## OPERATIONS AND FINANCIAL HIGHLIGHTS

| **Three months ended March 31,** | **2014** | 2013 |
|---|---|---|
| **OPERATING** | | |
| Average daily production | | |
| Light oil (bbls/d) | **3,028** | 1,701 |
| Natural gas (mcf/d) | **13,352** | 10,810 |
| NGLs (bbls/d) | **98** | 83 |
| Total (boe/d) | **5,351** | 3,586 |
| Average realized sales price | | |
| Light oil ($/bbl) | **96.92** | 89.09 |
| Natural gas ($/mcf) | **6.51** | 3.70 |
| NGLs ($/bbl) | **97.92** | 84.25 |
| Total ($/boe) | **72.88** | 55.39 |
| Undeveloped land (end of period) | | |
| Gross (acres) | **309,528** | 252,611 |
| Net (acres) | **293,197** | 200,271 |
| **NETBACK AND COST** ($ per boe) | | |
| Petroleum and natural gas sales | **72.88** | 55.39 |
| Realized gain (loss) on financial instruments | **(4.10)** | 0.86 |
| Royalty income | **0.02** | 0.44 |
| Royalty expenses | **(22.23)** | (16.12) |
| Operating expenses, net of recoveries | **(7.35)** | (9.14) |
| Transportation and marketing expenses | **(3.21)** | (2.79) |
| Operating netback(1) | **36.01** | 28.64 |
| General and administrative expenses, net of recoveries | **(3.51)** | (4.11) |
| Interest and financing expenses | **(0.41)** | (0.29) |
| Interest and other income | **0.01** | 0.11 |
| Funds from operations netback(1) | **32.10** | 24.35 |
| **FINANCIAL** | | |
| Petroleum and natural gas revenue ($000) | **35,112** | 18,021 |
| Funds from operations ($000)(1) | **15,461** | 7,861 |
| Per share – basic ($)(1) | **0.21** | 0.11 |
| Per share – diluted ($)(1) | **0.21** | 0.11 |
| Net income (loss) ($000) | **331** | (135) |
| Per share – basic ($) | **-** | - |
| Per share – diluted ($)(2) | **-** | - |
| Common shares outstanding | | |
| End of period – basic | **71,615,406** | 70,357,180 |
| End of period – diluted | **77,689,147** | 76,759,280 |
| Weighted average for the period – basic | **73,097,543** | 70,348,151 |
| Weighted average for the period – diluted | **74,334,096** | 72,758,478 |
| Capital expenditures, net of divestitures ($000) | **2,240** | 11,295 |
| Working capital deficit ($000)(1) | **19,947** | 6,354 |
| Drawn on credit facilities ($000) | **6,685** | 7,130 |
| Total net debt(1) ($000) | **26,632** | 13,484 |

(1) Funds from operations, funds from operations per share, funds from operations netback, operating netback, working capital deficit and net debt do not have standardized meanings prescribed by generally accepted accounting principles and therefore should not be considered in isolation. These reported amounts and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of other companies where similar terminology is used. Where these measures are used they should be given careful consideration by the reader.

(2) The basic and diluted weighted average shares outstanding are the same for periods in which the Corporation records a net loss.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Manitok Energy Inc. ("**Manitok**" or the "**Corporation**") is a junior oil and gas exploration, development and production company based in Calgary, Alberta. The Corporation conducts its operations in the Western Canadian Sedimentary Basin and currently all of its activities are in Alberta. Additional information relating to the Corporation, including its Annual Information Form dated April 23, 2014, is available electronically under the Corporation's profile on the System for Electronic Document Analysis and Retrieval (**"SEDAR"**) website at www.sedar.com and on the Corporation's website at www.manitokenergy.com. Manitok's common shares are listed for trading on the TSX Venture Exchange ("**TSX-V**") under the symbol "**MEI**" and are included in Standard and Poor's S&P/TSX-V Select Index.

