IKKUMA
RESOURCES CORP.

# MANAGEMENT'S DISCUSSION & ANALYSIS

## FOR THE YEARS ENDED
DECEMBER 31, 2016 & 2015

# ADVISORIES

Management's discussion and analysis ("MD&A") is Ikkuma Resources Corp.'s ("Ikkuma" or the "Corporation") explanation of its financial performance for the period covered by the financial statements along with an analysis of the Corporation's financial position. Comments relate to and should be read in conjunction with the audited financial statements of the Corporation for the years ended December 31, 2016 and 2015. The financial statements for the year ended December 31, 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A is dated April 19, 2017 and based on information available to that date. All figures provided herein and in the December 31, 2016 audited financial statements are reported in Canadian dollars.

***FORWARD-LOOKING STATEMENTS***

*Ikkuma is a Canadian-based corporation whose common shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol "IKM". This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking statements or information. In particular this MD&A contains forward-looking statements pertaining to the following: Ikkuma's 2017 capital program focusing on the Cardium oil play; and anticipated drilling of at least two wells for a minimum 2017 capital program of approximately $10 million. In addition, management's assessment of future plans and operations, drilling plans, and the timing thereof, capital expenditures, timing of capital expenditures, and methods of financing capital expenditures and the ability to fund financial liabilities, production estimates, expected commodity mix and prices, future operating costs, future transportation costs, expected royalty rates, general and administrative expenses, interest rates, debt levels, funds from operations and the timing of and impact of implementing accounting policies, estimates regarding undeveloped land position and estimated future drilling, completion, recompletion or reactivation locations and anticipated impact on the Corporation's forecasts in respect of 2017 capital spending and funds flow from operations may constitute forward-looking statements and information under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefit of acquisitions, the inability to fully realize the benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and inability to access sufficient capital from internal and external sources. As a consequence, the Corporation's actual results may differ materially from those expressed in, or implied by, the forward-looking statements. Forward-looking statements or information is based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although the Corporation believes that the expectations and assumptions reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Corporation cannot give any assurance that they will prove to be correct. In addition to other factors and assumptions which may be identified in this document and other documents filed by the Corporation, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which the Corporation operates; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Corporation has an interest in to operate the field in a safe, efficient and effective manner; the Corporation's ability to obtain financing on acceptable terms; changes in the Corporation's banking facility; field production rates and decline rates; the ability to reduce operating costs; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion; the ability of the Corporation to secure adequate product transportation; future petroleum and natural gas prices; currency exchange and interest rates; the regulatory framework regarding royalties, taxes, and environmental matters in the jurisdictions in which the Corporation operates; and the Corporation's ability to successfully market its petroleum and natural gas products. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Corporation's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or at the Corporation's website (www.ikkumarescorp.com). Furthermore, the forward-looking statements contained in this document are made as at the date of this document and the Corporation does not undertake*

*any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required by applicable securities laws.*

*Certain information set out herein may be considered as "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Ikkuma's reasonable expectations as to the anticipated results of its proposed business activities for the periods indicated. Readers are cautioned that the financial outlook may not be appropriate for other purposes.*

***CONVERSIONS***

*The oil and gas industry commonly expresses production volumes and reserves on a "barrel of oil equivalent" basis ("boe") whereby natural gas volumes are converted at the ratio of six thousand cubic feet to one barrel of oil. The intention is to sum oil and natural gas measurement units into one basis for improved analysis of results and comparisons with other industry participants.*

*Throughout this MD&A the Corporation has used the 6:1 boe measure which is the approximate energy equivalency of the two commodities during combustion. Boe does not represent a value equivalency at the wellhead nor at the plant gate which is where the Corporation sells its production volumes, and therefore, may be a misleading measure, particularly if used in isolation. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency* of 6:1, utilizing a 6:1 conversion may be misleading as an indication of value.

## NON-IFRS MEASURES

### FUNDS FROM OPERATIONS

One of the benchmarks Ikkuma uses to evaluate its performance is funds from operations. Funds from operations is a measure not defined in IFRS but is commonly used in the oil and gas industry. It represents cash provided by operating activities before changes in operating non-cash working capital and decommissioning obligation expenditures. The Corporation considers it a key measure as it demonstrates the ability of the Corporation's continuing operations to generate the cash flow necessary to fund future growth through capital investment. Funds from operations should not be considered an alternative to or more meaningful than cash provided by operating activities as determined in accordance with IFRS as an indicator of the Corporation's performance. Ikkuma's determination of funds from operations may not be comparable with other companies. Ikkuma also presents funds from operations per share whereby per share amounts are calculated using the weighted average shares outstanding consistent with the calculation of loss per share. The following table reconciles Ikkuma's cash provided by operating activities to funds from operations:

| *(thousands of dollars)* | **Three Months Ended December 31,** | | **Year Ended December 31,** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Cash provided by operating activities | **$ 3,665** | $ 3,685 | **$ 9,105** | $ 14,013 |
| Decommissioning obligation expenditures | **153** | 330 | **314** | 525 |
| Changes in non-cash working capital balances relating to operating activities | **(602)** | (1,755) | **951** | (4,209) |
| **Funds from operations** | **$ 3,216** | $ 2,260 | **$ 10,370** | $ 10,329 |

### OPERATING NETBACK

Management uses certain industry benchmarks such as operating netback to analyze financial and operating performance. This benchmark as presented does not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. Operating netback equals total petroleum and natural gas sales including realized gains and losses on commodity risk management contracts, where present, less royalties, operating costs and transportation costs calculated on a boe basis. Management considers operating netback an important measure to evaluate its operational performance as it demonstrates its field level profitability relative to current commodity prices. The calculation of Ikkuma's netbacks can be seen below in the Operating Netbacks section.

