2017 the Corporation's value was \$3,428,400. The Company expects to finance its working capital deficiency and its ongoing working capital requirements through cash and adjusted funds flow from operations. The continuing operations of the Corporation are dependent upon its ability to continue to raise adequate financing in the future.

Liquidity risk

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its liabilities when due. As at December 31, 2017, the Corporation does not have sufficient cash equivalent to settle its trade and other payables of (\$2,276,006) and (December 31, 2016 (1,741,306). The Corporation's working capital deficiency at December 31, 2017 was \$7,204,444 (December 31, 2016 – (\$6,097,842). All of the Corporation's financial liabilities have contractual maturities of 30 days or less and are subject to normal trade terms and are scheduled for payment within one year. Currently, the Corporation is not in compliance with its covenants

with its lenders. The Corporation made an application to conduct a waterflood program on its Red Earth property and has received approval from the Alberta Energy Regulator. The waterflood program has been completed.

During the year ended December 31, 2016, the Corporation closed a Private Placement of 7,698,333 Units for aggregate proceeds of \$461,900 at a price of \$0.06 per Unit. Each Unit consisted of one Common Share and one Common Share Purchase Warrant. Each Warrant is exercisable at a price of \$0.12 per Common Share for a period of one year. All securities in the Private Placement were subject to a four month hold period from closing. Agents were paid \$4,800 in finders fees in connection with the Private Placement. The fair value of the 7,698,333 warrants, \$214,963, was determined using the Black-Scholes option pricing model using the following assumptions: Risk-free rate 0.51%- 0.62%; expected life of 1 year, expected volatility of 159% - 166%.

In July 2017, the Corporation completed a Private Placement of 3,044,570 Units of the Corporation at a price of \$0.07 per Unit for aggregate gross proceeds of \$213,120. Each Unit consisted of one Common Share of the Corporation and one half of a Common Share Purchase Warrant. Each Warrant shall be exercisable for one Common Share at a price of \$0.14 per Common Share for a period to and including May 22, 2019. All securities in the Private Placement were subject to a four month hold period from closing.

In July 2017, Georox issued Common Shares in connection with arrangements with a consultant. Georox issued 200,000 Common Shares at a price of \$0.05 per share and 153,846 Common Shares at a price of \$0.065 per share for services rendered to the Corporation by a Consultant.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's cash and cash equivalents are exposed to minimal interest rate risk.

The Corporation continues to assess additional petroleum and natural gas projects and plans to raise additional debt or equity amounts as needed to fund development opportunities and acquisitions and to maintain sufficient working capital to meet administrative expenditures.

The Corporation considers its capital structure to be working capital. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Corporation, is reasonable. There were no changes in the Corporation's approach to capital management during the quarter ended December 31, 2017.

Credit Facilities

During the year ended December 31, 2015, the Corporation had an agreement with a financial institution for a revolving line of credit of \$975,000 and a \$200,258 non-revolving demand loan facility (the "Senior Lender Facilities").

On May 9, 2014, subsequently amended on June 9, 2015, June 12, 2015 and September 24, 2015, the Corporation entered into an agreement with a mezzanine financier for a credit facility subordinated to the Senior Lender Facilities, repayable on November 30, 2015 bearing interest at 12% (the "Mezzanine Financing").

Credit facilities *(continued)*

On February 16, 2016, the Corporation restructured and consolidated its credit facilities. The Corporation's mezzanine financier (the "Lender"), consolidated the Corporation's Senior Lender

Facilities with the Mezzanine Financing (the "Credit Facility"). The amendments to the Mezzanine Financing were deemed to be a substantial modification of terms. As such, the existing Mezzanine Financing was extinguished at its carrying value and the Credit Facility was recognized as a new liability at fair value. The difference between the carrying value of the original debt and the fair value of the modified debt was recorded as a gain on extinguishment of the Credit Facility in the amount of \$14,137 in the statements of loss and comprehensive loss for year ended December 31, 2016.

