



# NEWPORT

## EXPLORATION LTD.

### MANAGEMENT'S DISCUSSION & ANALYSIS

**Six Months Ended January 31, 2019**

This management's discussion and analysis of financial position and results of operations ("MD&A") is prepared as at March 29, 2019 and should be read in conjunction with the unaudited condensed interim financial statements for the six months ended January 31, 2019 of Newport Exploration Ltd. ("Newport" or "the Company") with the related notes thereto. Those unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for interim financial statements and, as a result, do not contain all disclosure required under IFRS for annual financial statements. Accordingly, readers may want to refer to the July 31, 2018 audited annual financial statements and the accompanying notes. All dollar amounts included therein and in the following MD&A, unless otherwise indicated, are expressed in Canadian dollars.

Management is responsible for the preparation and integrity of the Company's unaudited condensed interim financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible for ensuring that information disclosed externally, including that within the unaudited condensed interim financial statements and MD&A, is complete and reliable.

Additional information on the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com) or by contacting the Company's head office at Suite 501-837 West Hastings Street, Vancouver BC, Canada V6C 3N6. The Company's website is [www.newport-exploration.com](http://www.newport-exploration.com).

#### ***Description of Business***

Newport is a natural resource company engaged in the acquisition and exploration of resource properties. In addition, the Company holds a 2.5% gross overriding royalty interest (the "Royalty") on any hydrocarbons produced on certain petroleum exploration and production licences in Australia.

The Company's head office is in Vancouver, British Columbia and is a reporting issuer in British Columbia, Alberta and Saskatchewan and trades on the TSX Venture Exchange (TSX-V) under the symbol NWX.

#### ***Overview***

##### ***Oil and Gas Royalty Interests***

The Company's Royalty on several oil and gas exploration and production licences in the Cooper Basin, NSW, Australia are operated by Beach Energy Ltd ("Beach") or Santos Ltd ("Santos").

The Royalty is a non-operating interest therefore, the Company is not informed of decisions made concerning the operations or intentions of Beach and Santos and, consequently cannot speculate on development, production plans, or potential revenues.

The Company does not have access to the underlying technical data and cannot independently verify the Oil and Gas Reserves and Resources in accordance with classification requirements in compliance with NI 51-101 and the Canadian Oil and Gas Evaluation Handbook (“COGEH”). Accordingly, as the Reserves and Resources for PRL 26 and ex PEL’s 91, 106 and 632 reported by Beach and Santos may not be compliant with NI 51-101 Canadian reporting requirements, they should not be relied upon. In addition, Beach refers to Barrels of Oil Equivalent (“BOE”) and, in accordance with Section 5.14(d) of NI 51-101 for Canadian reporting purposes, this disclosure must note that the term BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mdf: 1bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead where the Royalty is calculated.

Newport continues to strongly encourage shareholders and potential investors to access information released independently by Beach and Santos in order to keep current during the exploration and development of these licences.

### *Chu Chua*

Newport’s mineral exploration project is the Chu Chua property (“Chu Chua”), located in central British Columbia, Canada. A National Instrument 43-101 (“NI 43-101”) technical report is available under the Company’s profile on SEDAR ([www.sedar.com](http://www.sedar.com)) and on its website ([www.newport-exploration.com](http://www.newport-exploration.com)).

### ***Results of Operations***

During the three months ended January 31, 2019 (the “current period”), the Company recorded net income of \$1,152,334 compared to net income of \$1,095,820 for the three months ended January 31, 2018 (the “comparative period”). The significant changes during the current period compared to the comparative period, are as follows:

- The Company recorded income of \$1,959,189 from its Royalty during the current period, an increase from \$1,924,740 earned during the comparative period.
- Income tax expense of \$505,983 was recorded during the current period, an increase from \$510,012 during the comparative period. The change is a result of an increase in Royalty income during the current period.
- A foreign exchange gain of \$45,785 was recorded during the current period compared to a loss of \$19,842 recorded during the comparative period. The change was due to fluctuation between the Australian dollar (the currency in which the Company receives its Royalty income, and pays its Australian taxes) and the Canadian dollar.
- Share-based payment expense of \$41,716 was recorded during the comparative period, due to the grant of 300,000 stock options. No such transaction took place during the current period.