### WORKING CAPITAL AND NET DEBT

The Corporation closely monitors its capital structure with a goal of maintaining a strong financial position in order to fund the future growth of the Corporation. Ikkuma monitors working capital and net debt as part of its capital structure. Working capital and net debt do not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. The following table outlines Ikkuma's calculation of working capital and net debt as of December 31, 2016 and 2015:

| *(thousands of dollars)* | | **December 31, 2016** | | **December 31, 2015** |
|---|---|---|---|---|
| **Net debt** | | | | |
| Accounts receivable | **$** | **5,138** | $ | 6,131 |
| Prepaid expense and deposits | | **1,148** | | 1,179 |
| Accounts payable and accrued liabilities | | **(13,619)** | | (13,663) |
| Working capital (deficit) | | **(7,333)** | | (6,353) |
| Bank loan | | **(25,132)** | | (27,859) |
| **Net debt** | **$** | **(32,465)** | $ | (34,212) |

## RESULTS OF OPERATIONS

### PRODUCTION

| | **Three Months Ended December 31,** | | **Year Ended December 31,** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Natural gas (mcf/d) | **34,734** | 42,790 | **37,186** | 40,552 |
| Light oil (bbls/d) | **72** | 7 | **18** | 31 |
| NGL (bbls/d) | **106** | 131 | **95** | 135 |
| **Total boepd** | **5,967** | 7,270 | **6,310** | 6,925 |
| **% Natural gas** | **97** | 98 | **98** | 98 |

The Corporation refocused its capital spending in 2016 to developing a Cardium light oil play within its existing Narraway, Alberta land holdings. The Corporation drilled, completed and equipped two oil wells during 2016. One of which accounts for the average oil production of 72 bbls/day for the three months ended December 31, 2016 and 18 bbls/d for the year then ended. The second well had only a few days of initial production before year end. Oil production in 2015 is from legacy oil and gas properties sold early in the fourth quarter of 2015.

Natural gas production for the fourth quarter of 2016 of 35 mmcf/d is 19% lower than the 43 mmcf/d reported in the comparable period of 2015. Year over year natural gas production was down 8% to 37 mmcf/d from 41 mmcf/d.

These decreases result from shutting in uneconomic production, natural decline (approximately 10 -15%) and timing of third party restrictions and curtailments. At December 31, 2016, Ikkuma had approximately 500 boepd of shut-in uneconomic natural gas production.

## REVENUE

| *(thousands of dollars, except per boe)* | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| **Revenue** | | | | |
| Natural gas | **$ 9,959** | $ 9,875 | **$ 29,224** | $ 40,123 |
| Light oil | **373** | 27 | **373** | 472 |
| NGLs | **340** | 305 | **913** | 1,089 |
| Sulphur | **(3)** | 355 | **301** | 1,473 |
| **Total** | **$ 10,669** | $ 10,562 | **$ 30,811** | $ 43,157 |
| **Realized Prices** | | | | |
| Natural gas ($/mcf) | **$ 3.12** | $ 2.51 | **$ 2.15** | $ 2.71 |
| Light oil ($/bbl) | **56.30** | 42.79 | **56.30** | 41.97 |
| NGLs ($/bbl) | **34.96** | 25.29 | **26.37** | 22.07 |
| Average price per boe | **$ 19.43** | $ 15.79 | **$ 13.34** | $ 17.08 |
| **Benchmark Pricing** | | | | |
| Natural gas AECO(5A) daily index (Cdn $/mcf) | **$ 3.08** | $ 2.45 | **$ 2.15** | $ 2.68 |

Ikkuma's revenue for the three months ended December 31, 2016 of $10.7 million was comparable to the same period last year. The 24% increase in natural gas prices was offset by lower production volumes quarter over quarter. The Corporation's revenues for the year ended December 31, 2016 of $30.8 million were down 29% from the prior year due to lower average natural gas prices and lower production volumes.

Ikkuma's realized natural gas price is referenced to AECO, which averaged $3.12/mcf and $2.15/mcf for the three months and year ended December 31, 2016, respectively. Ikkuma's realized gas prices are normally at or slightly higher than AECO due to heat content adjustments. The Corporation's realized gas price for the fourth quarter was 101% of AECO and for the year ended December 31, 2016 was 100% of AECO.

The Corporation generated only $0.4 million of revenue from the Cardium oil wells in 2016 due to the minimal producing days in 2016. These light oil wells are 42 - 50 degrees API gravity. Accordingly, this oil production will receive pricing comparable to Edmonton Par.