On September 6, 2017, the Corporation amended the Credit Facility and obtained additional financing from the Lender. The amended Credit Facility ("Credit Facility A") has a maturity date of July 31, 2018 (changed from April 30, 2018) and an interest rate of 10% per annum. In the event of default, the interest rate increases to 19% per annum. Additional financing of up to \$600,000 ("Credit Facility B") was extended by the Lender for the purpose of funding a waterflood project at the Corporation's Red Earth property. Credit Facility B has a maturity date of July 31, 2018 and has an interest rate of 12% per annum, increasing to 19% per annum in the event of default.

As at December 31, 2017, \$4,662,921 (December 31, 2016 - \$4,582,454) was outstanding on Credit Facility A and \$387,180 (December 31, 2016 - nil) was outstanding on Credit Facility B.

Principal repayments on Credit Facility B are \$30,000 per month commencing November 30, 2017, increasing to \$50,000 commencing January 31, 2018. Principal repayments on Credit Facility A of \$50,000 per month shall begin on the last day of the month following the repayment of Credit Facility B.

The Credit Facilities A and B (collectively, the "Amended Credit Facilities") are secured by promissory notes for \$4,622,945 and \$600,000, a \$25,000,000 fixed and floating charge debenture, a general security agreement on the assets of the Corporation and a \$4,000,000 debenture from the Corporation providing a security interest in all present and after-acquired personal property, a fixed charge on all the oil and gas assets and a floating charge over all other present and after-acquired real property.

Participation fee

Per the terms of the Amended Credit Facilities, the Lender is entitled to a participation fee on the 2018 net revenues (defined as total revenues less royalties) up to a cumulative amount of \$500,000. The participation fee is due on April 30, 2018.

Covenants

The Corporation is subject to the following covenants under the Amended Credit Facilities:

- A 1.0:1.0 current ratio;
- A Secured Debt to Trailing Cash Flow at or below:
 - 8.0:1.0 during the quarter ended June 30, 2016;
 - 6.0:1.0 during the quarter ended September 30, 2016
 - 4.0:1.0 during the quarter ended December 31, 2016; and,

Credit facilities *(continued)*

- 3.0:1.0 during the quarter ended March 31, 2017 and thereafter.
- A corporate Licensee Liability Rating (“LLR”) of 1.5 or greater; and,
- Maintain monthly sales production of 140 boe/day commencing April 30, 2016.

At December 31, 2017 and December 31, 2016, the Corporation was in breach of all the covenants except for maintaining an LLR of 1.5 or greater. As a result of the breach of covenants, the Corporation accrued interest at 19% from January 1, 2017 to December 31, 2017 amounting to \$423,153 (December 31, 2016 - \$278,588).

As a result of defaults relating to financial covenants and failure to make required principal repayments as required by the February 16, 2016 amendment to the Credit Facility, on September 8, 2017, the Corporation entered into a Forbearance Agreement and a Quitclaim with the Lender.

The Quitclaim provides for the transfer of title in the petroleum and natural gas assets and interests owned by the Corporation as satisfaction for all indebtedness and obligations to the Lender. In conjunction with the Quitclaim, the Corporation has also entered into a Forbearance Agreement that states that the Lender will refrain from enforcing the Quitclaim or any of the following rights until July 31, 2018:

- Terminate the Amended Credit Facilities;
- Cease to make available or extend any such Amended Credit Facilities;
- Accelerate payment of the Amended Credit Facilities; and,
- Appoint a receiver to manage the Corporation’s assets.

Warrants

Pursuant to the terms of the February 16, 2016 amendment of the Credit Facility, the Corporation granted to the lender 333,333 Common Share purchase warrants with a term to expiry of two years and an exercise price of \$0.15 per Common Share (the “New Warrants”). The terms of the New Warrants include:

- provisions that provide for a cashless exercise by the Lender;
- typical adjustment provisions to adjust the number of the New Warrants and the exercise price in the event of any share consolidation, recapitalization, reclassification, or similar transaction or reorganization of share capital; and,
- provisions allowing exercise in the event of any change in control, business combination or other transaction involving the Corporation.

The warrants issued pursuant to the June 9, 2015 amendment to the Mezzanine Financing were cancelled upon the issuance of the New Warrants.

The New Warrants contain a cashless exercise provision. As such, the New Warrants are considered a derivative liability and are required to be fair-valued at each reporting period.