The following Management's Discussion and Analysis (**"MD&A"**) is dated May 27, 2014. The unaudited condensed interim financial statements in respect of the three months ended March 31, 2014 (the **"Reporting Period"**) as compared to the three months ended March 31, 2013 (the **"Comparable Prior Period"**) and this MD&A has been prepared by management and approved by the Corporation's Audit Committee and Board of Directors. This MD&A should be read in conjunction with the unaudited condensed interim financial statements and related notes for the Reporting Period and the 2013 Annual Report. All financial information is expressed in Canadian dollars, unless otherwise stated.

### *ADVISORIES*

#### *Unaudited Numbers*

*All financial amounts referred to in this MD&A and the Corporation's first quarter report for the Reporting Period and the Comparable Prior Period ("**Q1 Report**") are management's best estimates and are unaudited.*

#### *Non-GAAP Measures*

*This MD&A and the Q1 Report contains references to measures used in the oil and natural gas industry such as "funds from operations", "funds from operations netback", "funds from operations per share", "operating netback", "working capital deficit" and "net debt". These measures do not have standardized meanings prescribed by generally accepted accounting principles ("**GAAP**") and therefore should not be considered in isolation. These reported amounts and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of other companies where similar terminology is used. Where these measures are used, they should be given careful consideration by the reader. These measures have been described and presented in the MD&A and Q1 Report in order to provide shareholders and potential investors with additional information regarding the Corporation's liquidity and its ability to generate funds to finance its operations.*

*Funds from operations should not be considered an alternative to, or more meaningful than, cash provided by operating, investing and financing activities or net income as determined in accordance with GAAP, as an indicator of Manitok's performance or liquidity. Funds from operations is used by Manitok to evaluate operating results and Manitok's ability to generate cash flow to fund capital expenditures and repay indebtedness. Funds from operations denotes cash flow from operating activities as it appears on the Corporation's Statement of Cash Flows before decommissioning expenditures and changes in non-cash operating working capital. Funds from operations is also derived from net income (loss) plus non-cash items including deferred income tax expense, depletion and depreciation expense, exploration and evaluation expense, impairment expense, stock-based compensation expense, accretion expense, unrealized gains or losses on financial instruments and gains or losses on asset divestitures. Funds from operations netback is calculated on a per boe basis and funds from operations per share is calculated as funds from operations divided by the weighted average number of basic and diluted common shares outstanding. Operating netback denotes petroleum and natural gas revenue and realized gains or losses on financial instruments less royalty expenses, operating expenses and transportation and marketing expenses calculated on a per boe basis. Working capital deficit includes current assets less current liabilities excluding the current portion of the amount drawn on the credit facilities, the current portion of the fair value of financial instruments and the deferred premium on financial instruments. Manitok uses net debt as a measure to assess its financial position. Net debt includes current assets less current liabilities excluding the current portion of the fair value of financial instruments and the deferred premium on financial instruments.*

### *Barrels of Oil Equivalent*

*The term barrels of oil equivalent ("**boe**") may be misleading, particularly if used in isolation. Per boe amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 mcf) of natural gas to one barrel (1 bbl) of crude oil. The boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalent of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.*

### *Forward-Looking Information*

*This MD&A and the Q1 Report contain forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information relates to future events or future performance and is based upon the Corporation's current internal expectations, estimates, projections, assumptions and beliefs. All information other than historical fact is forward-looking information. Information relating to reserves is forward-looking as it involves the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities estimated and that it will be commercially viable to produce in the future. Words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words that convey certain events or conditions "may" or "will" occur are intended to identify forward-looking information. In particular, this MD&A and the Q1 Report contains forward-looking information relating to estimates of recoverable reserves; expected production volumes; planned production increases; planned capital spending and sources of funding; and the intention to drill and complete future wells. Such statements reflect the Corporation's forecasts, estimates and expectations, as they relate to the Corporation's current views based on its experience and expertise with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.*