## RISK MANAGEMENT COMMODITY CONTRACTS

The Corporation enters into risk management commodity contracts in order to reduce volatility in financial results and protect the Corporation's financial position. Ikkuma's strategy focuses on the use of costless collars and swaps to limit exposure to fluctuations in commodity prices while allowing for participation in commodity price increases. The Corporation's financial risk management activities are conducted pursuant to the Corporation's Risk Management Policy approved by the Board of Directors. These contracts had the following impact on the statements of loss and comprehensive loss:

| *(thousands of dollars, except per boe)* | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Realized gain (loss) on financial instruments | **$ (6)** | $ 1,120 | **$ 9,304** | $ 3,127 |
| Per boe | **$ (0.01)** | $ 1.71 | **$ 4.03** | $ 1.27 |
| Unrealized gain (loss) on financial instruments | **$ (6,650)** | $ 3,606 | **$ (11,465)** | $ 3,276 |

At December 31, 2016 the Corporation held the following risk management commodity contracts:

**Natural Gas (AECO $Cdn)**

| Remaining Term | Option Traded | Volume (GJ/d) | Strike Price | Fair Value ($000) |
|---|---|---|---|---|
| January 1, 2017 - December 31, 2017 | Swap – sell | 10,000 | $2.84 | $ (1,565) |
| January 1, 2017 - December 31, 2017 | Swap - sell | 7,000 | $3.00 | $ (660) |
| January 1, 2017 - December 31, 2017 | Swap - sell | 5,000 | $2.50 | $ (1,382) |
| January 1, 2017 - December 31, 2017 | Swap - buy | 7,000 | $3.00 | $ 684 |
| January 1, 2017 - December 31, 2017 | Swap – sell | 2,500 | $2.80 | $ (425) |
| January 1, 2017 - December 31, 2018 | Swap - sell | 5,000 | $2.70 | $ (1,295) |
| January 1, 2017 - December 31, 2018 | Swap- sell | 5,500 | $2.72 | $ (259) |
| January 1, 2019 - December 31, 2019 | Call | 7,000 | $3.00 | $ (515) |
| January 1, 2019 - December 31, 2019 | Call | 6,000 | $3.00 | $ (441) |
| **Total** | | | | **$ (5,858)** |

Subsequent to December 31, 2016, the Corporation entered into the following risk management commodity contract:

**Natural Gas (AECO $Cdn)**

| Remaining Term | Option Traded | Volume (GJ/d) | Strike Price |
|---|---|---|---|
| May 1, 2017 - December 31, 2017 | Swap - sell | 2,500 | $2.70 |

Ikkuma's average price on 26 mmcf/d of risk management contracts for 2017 is approximately $2.86/mcf.

**ROYALTIES**

| *(thousands of dollars, except per boe)* | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Royalties | **$ 607** | $ 978 | **$ 677** | $ 3,994 |
| Per boe | **1.11** | 1.46 | **0.29** | 1.58 |
| **Percentage of revenue ("Royalty Rate")** | **6%** | 9% | **2%** | 9% |

During 2016 Ikkuma received gas cost allowance ("GCA") credits higher than expected due to third party capital adjustments. These additional credits totaled $1.4 million for 2016 of which $0.4 million were recorded in the fourth quarter. As a result, the Corporation's royalty rate for the three months ended December 31, 2016 and for the year then ended is 6% and 2%, respectively. Excluding the GCA credits, Ikkuma's royalty rate would have been 7% for year ended December 31, 2016 and 9% for the fourth quarter of 2016, and comparable to the 9% reported in both the respective periods of 2015.

## OPERATING EXPENSES

| *(thousands of dollars, except per boe)* | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| **Operating expenses** | **$ 4,198** | $ 5,831 | **$ 19,096** | $ 22,315 |
| **Per boe** | **7.65** | 8.72 | **8.27** | 8.83 |

Ikkuma's per unit operating expenses for the three months ended December 31, 2016 is 12% lower at $7.65/boe versus the $8.72/boe reported in the same period last year. The Corporation's per unit operating expense for fiscal 2016 was 6% lower at $8.27/boe as compared to $8.83/boe reported last year. Ikkuma had a higher percentage of sweet natural gas production in 2016 due to a full year of production from the sweet natural gas additions in the second half of 2015 and as a result of shutting in uneconomic sour gas production in 2016. Sweet gas production has a lower cost profile than sour gas production.

## TRANSPORTATION EXPENSES

| *(thousands of dollars, except per boe)* | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Gas transportation | **$ 1,050** | $ 1,168 | **$ 4,180** | $ 4,060 |
| Oil transportation | **82** | 22 | **82** | 88 |
| **Total transportation expenses** | **$ 1,132** | $ 1,190 | **$ 4,262** | $ 4,148 |
| **Per boe** | **2.06** | 1.78 | **1.85** | 1.64 |

Per unit transportation expenses for the year ended December 31, 2016 of $1.85/boe is 13% higher than the $1.64/boe reported last year. The fourth quarter per unit transportation expense of $2.06/boe is 16% higher than the $1.78/boe reported in comparable quarter. Most of the increase year over year and approximately 50% of the increase quarter over quarter is due to certain firm service commitments exceeding production as a result of unscheduled third party restrictions and curtailments. Approximately $0.15/boe of the increase in fourth quarter transportation costs is due to the addition of oil trucking associated with the Cardium oil production.