Credit facilities *(continued)*

The following table summarized the accounting for the Credit Facilities:

	Debt	Derivative liability	Total
Balance, December 31, 2015	\$ 3,332,023	\$ 3,521	\$ 3,335,544
Revaluation of derivative at February 16, 2016	-	10,593	10,593
Extinguishment of original credit facility	(3,332,023)	(14,114)	(3,346,137)
New Credit Facility	4,465,394	48,027	4,513,421
Additions to Credit Facility	17,027	-	17,027
Principal repayment	(25,000)	-	(25,000)
Unpaid interest added to Credit Facility	77,006	-	77,006
Accretion	136,636	-	136,636
Revaluation of derivative at December 31, 2016	-	(18,246)	(18,246)
Balance, December 31, 2016	\$ 4,671,063	\$ 29,781	\$ 4,700,844
Additions to Credit Facility A	6,217	-	6,217
Amounts advanced under Credit Facility B	417,180	-	417,180
Principal repayment	(30,000)	-	(30,000)
Accretion	131,066	-	131,066
Unpaid deferred fee added to Credit Facility A	74,250	-	74,250
Revaluation of derivative at December 31, 2017	-	(14,390)	(14,390)
Balance, December 31, 2017	\$ 5,269,776	\$ 15,391	\$ 5,285,167

The accretion, interest and revaluation of derivative are charged to finance expense in the statements of loss and comprehensive loss.

The derivative financial liability was measured at fair value using the Black-Scholes valuation model, with the change to the fair value being recorded in finance expense as a gain on the derivative revaluation. The fair value of the derivative financial liability was determined using the following level 2 assumptions:

	December 31, 2017	December 31, 2016
Risk-free interest rate (%)	1.66	0.73
Expected life (years)	0.13	1.13
Expected volatility (%)	287	156
Expected dividends	-	-
Exercise price (\$)	0.15	0.05
Share price (\$)	0.13	0.05

Going concern

The Financial Statements and this MD&A have been prepared on a going concern basis, which implies the Corporation will continue to realize its assets and discharge its liabilities in the normal course of business. The Corporation generated a net loss of (\$1,043,807) for Q4, 2017 as compared to (\$676,442) in Q4, 2016. As of December 31, 2017, the Corporation had a working capital deficiency of \$7,204,444 (December 31, 2016 – \$6,097,842), and an accumulated deficit of \$15,492,956. (December 31, 2016 – \$13,528,035). As such, there is material uncertainty related to these conditions that may cast significant doubt on the Corporation's ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. The continuation of the Corporation as a going concern is dependent upon the ability of the Corporation to obtain necessary equity or other financing to continue exploring its oil and gas properties, and/or to attain sufficient profitable operations. The ability of the Corporation to be successful in obtaining financing cannot be predicted at the present time. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Corporation be unable to continue as a going concern.

OUTSTANDING SHARES

Share capital

As of May 2, 2016, the Company consolidated its shares on a one to three basis pursuant to a special resolution passed by shareholders on April 30, 2016. All references to common shares, per share amounts, warrants, and options for all periods presented have been retroactively restated to reflect this consolidation.

- (a) Authorized
Unlimited number of common shares
- (b) Issued

	2017		2016	
	<i>Number of Shares</i>	<i>Amount</i>	<i>Number of Shares</i>	<i>Amount</i>
Balance, beginning of year	22,973,895	\$ 10,106,434	15,275,562	\$ 9,864,297
Shares issued, net of warrant value	3,044,570	116,957	7,698,333	246,937
Shares issued, settlement of debt	353,846	20,000		
Share issue costs	-	-	-	(4,800)
Balance December 31, 2017	26,372,311	10,243,391	22,973,895	\$10,106,434

(c) Stock Options

During the year ended December 31, 2017, 350,000 (December 31, 2016 – 1,000,000) options were granted to directors of the Corporation. For the options issued in 2017, 150,000 expire in 2 years, and 200,000 expire in 3 years. The 350,000 options granted in 2017 vest 1/3 immediately, 1/3 on June 30, 2018, and 1/3 on December 31, 2018. The 1,000,000 options granted in 2016 vest 1/4 immediately, 1/4 on April 7, 2017, 1/4 on October 7, 2017 and 1/4 on April 7, 2018. The fair value of the options granted was determined using the Black-Scholes option pricing model based on the following weighted average assumptions:

	2017	2016
Risk-free interest rate (%)	1.54%	0.72%
Weighted average expected life (years)	2.6	5
Expected volatility (%)	187%	154%
Expected dividend yield (%)	-	-
Weighted average fair value (\$)	0.06	0.09
Forfeiture rate	3%	3%

A summary of the Corporation's option plan as of December 31, 2017 and December 31, 2016 and changes during the years are presented as follows:

	<i>2017</i>		<i>2016</i>	
	<i>Number of options</i>	<i>Weighted average exercise price (\$/share)</i>	<i>Number of options</i>	<i>Weighted average exercise price</i>
Balance, beginning of year	1,200,000	0.14	358,333	0.36
Granted	350,000	0.07	1,000,000	0.10
Expired	(100,000)	0.10	(158,333)	0.45
Forfeited	(100,000)	0.10	-	-
Balance, end of year	1,350,000	0.09	1,200,000	0.14

During the year ended December 31, 2017, stock-based compensation of \$36,344 (December 31, 2016 - \$43,474) was recorded .

As at December 31, 2017, the following options are outstanding:

<i>Range of exercise price (\$/share)</i>	Options outstanding			Options exercisable	
	<i>Outstanding</i>	<i>Weighted average remaining contractual life</i>	<i>Weighted average exercise price (\$/share)</i>	<i>Number exercisable</i>	<i>Weighted average exercise price (\$/share)</i>
0.07-0.10	1,350,000	3.11 years	0.09	916,667	0.09

As at December 31, 2016, the following options are outstanding:

<i>Range of exercise price (\$/share)</i>	Options outstanding			Options exercisable	
	<i>Outstanding</i>	<i>Weighted average remaining contractual life</i>	<i>Weighted average exercise price (\$/share)</i>	<i>Number exercisable</i>	<i>Weighted average exercise price (\$/share)</i>
0.10	1,200,000	4.38 years	0.14	450,000	0.13

Warrants

During the year ended December 31, 2016, the Corporation issued 7,698,333 Share Purchase Warrants in connection with the May 20, 2016 and July 4, 2016 Private Placements. The Warrants are each exercisable for one Common Share at a price of \$0.12 per common share until April 30, 2018.

During the quarter ended September 30, 2017, the Corporation issued 1,522,285 Share Purchase Warrants in connection with the July 27, 2017 Private Placement. The Warrants are each exercisable for one common share at a price of \$0.14 per common share until May 22, 2019.

A summary of changes in warrants during the year ended December 31, 2017 and 2016 is as follows:

	December 31, 2017		December 31, 2016	
	Number	Amount	Number	Amount
Balance, beginning of year	7,698,333	\$ 214,963	1,369,433	\$ 277,103
Expired	-	-	(1,369,433)	(277,103)
Granted	1,522,285	96,163	7,698,333	214,963
Balance, end of period	9,220,618	\$ 311,126	7,698,333	\$ 214,963

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2017, \$68,480 (December 31, 2016 - \$66,612) was expensed for legal services provided by a law firm of which a director of the Corporation is a partner. Included in trade and other payables at December 31, 2017 is \$72,817 (December 31, 2016 - \$73,934) owing to this law firm.

During the year ended December 31, 2017, management, consulting and engineering fees of \$96,000 (December 31, 2016 - \$103,500) included in general and administrative expenses were charged by two officers of the Corporation and by a company controlled by an officer. Included in trade and other payables at December 31, 2017 is \$14,000 (December 31, 2016 - \$17,000) owing to these officers.

The above transactions with related parties are in the normal course of business.

DIRECTORS COMPENSATION

Effective January 1, 2014, the Corporation implemented a cash-settled deferred share unit (“DSU”) plan as a form of compensation for the non-employee Directors.

