



# NEWPORT

## EXPLORATION LTD.

### MANAGEMENT'S DISCUSSION & ANALYSIS

#### Three Months Ended October 31, 2019

This management's discussion and analysis of financial position and results of operations ("MD&A") is prepared as at December 16, 2019 and should be read in conjunction with the unaudited condensed interim financial statements for the three months ended October 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, 2019 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 202-2168 Marine Drive, West Vancouver BC, Canada V7V 1K3. 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 several petroleum exploration and production licences in Australia.

Newport 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 October 31, 2019 (the “current period”), the Company recorded net income of \$1,695,284 compared to net income of \$1,466,093 during the three months ended October 31, 2018 (the “comparative period”). The significant changes during the current period compared to the comparative period, are as follows:

- Due to an increase in oil prices the Company recorded Royalty income of \$2,826,921 from its Royalty exploration licences in Australia during the current period, an increase from \$2,606,538 earned during the comparative period.
- Income tax expense of \$754,432 was recorded during the current period, an increase from \$708,260 recorded during the comparative period, a result of a higher royalty income recorded during the current period.
- A foreign exchange loss of \$10,418 was recorded during the current period compared to a foreign exchange loss of \$82,181 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 the Canadian dollar.

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

The Company’s working capital position at October 31, 2019 was \$4,631,924 compared to a working capital position of \$9,219,668 at July 31, 2019. As at October 31, 2019, the Company held cash and equivalents of \$230,930 (July 31, 2019 - \$2,967,459) and short-term investments of \$1,981,018 (July 31, 2019 - \$3,974,165). The change in cash and equivalents is primarily a result of a \$6,265,792 dividend distribution offset by \$1,597,504 provided by operating activities and cash from investing activities of \$1,931,759.

As at October 31, 2019, the Company had current assets of \$5,099,447 (July 31, 2019 - \$9,843,223), total assets of \$6,140,414 (July 31, 2019 - \$10,866,954) and total liabilities of \$467,523 (July 31, 2019 - \$623,555) 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 2020 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 could 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 October 31, 2019	Three Months Ended July 31, 2019	Three Months Ended April 30, 2019	Three Months Ended January 31, 2019
Total assets	\$ 6,140,414	\$ 10,866,954	\$ 9,013,405	\$ 7,520,141
Working capital	4,631,924	9,219,668	8,549,232	7,060,428
Petroleum Royalty income	2,826,921	2,930,022	2,245,048	1,959,189
Net income for the period	1,695,284	1,690,341	1,297,237	1,152,334
Earnings per share – basic	0.02	0.02	0.01	0.01
Earnings per share – diluted	0.02	0.02	0.01	0.01

	Three Months Ended October 31, 2018	Three Months Ended July 31, 2018	Three Months Ended April 30, 2018	Three Months Ended January 31, 2018
Total assets	\$ 6,370,734	\$ 9,216,101	\$ 9,190,201	\$ 8,529,311
Working capital	5,912,246	8,596,087	6,808,513	5,926,850
Petroleum Royalty income	2,606,538	2,905,012	1,655,012	1,924,740
Net income (loss) for the period	1,466,093	(294,730)	881,418	1,095,820
Earnings (loss) per share – basic	0.02	(0.00)	0.01	0.01
Earnings (loss) per share – diluted	0.02	(0.00)	0.01	0.01

Quarter to quarter changes in net income are mainly a result of the changes in Royalty payments 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, 2019, the Company paid a special dividend of \$0.06 per common share, a distribution of \$6,265,972.

During the three months ended April 30, 2019, 1,366,000 warrants were exercised for proceeds of \$191,240.

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 \$2,082,080 impairment of its exploration and evaluation asset recognized in the quarter. The impairment loss was partially offset by an increase in the petroleum Royalty income.