*By their nature, forward-looking information involves a variety of assumptions, known and unknown risks and uncertainties, and other factors, which may cause actual results, levels of activity, and achievements to differ materially from those expressed or implied by such statements. The material factors and assumptions used to develop the forward-looking statements herein include, but are not limited to the following: future commodity prices; currency exchange rates; inflation rates; well production rates; well drainage areas; success rates for future drilling; availability of labour and services; interest rates; and future availability of debt and equity financing being at levels and costs that allow the Corporation to manage, operate and finance its business, develop its properties and meet its future obligations. With respect to estimates of reserves, a key assumption is the validity of the data used by Sproule Associates Limited in its independent reserves evaluation. With respect to future wells to be drilled, a key assumption is that geological and other technical interpretations performed by the Corporation's technical staff, which indicate commercially economic reserves can be recovered from the Corporation's land as a result of drilling such future wells, are valid. Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intensions or expectations upon which it is based will occur. Although the Corporation believes that the expectations reflected in the forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. As a consequence, actual results may differ materially from those anticipated.*

*Forward-looking information necessarily involves both known and unknown risks associated with oil and natural gas exploration, production, transportation and marketing such as uncertainty of geological and technical data, imprecision of reserves estimates, operational risks, environmental risks, loss of market demand, general economic conditions affecting the ability to access sufficient capital, changes in government regulation of the oil and gas industry and competition from others for scarce resources.*

*The foregoing list of risk factors is not exhaustive. Additional information on these other risk factors that could affect operations or financial results are included in the Corporation's most recent Annual Information Form and in other reports filed with Canadian securities regulatory authorities. Forward-looking information is based on estimates and opinions of management at the time the information is presented. The Corporation is not under any duty to update and does not intend or assume any obligation to update the forward-looking information after the date of this MD&A and Q1 Report to conform such information to actual results or to changes in the Corporation's*

*plans or expectations, except as otherwise required by applicable securities laws. All subsequent forward-looking statements, whether written or oral, attributable to the Corporation or persons acting on the Corporation's behalf, are expressly qualified in their entirety by these cautionary statements.*

## ABBREVIATIONS

### Crude Oil and Natural Gas Liquids

| | |
|---|---|
| bbl | barrel |
| bbls | barrels |
| bbls/d | barrels per day |
| Mbbls | thousand barrels |
| boe | barrels of oil equivalent |
| boe/d | barrels of oil equivalent per day |
| Mboe | thousand barrels of oil equivalent |
| MMboe | million barrels of oil equivalent |
| NGLs | natural gas liquids |

### Natural Gas

| | |
|---|---|
| mcf | thousand cubic feet |
| mcf/d | thousand cubic feet per day |
| Mmcf | million cubic feet |
| Mmcf/d | million cubic feet per day |
| Bcf | billion cubic feet |
| mmbtu | million British thermal units |
| GJ | Gigajoule |
| GJ/d | Gigajoules per day |

### Other

| | |
|---|---|
| AECO | benchmark natural gas price determined at the AECO “C” hub in southeast Alberta |
| WTI | West Texas Intermediate crude oil, a benchmark oil price determined at Cushing, Oklahoma |
| °API | the measure of the density or gravity of liquid petroleum products |

## GUIDANCE

The 2014 guidance remains unchanged from the Corporation's press release dated February 27, 2014. Assuming drilling success based on Manitok's expected outcomes and applied risk parameters, Manitok anticipates the following guidance estimates for 2014:

| | **Guidance** |
|---|---|
| **2014 Production** | |
| Annual (boe/d) | 6,000 – 6,200 |
| % Oil and liquids | 62% – 65% |
| Exit rate (boe/d) | 7,100 – 7,500 |
| % Oil and liquids | 67% – 70% |
| **2014 Benchmark pricing** | |
| Crude oil – WTI ($US) | 92.00 |
| $CAD/$US exchange rate | 1.06 |
| Crude oil – WTI ($CAD) | 97.52 |
| Differential – Realized to WTI ($CAD) | (10.77) |
| Natural gas – AECO daily spot ($/mmbtu) | 3.30 |
| **2014 Funds from operations** | $69 – $71 million |
| **Capital expenditures, net of divestitures** | $93.1 million |
| **Net debt at year end** | $56 – $58 million |

Manitok's anticipated capital expenditures and estimated production results are based upon various assumptions as to equipment availability, well production rates, well drainage areas, success rates, timing and costs of future well drilling, the availability of capital, future costs and availability of labour and services.