Key management personnel include executive officers and non-executive directors. Executive officers are paid a salary and participate in the Corporation’s stock option program. The executive officers include the Chief Executive Officer, Chief Financial Officer, and Vice President of Finance and Corporate Development. Non-executive directors also participate in the Corporation’s stock option program. Key management personnel compensation is comprised of the following:

	<i>2017</i>	<i>2016</i>
Salaries and short term benefits	\$ 126,000	\$ 138,866
Stock-based compensation	36,344	43,474
Total key management remuneration	\$ 162,344	\$ 182,340

For the year ended December 31, 2017, 370,280 DSU’s were granted (December 31, 2016 – 356,439), with a fair value of \$22,250 (December 31, 2016 - \$20,250) which is included in general and administration expense. As at December 31, 2017, 933,241 DSU’s (December 31, 2016 – 429,945), were outstanding and the fair value of the DSU’s of \$121,321 (December 31, 2016 - \$56,000) is included in trade and other payables.

	<i>2017 Number of DSU’s</i>	<i>2016 Number of DSU’s</i>
Opening balance	562,961	206,522
Granted	370,280	356,439
Ending Balance, Outstanding	933,241	562,961

RISKS

The risks in the oil and gas industry are varied and wide-ranging:

Going Concern

The Corporation's business is capital intensive and additional capital is required on a periodic basis. Specifically, continuing operations, as intended, are dependent on management's ability to raise required funding through future equity issuances, credit facilities, asset sales or a combination thereof, which is not assured, especially in the current uncertain financial and commodity price environment. The sharp decline in commodity prices during the latter half of 2014 through to the second quarter ended June 30, 2017, negatively affected the Corporation's ability to access additional capital on terms acceptable to the Corporation, which is required for liquidity purposes and to fund commitments on the Corporation's properties. The current world-wide economic environment relating to the oil and gas industry has made access to capital challenging for many companies, Georox included. This has resulted in liquidity challenges and unless the Corporation is able to raise additional capital or renegotiate its commitments, it does not anticipate meeting all of its anticipated 2017 capital commitments. Furthermore, there is potential that future commodity prices and the world-wide economic environment relating to the oil and gas industry, in general, will remain relatively stagnate in its current position for an extended period of time and Georox will need to negotiate with its creditors to improve payment terms and/or pursue some form of asset sale, equity financing or other capital raising effort in order to fund its operations during the next twelve months. To that end, the Corporation is currently, and will continue, on an ongoing basis, examining alternative sources of capital, including potential debt and equity financing and ways to monetize its assets, including, without limitation, asset sales or swaps, joint ventures, corporate mergers or acquisitions, farmouts or other transactions with industry partners, all with a view to enhance liquidity and meet commitments. The need to raise capital or defer expenditures to fund ongoing operations creates uncertainty that may cast doubt over the Corporation's ability to continue as a going concern. There is no certainty that these and other strategies will be sufficient to permit the Corporation to continue as a going concern.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field-operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut in of connected wells for various reasons including access issues resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical issues. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

A material change in prices of commodities may affect the Company's borrowings, ultimately affecting the raising of equity capital by the Corporation.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and to the financial systems, and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions are continuing in 2017 causing a loss of confidence in the broader Canadian and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate. These factors have negatively impacted corporate valuations and will impact the performance of the global economy going forward.

Commodity Price Risk

The nature of the Corporation's operations results in exposure to commodity fluctuations. The Corporation closely monitors commodity prices to determine the appropriate course of action to be taken by the Corporation. A material change in prices of commodities affected the Corporation's borrowings ultimately affecting the raising of equity financing. The Corporation does not hedge commodity price risk and has no physical forward price or financial derivative sales contracts as at or during the quarter ended December 31, 2017. Although improved, petroleum prices are expected to remain volatile for the near future as a result of the market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions, regional conflicts and the ongoing global credit and liquidity concerns.

Operational Dependence

Other companies operate various producing wells in which the Corporation holds interests except for the two wells that the Corporation operates in the Pouce Coupe property and nine wells in its most recent acquisition of the Red Earth/Otter property. The Corporation has limited ability to exercise influence over the non-operated assets or their associated costs, which could adversely affect the Corporation's financial performance. The Corporation's return on assets operated by others therefore depends upon a number of factors that may be outside of the Corporation's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Regulatory Compliance

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase the Corporation's costs, any of which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In order to conduct oil and gas operations, the Corporation will require licenses from various government authorities. There can be no assurance that the

Corporation will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it will be in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Corporation and its operations and financial condition.