### ***Related Party Transactions***

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

- a) Paid consulting fees of \$126,000 (2018 - \$126,000) to a company controlled by Ian Rozier, Director, President and C.E.O. of the Company.
- b) Paid management fees of \$87,000 (2018 - \$87,000) to a company controlled by Barbara Dunfield, Director and C.F.O. of the Company.
- c) Reimbursed rent of \$41,848 (2018 - \$22,500) to companies controlled by Ian Rozier.
- d) Paid or accrued directors' fees of \$10,000 (2018 - \$10,000) to Merfyn Roberts a Director of the Company.
- e) Paid or accrued directors' fees of \$10,000 (2018 - 10,000) to James Robertson a Director of the Company.
- f) Paid or accrued professional fees of \$1,022 (2018 - \$1,131) to McMillan LLP ("McMillan") a legal firm of which David Cowan, the Company's Corporate Secretary, is a partner.

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

- a) \$6,666 (July 31, 2019 - \$6,666) to Merfyn Roberts, a director of the Company
- b) \$6,666 (July 31, 2019 - \$6,666) to James Robertson, a director of the Company
- c) \$1,022 (July 31, 2019 - \$Nil) to McMillan LLP, a company in which David Cowan, the Corporate Secretary of the Company 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):

	October 31, 2019	October 31, 2018
Fees for services	\$ 213,000	\$ 213,000

### ***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 \$1,981,018 at October 31, 2019 (July 31, 2019 - \$3,974,165), 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 \$5,099,447, 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 October 31, 2019 was received, net of tax, subsequent to October 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 October 31, 2019, the Company had a cash balance of \$230,930 (July 31, 2019 - \$2,967,459), receivables of \$2,887,499 (July 31, 2019 - \$2,894,230) and short-term investments of \$1,981,018 (July 31, 2018 - \$3,974,165) to settle current liabilities of \$467,523 (July 31, 2019 - \$623,555). 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 \$14,500.

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 \$18,300. 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 16 – Leases***

On January 13, 2016 the IASB issued IFRS 16 – Leases, which will supersede IAS 17 – Leases. The standard introduced 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.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset over a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether it has the right to obtain substantially all of the economic benefits from the use of the asset during the term of the contract and it has the right to direct the use of the asset.

The right-of-use asset is subsequently amortized from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. The right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments, and amounts expected to be payable at the end of the lease term.

IFRS 16 has changed how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet. Applying IFRS 16 for all except for short-term leases and leases of low-value assets, the Company will (1) recognize 'right-of-use' assets and lease liabilities in the balance sheet, initially measured at the present value of future lease payments discounted at the incremental borrowing rate; (ii) recognize depreciation of right-of-use assets and interest on lease liabilities in the statement of earnings; and (iii) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows. For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Company has opted to recognise a lease expense on a straight-line basis as permitted. The Company has taken the exemptions related to short-term and low-value asset leases. Exploration assets and mineral leases are not in the scope of this standard.

The adoption of IFRS 16 did not have any impact on the financial statements.

### ***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.

### ***Dividends***

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.

On September 16, 2019, Newport declared a special cash dividend of \$0.06 per common share. The dividend was designated as an "eligible dividend" for Canadian income tax purposes. The Company paid a total dividend of \$6,265,792 to shareholders of record at September 30, 2019.

On December 12, 2019, the Company announced a fixed quarterly dividend of \$0.01 per common share. The quarterly dividend payments will commence in March 2020. The Company reserves the right to increase the dividend payment from time to time. Sufficient funds will be retained in the treasury to maintain the dividend schedule in the event that royalty receipts are reduced for any reason.



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

As at December 16, 2019, the Company had 104,429,874 common shares outstanding and the following outstanding options and warrants:

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

Outstanding at December 16, 2019	Outstanding at July 31, 2019	Exercise Price	Expiry Date
-	1,650,000	\$0.34	December 13, 2019
<u>1,300,000</u>	<u>1,300,000</u>	\$0.26	October 8, 2020
1,300,000	2,950,000		

On December 13, 2019, 1,650,000 stock options expired, unexercised.

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

Nil

#### ***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, future dividend payments, fluctuation in the prices of commodities for which the Company may be exploring, the price of oil, fluctuations in currency markets (specifically the Australian dollar), 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.