## OPERATING NETBACKS

| *(dollars per boe)* | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Revenue | **$ 19.43** | $ 15.79 | **$ 13.34** | $ 17.08 |
| Realized gain on commodity contracts | **(0.01)** | 1.71 | **4.03** | 1.27 |
| Royalties | **(1.11)** | (1.46) | **(0.29)** | (1.58) |
| Operating costs | **(7.65)** | (8.72) | **(8.27)** | (8.83) |
| Transportation costs | **(2.06)** | (1.78) | **(1.85)** | (1.64) |
| **Operating netbacks** | **$ 8.60** | $ 5.54 | **$ 6.96** | $ 6.30 |

Ikkuma's operating netback for the three months ended December 31, 2016 of $8.60 is 55% higher than the $5.54 reported in the fourth quarter of last year due to improved natural gas pricing in the fourth quarter of 2016, lower than expected royalties due to GCA credits and lower operating costs. Despite 22% lower average realized natural gas prices, the Corporation's operating netback for the twelve months ended December 31, 2016 of $6.96 is 11% higher than last year due to realized gains from the Corporation's risk management strategy, lower than expected royalties due to GCA credits and reduced operating costs.

## GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

| *(thousands of dollars, except per boe)* | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Gross costs | **$ 1,680** | $ 1,482 | **$ 5,804** | $ 6,302 |
| Operator's recoveries | **(123)** | (139) | **(360)** | (780) |
| Capitalized costs | **(318)** | (288) | **(1,155)** | (1,194) |
| **G&A expenses** | **$ 1,239** | $ 1,055 | **$ 4,289** | $ 4,328 |
| **Per boe** | **$ 2.26** | $ 1.58 | **$ 1.86** | $ 1.71 |

Gross G&A costs for the fourth quarter of 2016 is 13% higher than the fourth quarter of 2015 primarily due to timing of certain expenditures. Gross G&A costs for the year ended December 31, 2016 of $5.8 million is 8% lower than the prior year of $6.3 million as management continued to focus on minimizing G&A in a low commodity price environment. Per unit G&A expenses are higher for the fourth quarter and year to date for 2016 as compared to the prior year due to lower production volumes.

## SHARE-BASED COMPENSATION

| *(thousands of dollars)* | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Gross costs – options outstanding | **$ 50** | $ 7,705 | **$ 207** | $ 16,986 |
| Capitalized costs | **(13)** | (25) | **(47)** | (2,366) |
| **Total share-based compensation** | **$ 37** | $ 7,680 | **$ 160** | $ 14,620 |

The Corporation had only 0.8 million stock options outstanding during 2016 resulting in minimal share-based compensation expense. The Corporation cancelled 7.0 million stock options in December 2015 and expensed the unamortized share based compensation expense of $7.6 million. These cancelled options accounted for substantially all of the 2015 share-based compensation expense.

## DEPLETION AND DEPRECIATION

| *(thousands of dollars, except per boe)* | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Depletion and depreciation expense | **$ 4,569** | $ 5,438 | **$ 17,953** | $ 19,666 |
| Per boe | **8.32** | 8.13 | **7.77** | 7.78 |

Ikkuma's depletion and depreciation rate per boe for the fourth quarter of 2016 and the year ended December 31, 2016 are comparable to the same periods of 2015 which is consistent with the minimal change in proved plus probable reserves year over year.

## IMPAIRMENT

| *(thousands of dollars)* | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Exploration and evaluation assets | **$ -** | $ 11,500 | **$ -** | $ 11,500 |
| Disposition of petroleum and natural gas properties and equipment | **-** | (52) | **-** | 1,445 |
| Petroleum and natural gas properties and equipment | **3,150** | 1,000 | **3,150** | 1,000 |
| **Total impairment** | **$ 3,150** | $ 12,448 | **$ 3,150** | $ 13,945 |

As at December 31, 2016, due to further declines in forward natural gas prices, the Corporation determined a trigger to be present across all of its cash generating units ("CGU"s) and completed impairment tests. It was determined that the carrying value of the Ojay/Narraway CGU exceeded the recoverable amount by $1.7 million and the Northern Foothills CGU exceeded the recoverable amount by $1.5 million, and accordingly a $3.2 million impairment charge was recorded.

At December 31, 2015, as a result of the significantly lower commodity price environment, it was determined that indicators of impairment existed for Ikkuma's CGUs and its exploration and evaluation assets. The decrease in forward commodity price estimates resulted in the carrying value of the Ojay/Narraway CGU exceeding the recoverable amount and a $1.0 million impairment charge was recorded against property, plant and equipment. The carrying value of the exploration and evaluation assets were allocated to related CGU's and an $11.5 million impairment of exploration and evaluation assets related to the Ojay/Narraway CGU was recorded. The $11.5 million impairment of exploration and evaluation assets relates to a gas well drilled in the first quarter that had mechanical difficulties.