Substantial Capital Requirements

The Corporation anticipates making capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future in order to replace reserves. If the Corporation's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. In addition, uncertain levels of near term industry activity coupled with the recent global credit crisis exposes the Corporation to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes including repayment of loan facilities when due or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access sufficient capital for its operations and capital requirements could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Dilution

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

Conflicts of Interest

Certain directors of the Corporation are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the CBCA. See "Directors and Officers – Conflicts of Interest".

Recent accounting standards

(a) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations have been issued by the IASB which are not yet effective, and have not been applied in preparing these consolidated financial statements. The Corporation does not expect the amendments to have a material impact on the financial statements.

(b) IFRS 9 financial instruments

IFRS 9 addresses requirements for the classification and measurement of financial instruments, impairment methodology and hedge accounting. The IASB set a mandatory effective date for annual periods beginning on or after January 1, 2018. The Corporation continues to assess this new standard, but does not expect it to have a significant impact on the financial statements.

(c) IFRS 15 revenue from contracts with customers

IFRS 15 replaces the existing revenue recognition guidance with a new framework to determine the timing and measurement of revenue, providing users of the financial statements more information and relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation continues to assess this new standard, but does not expect it to have a significant impact on the consolidated financial statements.

(d) IFRS 16 Leases

IFRS 16 Leases issued on January 13, 2016 by the IASB replaces IAS 17 Leases. The new standard introduces a single recognition and measurement model for leases, which would require the recognition of assets and liabilities for most leases with a term of more than twelve months. The new standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 "Revenue from Contracts with Customers" at or before the initial adoption date of January 1, 2018. The Company continues to assess this new standard, but does not expect it to have a significant impact.

ACCOUNTING ESTIMATES

Estimates are based on historical experience and on various other assumptions that the Corporation believes to be reasonable. These estimates form the basis of judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. The Corporation's most significant areas of estimation are in relation to recoverability of mineral properties, stock-based compensation expenses, and future tax assets and liabilities. Actual results could differ from those estimates.

The significant accounting policies used by Georox are disclosed in note 4 to the financial statements for the year ended December 31, 2017 and year ended December 31, 2016.

Subsequent Events

Acquisition

On March 21, 2018 the Corporation entered into an asset purchase agreement to acquire producing oil and natural gas wells in Southwest Saskatchewan and Eastern Alberta (the “Assets”) from arm's-length vendors for cash consideration of \$4,500,000 (the “Agreement”). The Corporation is the lead on the transaction, but is supported by an arm's-length private Corporation participant (the “Participant”) who will be responsible for 80% of the purchase price. The Corporation will assign its rights and obligations under the Agreement to the Participant and in exchange will be the operator of the Assets for a minimum period of 18 months from the date of closing and shall have a 20% working interests in the Assets. The Corporation will have an option to acquire 10% of the Assets for \$1,250,000 within 18 months from the date of the Agreement.

To finance the acquisition of the Corporation has launched a non-brokered share private placement of 18,000,000 Common Shares at a price of \$0.05 per share for aggregate gross proceeds of up to \$900,000. The Participant has undertaken to identify private placement participants to support 50% of the Corporation’s participation in the Agreement which amounts to approximately \$450,000.

Credit Facility amendment

On March 27, 2018, the Corporation amended Credit Facility B to add additional security of a promissory note for \$125,000 and to increase the sum of the first supplemental debenture to \$7,500,000 from \$4,000,000. The amount available under Credit Facility B has increased to \$725,000 (from \$600,000) and is to be used for the purpose of funding a waterflood project and paying outstanding property taxes at the Corporation’s Red Earth property.

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the consolidated 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.

Management maintains a system of internal controls to provide reasonable assurance that the Corporation’s assets are safeguarded and to facilitate the preparation of relevant and timely disclosure information.

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Daryl Fridhandler, Calgary, AB, Canada
Lorraine McVean, Calgary, AB, Canada
Mansoor Anjum, Calgary, AB, Canada

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Burkhard Franz, President & CEO
Savi Franz, Chief Financial Officer

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