During the six months ended January 31, 2019 (the “current six-month period”), the Company recorded net income of \$2,618,427 compared to net income of \$1,845,968 for the six months ended January 31, 2018 (the “comparative six-month period”). The significant changes during the current six-month period compared to the comparative six-month period, are as follows:

- The Company recorded Royalty income of \$4,565,727 during the current six-month period, an increase from \$3,273,306 earned during the comparative six-month period.
- Income tax expense of \$1,214,243 was recorded during the current six-month period, an increase from \$844,391 recorded during the comparative six-month period. The increase is a result of the Company recording a higher net income before income tax during the current six-month period.
- Consulting fees increased to \$270,000 during the current six-month period compared to \$151,000 during the comparative six-month period. Commencing January 2018, the CEO's fees increased to \$42,000 per month.
- Management fees increased to \$174,000 during the current six-month period compared to \$121,500 during the comparative six-month period. Commencing January 2018, the CFO's fees increased to \$29,000 per month.
- Share-based payment expense of \$41,716 was recorded during the comparative six-month period, due to the grant of 300,000 stock options. No such transaction took place during the current six-month period.

### ***Liquidity and Capital Resources***

The Company's working capital position at January 31, 2019 was \$7,060,428 compared to a working capital position of \$8,596,087 at July 31, 2018. As at January 31, 2019, the Company held cash and equivalents of \$571,622 (July 31, 2018 - \$2,407,300) and short-term investments of \$4,949,801 (July 31, 2018 - \$3,871,997). The decrease in cash and equivalents is primarily a result of \$4,149,934 used for financing activities (comprised of a dividend distribution of \$5,153,194, and \$1,003,260 received from the exercise of stock options and warrants), offset by \$3,410,592 provided by operating activities and cash from investing activities of \$1,096,336.

As at January 31, 2019, the Company had current assets of \$7,515,988 (July 31, 2018 - \$9,216,100), total assets of \$7,520,141 (July 31, 2018 - \$9,216,101) and total liabilities of \$455,560 (July 31, 2018 - \$620,013) and no long-term debt.

The principal assets of the Company are cash and equivalents, Royalty receivable, short-term investments and an exploration and evaluation asset.

The Company will be able to meet its expected operating expenditures through to the end of its 2019 fiscal year end.

Newport has financed its operations through the issuance of common shares, the exercise of stock options, share purchase warrants and, Royalty income. The Company may seek capital through various means including the issuance of equity and/or debt in the future for possible acquisitions.

### ***Commitments***

The Company has management and consulting contracts with a company controlled by Ian Rozier, a director and CEO of the Company, and a company controlled by Barbara Dunfield, a director and CFO of the Company. The Company pays the companies a combined total of \$71,000 per month. These contracts remain in force on a continuous basis and can be terminated by the Company with 90 days written notice. If termination of services of either or both companies is without cause, the Company will be obligated to pay 36 months of service fees to either or both companies.

**Quarterly Financial Information**

	Three Months Ended January 31, 2019	Three Months Ended October 31, 2018	Three Months Ended July 31, 2018	Three Months Ended April 30, 2018
Total assets	\$ 7,520,141	\$ 6,370,734	\$ 9,216,101	\$ 9,190,201
Working capital	7,060,428	5,912,246	8,596,087	6,808,513
Petroleum Royalty income	1,959,189	2,606,538	2,905,012	1,655,012
Net income (loss) for the period	1,152,334	1,466,093	(294,730)	881,418
Earnings (loss) per share – basic	0.01	0.02	(0.00)	0.01
Earnings (loss) per share – diluted	0.01	0.02	(0.00)	0.01

	Three Months Ended January 31, 2018	Three Months Ended October 31, 2017	Three Months Ended July 31, 2017	Three Months Ended July 31, 2017
Total assets	\$ 8,529,311	\$ 6,977,309	\$ 6,240,165	\$ 10,154,984
Working capital	5,926,850	4,789,069	4,040,387	8,055,770
Petroleum Royalty income	1,924,740	1,348,566	1,127,908	889,947
Net income for the period	1,095,820	750,148	600,574	549,761
Earnings per share – basic	0.01	0.01	0.01	0.01
Earnings per share – diluted	0.01	0.01	0.01	0.01

Quarter to quarter changes in net income are mainly a result of the changes in Royalty income received by Newport. Royalty income is based on production volumes and oil prices. As the Company has no knowledge of, or the ability to predict, any future income from its Royalty, it can only report on the factual quarterly receipts and historic receipts. Outside of the public information disclosed by the underlying petroleum producers (Beach and Santos), the Company has no additional information to analyse, and without meaningful data, is unable to provide a supported and rational analysis of the prospects of future Royalty payments.