During the third quarter of 2015 the Corporation entered into an agreement to dispose of the Central Alberta legacy assets for total consideration of $0.4 million in cash. As the fair value less costs to sell was lower than the carrying value of the assets, an impairment loss of $1.5 million was recognized.

## FINANCE EXPENSES

| *(thousands of dollars)* | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Interest and fees on bank debt | **$ 272** | $ 367 | **$ 1,421** | $ 1,170 |
| Accretion on decommissioning obligations | **224** | 216 | **867** | 1,055 |
| Total finance expenses | **$ 496** | $ 583 | **$ 2,288** | $ 2,225 |
| Average drawings on bank loan | **$ 23,698** | $ 28,402 | **$ 24,810** | $ 19,985 |
| Effective interest rate on bank loan | **4.1%** | 4.3% | **4.4%** | 3.9% |
| Interest and fees on bank loan per boe | **$ 0.49** | $ 0.55 | **$ 0.62** | $ 0.46 |

Interest and fees on bank loan per boe for the fourth quarter of $0.49/boe is 11% lower than the comparable quarter due to lower average drawings on the bank loan along with a lower effective interest rate. Year over year, per unit interest and fees on bank loan were 35% higher in 2016 due to 24% higher average drawings on the bank along with a 13% increase in the effective interest rate.

Accretion on decommissioning obligations for the fourth quarter of 2016 is comparable to the fourth quarter of 2015. In the fourth quarter of 2015 Ikkuma revised the decommissioning estimates by $2.9 million for certain facilities and producing properties and as a result accretion on decommissioning obligations for the year ended December 31, 2016 is 18% lower than last year.

## DEFERRED INCOME TAX

The Corporation's oil and natural gas reserves generate sufficient future cash flows to make it probable that future taxable profits will be available for which the Corporation can utilize the benefit of tax deductions. Accordingly, the Corporation has recognized a deferred income tax asset of $18.0 million relating to deductible temporary differences.

Ikkuma has tax pools of approximately $207 million including $48 million of non-capital loss carry-forwards, available for deduction against future taxable income. Non-capital losses expire between 2026 and 2036.

| *(thousands of dollars)* | December 31, 2016 |
|---|---|
| Cumulative Canadian Exploration Expense | **$ 17,200** |
| Cumulative Canadian Development Expense | **18,180** |
| Cumulative Canadian Oil and Gas Property Expense | **92,100** |
| Undepreciated Capital Costs | **27,505** |
| Non-capital losses | **47,595** |
| Share issue costs | **4,200** |
| **Estimated tax basis** | **$ 206,780** |

## CASH, FUNDS FROM OPERATIONS AND NET LOSS

| *(thousands of dollars, except per share amounts)* | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| **Cash provided by operating activities** | **$ 3,665** | $ 3,685 | **$ 9,105** | $ 14,013 |
| **Funds from operations** | **$ 3,216** | $ 2,260 | **$ 10,370** | $ 10,329 |
| Per share – basic and diluted | **$ 0.03** | $ 0.03 | **$ 0.12** | $ 0.13 |
| **Net loss** | **$ (8,971)** | $ (16,585) | **$ (17,937)** | $ (28,770) |
| Per share – basic and diluted | **$ (0.10)** | $ (0.21) | **$ (0.20)** | $ (0.36) |

Cash provided by operating activities for the fourth quarter of 2016 is comparable to the same period last year. Cash provided by operating activities for the year ended December 31, 2016 is lower than the prior year due to changes in non-cash working capital.

Ikkuma's funds from operations per share for the fourth quarter and year ended December 31, 2016 are comparable to the same periods in the prior year.

Net loss for the three months ended and year ended December 31, 2016 results primarily from impairment and unrealized loss on financial instruments. The net loss reported in prior year comparable periods were also impacted by impairment along with a significant charge for share based payments on the cancellation of stock options.

### CAPITAL EXPENDITURES

| *(thousands of dollars)* | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Land | **$ 82** | $ 34 | **$ 342** | $ 1,319 |
| Seismic | **141** | (26) | **391** | 85 |
| Drilling and completions | **5,705** | 2,075 | **12,982** | 21,126 |
| Facilities, equipment and pipelines | **1,021** | 2,029 | **1,150** | 14,585 |
| Other | **-** | 9 | **4** | 33 |
| **Total exploration and development** | **$ 6,949** | $ 4,121 | **$ 14,869** | $ 37,148 |
| Property acquisition (disposition) | **-** | (399) | **2,761** | (3,342) |
| **Total capital expenditures** | **$ 6,949** | $ 3,722 | **$ 17,630** | $ 33,806 |

Capital expenditures during the fourth quarter of 2016 were focused on the two Cardium oil wells and these wells were brought on production prior to the end of the year. The first well produced for most of the fourth quarter and the second well was brought on the last week of the year. In aggregate 80% of 2016 capital expenditures were incurred in the development of the Corporation's Cardium oil play.

### DECOMMISSIONING OBLIGATIONS

As at December 31, 2016, the decommissioning obligation of the Corporation was $44.3 million (2015 - $40.3 million). Ikkuma recorded an obligation of $2.2 million (based on a fair value discount) for the acquisitions closed during the year. The decommissioning obligation for the acquisition was subsequently revalued using the risk-free rate of 2.0% resulting in an additional $1.6 million upward revision.

## LIQUIDITY AND CAPITAL RESOURCES

### CAPITAL FUNDING

The Corporation has a credit facility with a syndicate of lending banks (the "Syndicate") which includes a revolving line of credit of $20 million and an operating line of credit of $20 million (the "Facility"). The Facility revolves for a 364 day period and will be subject to its next 364 day extension by July 28, 2017. If not extended, the Facility will cease to revolve, the margins thereunder will increase by 0.50 percent and all outstanding advances thereunder will become repayable in one year from the extension date.

The available lending limits are reviewed semi-annually and are based on the bank syndicate's interpretation of the Corporation's reserves and future commodity prices. There can be no assurance that the amount of the available Facility will not be adjusted at the next scheduled borrowing base review on or before May 31, 2017. At December 31, 2016, the Corporation had $25.1 million drawn on the Facility. In addition, Ikkuma had $1.0 million of issued letters of credit that reduce the total amount available under the Facility.

### WORKING CAPITAL

The capital intensive nature of Ikkuma's activities generally results in the Corporation carrying a working capital deficit. Working capital deficiency includes cash and cash equivalents, prepaid expenses and deposits, and accounts receivable less accounts payable and accrued liabilities. The Corporation maintains sufficient unused credit lines to satisfy working capital deficiencies. At December 31, 2016, the Corporation's adjusted working capital deficiency totaled $7.3 million which combined with the drawings on its bank loan, represented 81% of its credit facility at December 31, 2016. Working capital as defined in IFRS is current assets less current liabilities ($11.3 million working capital deficiency at December 31, 2016).

## SHARE CAPITAL

***2016***

On May 12, 2016, the Corporation completed a bought deal private placement, led by a syndicate of underwriters, of 14.1 million flow-through shares at a price of $0.71 per flow-through share, resulting in gross proceeds of $10 million. The implied premium on the flow-through shares was determined to be $1.0 million or $0.07 per flow-through share, assuming a market price of $0.64 per ordinary common share. Pursuant to the provisions of the Income Tax Act (Canada), the Corporation is committed to incur eligible Canadian exploration expenses after the closing date and prior to December 31, 2017 in the aggregate amount of not less than the total gross proceeds raised from the offering. Ikkuma renounced the Qualifying Expenditures of $10 million on December 31, 2016. Ikkuma has spent $5.3 million of Qualifying Expenditures as at December 31, 2016.

***2015***

There were no share capital transactions in the year ended December 31, 2015.

## CAPITAL STRUCTURE

The Corporation considers its capital structure to include working capital, the bank loan and shareholders' equity. Ikkuma's primary capital management objective is to maintain a strong financial position in order to continue the future growth of the Corporation. Ikkuma monitors its capital structure and makes adjustments on an ongoing basis in order to maintain the flexibility needed to achieve the Corporation's long-term objectives. To manage the capital structure the Corporation may adjust capital spending, hedge future revenue and costs, issue new equity, issue new debt, amend, revise or extend the terms of the existing credit facility or repay existing debt through non-core asset sales.

The Corporation monitors debt levels based on the ratio of net debt to annualized funds from operations. The ratio represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds from operations remained constant. This ratio is calculated as net debt, defined as the Corporation's bank loan and net working capital (excluding unrealized gains and loss on financial instruments and assets and liabilities held for sale), divided by annualized funds from operations for the most recent quarter.

The Corporation monitors this ratio and strives to maintain it at or below 2.0 to 1.0. During periods of increased capital expenditures, acquisitions or during periods of low commodity prices, this ratio will increase over short-term periods. The Corporation's ratio of net debt to annualized funds from operations decreased over the year to 2.5 to 1 (December 31, 2015 – 3.8 to 1). As commodity prices continue to be volatile, the Corporation continues to use financial instruments to mitigate future natural gas pricing risk and plans to manage capital spending within funds flow from operations. Ikkuma will continue to monitor commodity prices and will adjust its capital expenditure program accordingly. The Corporation may consider other forms of financing in order to maintain or improve its financial flexibility.

| *(thousands of dollars)* | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| **Net debt** | **$ 32,465** | $ 34,212 |
| **Fourth quarter funds from operations** | **3,216** | 2,260 |
| **Annualized** | **$ 12,864** | $ 9,040 |
| **Net debt to annualized funds from operations** | **2.5** | 3.8 |

## CONTRACTURAL OBLIGATIONS

Throughout the course of its ongoing business, the Corporation enters into various contractual obligations such as credit agreements, purchase of services, royalty agreements, operating agreements, processing agreements, right of way agreements and lease obligations for office space and field equipment. These obligations reflect market conditions prevailing at the time of contract. Ikkuma believes it has adequate sources of capital to fund all contractual obligations as they come due. The following are the obligations of the Corporation representing future commitments.

| *(thousands of dollars)* | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter |
|---|---|---|---|---|---|---|
| Operating Leases | $ 471 | $ 126 | $ - | $ - | $ - | $ - |
| Flow-through shares | 4,729 | | | | | |
| Firm transportation | 3,122 | 4,125 | 2,986 | 2,379 | 2,296 | 9,317 |
| **Total** | **$ 8,322** | **$ 4,251** | **$ 2,986** | **$ 2,379** | **$ 2,296** | **$ 9,317** |

## RELATED PARTY TRANSACTIONS

The Corporation did not have any related party transactions in the year ended December 31, 2016.