During the three months ended October 31, 2018, the Company paid a special dividend of \$0.05 per common share, a distribution of \$5,153,194. Additionally, 5,800,000 stock options, with an exercise price of \$0.05 per share, were exercised for proceeds of \$290,000, and 300,000 stock options with an exercise price of \$0.215 per share, were exercised for proceeds of \$64,500, and 4,634,000 warrants were exercised for proceeds of \$648,760, totaling \$1,003,260 net to the treasury.

During the three months ended July 31, 2018, the Company recorded a loss, for the impairment of exploration and evaluation asset of \$2,082,080 recognized in the quarter. The impairment loss was partially offset by an increase in the petroleum Royalty income.

During the three months ended July 31, 2017, the Company paid a special dividend of \$0.05 per common share, a distribution of \$4,616,494.

**Related Party Transactions**

During the six months ended January 31, 2019, the Company entered into the following transactions with related parties:

- a) Paid consulting fees of \$252,000 (2018 - \$142,000) to a company controlled by Ian Rozier, Director, President and C.E.O. of the Company.

- b) Paid management fees of \$174,000 (2018 – \$121,500) to a company controlled by Barbara Dunfield, Director and C.F.O. of the Company.
- c) Reimbursed rent of \$45,000 (2018 - \$39,000) to a company controlled by Ian Rozier.
- d) Paid or accrued directors’ fees of \$20,000 (2018 - \$15,833) to Merfyn Roberts a Director of the Company.
- e) Paid or accrued directors’ fees of \$20,000 (2018 - \$5,833) to James Robertson a Director of the Company.
- f) Paid or accrued directors’ fees of \$Nil (2018 - \$10,000) to David Cohen, a former Director of the Company.
- g) Paid or accrued professional fees of \$5,219 (2018 - \$607) to McMillan LLP (“McMillan”) a legal firm of which David Cowan, the Company’s Corporate Secretary, is a partner.
- h) Recorded share-based payment expense of \$Nil (2018 - \$41,716) in conjunction with the granting of stock options to a director of the Company.

The following amounts, with respect to the above transactions, are owing to related parties as at January 31, 2019:

- a) \$6,666 (July 31, 2018 - \$6,666) to Merfyn Roberts, a director of the Company
- b) \$6,666 (July 31, 2018 - \$6,666) to James Robertson, a director of the Company
- c) \$3,000 (July 31, 2018 - \$Nil) to McMillan LLP a legal firm of which David Cowan, the Company’s Corporate Secretary, is a partner

These amounts are non-interest bearing, unsecured and paid in the ordinary course of business.

Key management personnel compensation disclosed above (including senior officers and directors of the Company):

	January 31, 2019	January 31, 2018
Fees for services	\$ 426,000	\$ 263,500

### ***Financial and Capital Risk Management***

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

The carrying value of cash and equivalents, receivables and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The fair value of short term investments was \$4,949,801 at January 31, 2019 (July 31, 2018 - \$3,871,997), a level 1 fair value measurement.

## **Financial risk factors**

The Company is exposed in varying degrees to a variety of financial instrument related risks and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

### *Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and equivalents, short-term investments and receivables, the carrying value totalling \$7,495,382, represents the Company's maximum exposure to credit risk. Management believes that the credit risk concentration with respect to financial instruments is remote because cash and equivalents and short-term investments are held with reputable Canadian financial institutions. Receivables consist mainly of the Company's royalty income. The royalty income mainly comes from one company, and is typically received within 30 days after the quarter of production. The Company does not consider any of its current receivables past due. The Company believes any credit risk associated with its receivables is remote due to the historical success of collecting receivables. The Company's Royalty receivable at January 31, 2019 was received, net of tax, subsequent to January 31, 2019.

### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at January 31, 2019, the Company had a cash and equivalents balance of \$571,622 (July 31, 2018 - \$2,407,300), receivables of \$1,973,959 (July 31, 2018 - \$2,929,934) and short-term investments of \$4,949,801 (July 31, 2018 - \$3,871,997) to settle current liabilities of \$455,560 (July 31, 2018 - \$620,013). All of the Company's financial liabilities are subject to normal trade terms.

### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

#### a) Interest rate risk

The Company has cash and equivalents balances and short-term investments. The Company's current policy is to invest excess cash in investment-grade, short-term deposits certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The effect on net income and comprehensive income of a 1% change in interest rates is approximately \$49,500.

#### b) Foreign currency risk

The Company is exposed to foreign currency risk with respect to its petroleum royalty payment, its income tax receivable and its income tax payable which are denominated in Australian dollars. The net effect on net income and comprehensive income of a 1% change in exchange rates between the Australian dollar and Canadian dollar foreign exchange is approximately \$12,300. The Company does not hedge exchange risk.

## **Capital management**

Newport's objectives when managing capital is to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity.

Newport manages the capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company monitors its expenditures against its available capital.

The Company is currently not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

### ***New Accounting Standards Adopted during the period***

IFRS 15, Revenue from Contracts with Customers was adopted on August 1, 2018. The standard introduces a single, principles-based, five-step model for the recognition of revenue when control of goods is transferred to the customer. The five steps are: 1. identify the contract(s) with the customer, 2. identify the performance obligations in the contract, 3. determine the transaction price, 4. allocate the transaction price to each performance obligation and 5. recognize revenue as each performance obligation is satisfied. IFRS 15 also requires enhanced disclosures about revenue to help users better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The amended standard did not have an impact on the financial statements.

IFRS 9, Financial Instruments ("IFRS 9") replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") and introduces the new requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. Specifically, IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. The amendment also introduces a third measurement category for financial assets: fair value through other comprehensive income, and includes a single, forward-looking 'expected loss' impairment model.

The following is the new accounting policy for financial instruments under IFRS 9:

Financial assets and liabilities are initially recognized at fair value on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Subsequently, financial assets and liabilities are recognized based on the classification of these financial assets. The Company has classified financial assets into one of the following categories: (1) financial assets at fair value through profit or loss ("FVTPL"), (2) financial assets at fair value through other comprehensive income ("FVTOCI"), (3) financial assets at amortized cost. Financial liabilities are classified as either (1) financial liabilities at FVTPL or (2) financial liabilities at amortized cost.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in profit or loss. Financial assets at FVTOCI are subsequently measured at fair value with changes in those fair values recognized in other comprehensive income (loss), net of tax. Financial assets and liabilities at amortized cost are measured at amortized cost using the effective interest rate method.

Cash and cash equivalents and accounts receivable are classified as financial assets at amortized cost and accounts payable and accrued liabilities are classified as liabilities at amortized cost. Accounts receivable, where applicable are net of a provision for expected credit losses.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. The Company is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized. Due to the nature of its receivables and that expected credit loss is nominal, no provision for credit loss was recognized by the Company.

As the accounting reflected by the adoption of IFRS 9 under the above classifications is similar to that of IAS 39, there was no measurement impact on the Company's financial statements.

### ***Future Accounting Pronouncements***

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

The Company has not early adopted these standards and is currently assessing the impact these standards will have on its financial statements:

#### ***IFRS 16 – Leases***

On January 13, 2016 the IASB issued IFRS 16 – Leases, which will supersede IAS 17 – Leases. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on August 1, 2019.

### ***Risk, Uncertainties and Outlook***

As a company in the mineral resource acquisition and exploration industry, Newport is exposed to a number of risks, including the financial risks associated with no operating cash flow and the potential need to access the capital markets to finance its activities.

The Company has no ability to determine the quantum or sustainability of future 2.5% gross overriding royalty payments from its oil and gas interests in Australia. Where royalties received on



incidental production from exploration/appraisal wells, such royalties are treated by the Company as fortuitous cash receipts. In the absence of detailed technical information such as sales prices, well costs, initial flow rates, decline rates, transport infrastructure, capacity availability, water cuts or netbacks with which to forecast well economics and potential production over time, no guidance can be provided with respect to any future royalty receipts.