## COMMON SHARE INFORMATION

| | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Outstanding common shares end of period | **94,243,766** | 80,158,766 | **94,243,766** | 80,158,766 |
| Weighted average outstanding common shares [1] basic and diluted | **94,243,766** | 80,158,766 | **89,150,013** | 80,158,766 |

*[1]The Corporation's stock options and performance warrants are antidilutive*

At April 19, 2017, the Corporation had 94,243,766 shares, 840,600 stock options ($1.18 average strike price) and 3,333,333 million performance warrants ($1.00 strike price) outstanding.

## GUIDANCE

Ikkuma's 2017 capital program will continue to focus on the Cardium oil play. The Corporation anticipates drilling at least two wells for a minimum 2017 capital program of approximately $10 million which would be funded primarily with funds flow from operations. Further expansion of this capital program will be dependent on results of the wells drilled to date, strength of commodity prices, and Ikkuma's ability to access to capital through industry partnerships, equity and/or debt financing.

## OFF BALANCE SHEET ARRANGEMENTS

The Corporation has certain lease agreements that are entered into in the normal course of operations. All leases are treated as operating leases whereby lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases in the financial statements as of December 31, 2016.

## ADDITIONAL DISCLOSURE

### QUARTERLY ANALYSIS

| *(thousands of dollars, except daily production, average wellhead price and per share amounts)* | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 |
|---|---|---|---|---|---|---|---|---|
| Average daily production (boe/d) | 5,967 | 5,866 | 5,921 | 7,497 | 7,270 | 6,541 | 6,769 | 7,121 |
| Oil and natural gas sales | 10,669 | 7,670 | 4,576 | 7,896 | 10,562 | 11,054 | 10,748 | 10,793 |
| Average wellhead price ($/boe) | 19.43 | 14.21 | 8.49 | 11.57 | 15.79 | 18.37 | 17.45 | 16.84 |
| Exploration and development expenditures | 6,949 | 4,111 | 694 | 3,115 | 4,121 | 10,434 | 3,852 | 18,741 |
| Property acquisitions (dispositions) | - | 27 | 2,713 | 21 | (399) | (2,968) | - | 25 |
| Cash provided by operations | 3,665 | 519 | 2,709 | 2,212 | 3,685 | 4,774 | 2,319 | 3,235 |
| Per share – basic and diluted | 0.04 | 0.01 | 0.03 | 0.03 | 0.05 | 0.06 | 0.03 | 0.04 |
| Funds from operations | 3,216 | 2,563 | 2,397 | 2,194 | 2,260 | 2,696 | 3,428 | 1,945 |
| Per share – basic and diluted | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 | 0.04 | 0.02 |
| Net income (loss) | (8,971) | (1,952) | (9,441) | 2,427 | (16,585) | (3,662) | (3,670) | (4,853) |
| Per share – basic and diluted | (0.10) | (0.02) | (0.11) | 0.03 | (0.21) | (0.05) | (0.05) | (0.06) |

Significant factors and trends that have impacted the Corporation's results during the above periods include:

- Q4 2016 net loss of $8.9 million is primarily due to a $6.6 million unrealized loss on risk management commodity contracts and a $3.2 million impairment expense.
- Q3 2016 oil and natural gas sales increase as natural gas prices improve in the quarter.
- Q2 2016 and Q2 2015 exploration and development expenses are lower due to spring breakup.
- Q2 2016 average daily production dropped from Q1 2016 due to shutting-in of uneconomic sour gas production along with downtime in June 2016 for scheduled turnaround maintenance.
- Q2 2016 oil and natural gas sales were lower than previous quarters due to lower production volumes and a 30% drop in natural gas realized prices.
- Net income reported in Q1 2016 is due to the $6.5 million unrealized gain on risk management commodity contracts and significantly reduced share based compensation expense resulting from the Q4 2015 cancellation of 7.0 million stock options.
- Q4 2015 production volumes increased over Q3 2015 as third party production curtailments were slightly reduced, but the Corporation was still unable to produce at full capability.
- Average wellhead price in Q4 2015 reflects the significant decrease in natural gas prices during the quarter.
- Q4 2015 funds from operations and cash provided by operations reflects the impact of reduced natural gas prices in the fourth quarter.
- Q4 2015 net loss includes a $7.6 million share based compensation charge for the cancellation of 7.0 million stock options and a $12.5 million impairment expense.
- In Q3 2015 Ikkuma tied in two high volume gas wells; however, the Corporation's daily production was constrained by third party curtailments.

## SELECTED ANNUAL INFORMATION

| *(thousands of dollars, except daily production, average wellhead price and per share amounts)* | **Year ended December 31, 2016** | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|---|
| Average daily production (boe/d) | **6,310** | 6,925 | 2,764 |
| Oil and natural gas sales | **$ 30,811** | $ 43,157 | $ 24,194 |
| Average wellhead price ($/boe) | **$ 13.34** | $ 17.08 | $ 23.98 |
| Total assets | **$ 217,741** | $ 219,430 | $ 214,845 |
| Net debt | **$ 32,465** | $ 34,212 | $ 9,924 |
| Cash provided by operations | **$ 9,105** | $ 14,013 | $ 4,388 |
| Per share – basic and diluted | **$ 0.10** | $ 0.17 | $ 0.11 |
| Funds from operations | **$ 10,370** | $ 10,329 | $ 4,445 |
| Per share – basic and diluted | **$ 0.12** | $ 0.13 | $ 0.10 |
| Net loss | **$ (17,937)** | $ (28,770) | $ (8,936) |
| Per share – basic and diluted | **$ (0.20)** | $ (0.36) | $ (0.22) |

## FUTURE ACCOUNTING PRONOUNCEMENTS

The Corporation has reviewed the following new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Corporation's financial statements:

(a) IFRS-9 Financial Instruments:

As of January 1, 2018, the Corporation will be required to adopt IFRS-9 Financial Instruments, which is the result of the first phase of the IASB project to replace IAS-39 Financial Instruments: Recognition and Measurement. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has two classification categories: amortized cost and fair value. In addition, updates have also been applied surrounding hedge accounting requirements which are now more aligned with an entity's risk management activities. As of December 31, 2016 Ikkuma is still determining the impact that the adoption of this standard will have on its financial statements.

(b) IFRS-15 Revenue from Contracts with Customers:

As of January 1, 2018, the Corporation will be required to adopt IFRS-15 Revenue from Contracts with Customers. The new standard replaces IAS-11 Construction Contracts; IAS-18 Revenue, IFRIC-13 Customer Loyalty Programmes, IFRIC-15 Agreements for the Construction of Real Estate, IFRIC-18 Transfers of Assets from Customers and SIC-31 Revenue-Barter Transactions Involving Advertising Services. The new standard dictates the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue resulting from an entity's contracts with customers. As of December 31, 2016 Ikkuma is still determining the impact that the adoption of this standard will have on its financial statements.

(c) IFRS-16 Leases:

As of January 1, 2019, the Corporation will be required to adopt IFRS-16 Leases. For lessees applying the new standard, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. As of December 31, 2016 Ikkuma is still determining the impact that the adoption of this standard will have on its financial statements.

(d) IAS 7 Statements of Cash Flows and IAS 12 Income Taxes:

In April 2016, the IASB issued amendments to IAS 7 "Statement of Cash Flows" and IAS 12 "Income Taxes" for annual periods beginning on or after January 1, 2017, with earlier application permitted. IAS 7 and IAS 12 were revised to incorporate amendments issued by the IASB in January 2016. The amendments to IAS 7 require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value. As of December 31, 2016 Ikkuma is still determining the impact that the adoption of this standard will have on its financial statements.

**APPLICATION OF CRITICAL ACCOUNTING ESTIMATES**

Ikkuma's significant accounting policies are disclosed in note 3 to the December 31, 2016 financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Ikkuma continuously refines its management and reporting systems to ensure that accurate, timely and useful information is gathered and disseminated. Ikkuma's financial and operating results incorporate certain estimates including the following:

- Estimated accruals for revenues, royalties and operating costs where actual revenues and costs have not been received;
- Estimated capital expenditures where actual costs have not been received or for projects that are in progress;
- Estimated depletion, depreciation and amortization charges are based on estimates of oil and gas reserves that Ikkuma expects to recover in the future. As a key component in the DD&A calculation, the reserve estimates have a significant impact on net earnings and the Company's financial results could differ if there is a revision in our estimate of reserve quantities;
- Estimated future recoverable value of petroleum and natural gas properties & equipment and any related impairment charges or recoveries are assessed for impairment when circumstances suggest the carrying amount may exceed its recoverable amount. The recoverable amount calculation requires the use of estimates which are subject to change as new information becomes available. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the related assets;
- Estimated fair values of derivative contracts which are used to manage commodity price, foreign currency and interest rate swaps are determined using valuation models which require assumptions regarding the amount and timing of future cash flows and discount rates. As the Corporation's assumptions rely on external market data, the resulting fair value estimates may not be indicative of the amounts realized or settled and are therefore subject to market uncertainty;
- Decommissioning obligations are based on assumptions which take into consideration current economic factors and experience to date which we believe are reasonable. The actual cost of the Corporation's decommissioning obligations may change in response to numerous factors;
- Estimated deferred income tax assets and liabilities are based on current tax interpretations, regulations and legislation which are subject to change. As a result, there are usually a number of tax matters under review and therefore income taxes are subject to measurement uncertainty.

Ikkuma employs and engages qualified consultants who have the expertise to ensure these estimates are accurate and ensures departments with the most knowledge of the activity are responsible for the estimates. Past estimates are reviewed and analyzed regularly to ensure future estimates continue to track actuals. The emergence of new information and changed circumstances may result in actual results or changes to estimate amounts that differ materially from current estimates.