Furthermore, there is also the uncertainty as to the Operators' planning of future production in and around the licences in which Newport has royalty interests (including the potential shut-in of producing appraisal wells or the installation of production infrastructure). The Company has no information on the production plans of the Operators and has no input into them.

Until such time as Newport can clearly determine that there is a degree of certainty with respect to royalty derived revenues, it cannot predict the prospects for future revenue. Accordingly, the receipts of royalty payments should not be treated as indicative of additional near-term revenue or any future revenues until the Company has appropriate information to support or validate this.

There can be no assurances Newport will continue to receive future petroleum royalties or be able to access the capital markets for the funding necessary to acquire and maintain exploration properties and to carry out exploration programs.

Newport is reliant upon its existing management, and if the services of such personnel were withdrawn for any reason, this could have a material adverse impact on the Company's operating activities.

When acquiring a property of merit within the resource industry, Newport competes with other companies possessing greater technical and financial resources than itself. Even if desirable properties are secured, there can be no assurance that the Company will be able to execute its exploration programs on proposed schedules and within cost estimates, whether due to weather conditions in the areas where it operates, increasingly stringent environmental regulations and other permitting restrictions, or other factors related to exploring in areas that lack infrastructure, to provide essential supplies and services.

Newport's future exploration activities may require permits from various governmental agencies charged with administering laws and regulations governing exploration, labor standards, occupational health and safety, control of toxic substances, waste disposal, land use, environmental protection and other matters. Inability to comply with laws, regulations and permit conditions could result in fines and/or stop work orders, costs for conducting remedial actions and other expenses. In addition, legislation changes to existing laws and regulations could result in significant additional costs to comply with the revised terms and could also result in delays in executing planned programs pending compliance with those terms.

#### ***Off Balance Sheet Arrangements***

The Company has no off-balance sheet arrangements or commitments as of the date of this MD&A.

#### ***Contingencies***

The Company is not aware of any contingencies or pending legal proceedings against the Company as of the date of this MD&A.

#### ***Proposed Transactions***

The Company has not entered into any proposed transactions as of the date of this MD&A.

### ***Investor Relations***

The Company has not entered into any investor relations agreements as of the date of this MD&A.

### ***Special Dividends***

On June 19, 2017, Newport declared a special cash dividend of \$0.05 per share to holders of the Company's common shares. The dividend was designated as an "eligible dividend" for Canadian income tax purposes. The Company paid a total dividend of \$4,616,494 to shareholders of record at June 30, 2017.

On September 27, 2018, Newport declared a special cash dividend of \$0.05 per common share. The dividend was designated as an "eligible dividend" for Canadian income tax purposes. The Company paid a total dividend of \$5,153,194 to shareholders of record at October 12, 2018.

### ***Current Share Data***

As at March 29, 2019, the Company had 104,429,874 common shares issued and outstanding and the following outstanding options and warrants:

#### ***Outstanding Options:***

Outstanding at March 29, 2019	Outstanding at January 31, 2019	Exercise Price	Expiry Date
1,650,000	1,650,000	\$0.34	December 13, 2019
1,300,000	1,300,000	\$0.26	October 8, 2020

#### ***Outstanding Warrants:***

Outstanding at March 29, 2019	Outstanding at January 31, 2019	Exercise Price	Expiry Date
-	1,366,000	\$0.14	March 7, 2019

Subsequent to January 31, 2019, 1,366,000 warrants were exercised for proceeds of \$191,240.

### ***Disclaimer***

The information provided in this management's discussion and analysis is not intended to be a comprehensive review of all matters concerning the Company. It should be read in conjunction with all other disclosure document provided by the Company, which can be accessed at [www.sedar.com](http://www.sedar.com). No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

***Cautionary Statement on Forward-Looking Information***

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: mineral exploration and development costs and results, fluctuation in the prices of commodities for which the Company may be exploring, foreign operations and foreign government regulations, competition, uninsured risks, recoverability of resources discovered, capitalization requirements, commercial viability, environmental risks and obligations, and the requirements for obtaining permits and licences for the Company's operations in the jurisdictions in which it may operate.