## FUNDS FROM OPERATIONS AND NET INCOME (LOSS)

### Funds from Operations

Management uses funds from operations to analyze operating performance. Funds from operations and funds from operations per share are non-GAAP measures defined as cash flow from operating activities from the Statements of Cash Flows before decommissioning expenditures and changes in non-cash operating working capital. Funds from operations as presented is not intended to represent cash flow from operating activities, net income or other measures of financial performance calculated in accordance with GAAP. Funds from operations per share is calculated based on the weighted average number of basic and diluted common shares outstanding. Manitok's calculation of funds from operations is considered to be a key measure of the ability to generate the cash necessary to fund capital expenditures and repay indebtedness.

The following schedule sets out the reconciliation of cash flow from operating activities, as determined in accordance with International Financial Reporting Standards ("**IFRS**") to funds from operations:

| | **Three months ended March 31** | |
|---|---|---|
| *($000, except per share information)* | **2014** | 2013 |
| **Cash flow from operating activities** | **18,520** | 5,219 |
| Adjustments: | | |
| Decommissioning expenditures | **16** | 110 |
| Changes in non-cash operating working capital | **(3,075)** | 2,532 |
| **Funds from operations** | **15,461** | 7,861 |
| **per share – basic** | **0.21** | 0.11 |
| **per share – diluted** | **0.21** | 0.11 |

Funds from operations increased by 97% to $15.5 million ($0.21 per diluted share) for the first quarter of 2014 as compared to $7.9 million ($0.11 per diluted share) in the Comparable Prior Period. The increase in funds from operations and funds from operations per share were due to a 95% increase in petroleum and natural gas revenue, partially offset by an increased realized loss on financial instruments and aggregate increases to royalty, operating and transportation and marketing expenses associated with the increase in average daily production.

### Net Income (Loss)

The following table details Manitok's net income (loss) for the Reporting Period and the Comparable Prior Period:

| | Three months ended March 31 | |
|---|---|---|
| *($000, except per share information)* | **2014** | 2013 |
| **Net income (loss)** | **331** | (135) |
| **per share – basic** | **-** | - |
| **per share – diluted** | **-** | - |

Manitok had net income of $0.3 million ($NIL per basic share) in the first quarter of 2014 as compared to a net loss of $0.1 million ($NIL per basic share) in the Comparable Prior Period. The increase in net income was attributable to the increase in funds from operations, partially offset by aggregate increases in depletion and depreciation expense, deferred income tax expense, the unrealized loss on financial instruments and the loss on asset divestitures.

## MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

- On February 28, 2014, Manitok completed an asset disposition of approximately 777 boe/d (94% natural gas) in the central Alberta foothills region ("**Foothills Asset Divestiture**"), with an effective date of January 1, 2014 for total cash consideration of approximately $21.9 million after closing adjustments. Total cash received as at March 31, 2014 was $14.9 million, with the remaining $7.0 million related to right of first refusal options held by third party entities being held in escrow and recorded to accounts receivable. The $7.0 million escrowed proceeds were collected in April 2014. The net proceeds received were used to temporarily reduce the Corporation's bank indebtedness and will be redrawn to partially fund the Corporation's exploration and development activities in 2014.
- On March 11, 2014, Manitok received approval of the TSX-V to commence a new Normal Course Issuer Bid ("**2014 NCIB**") program to purchase for cancellation up to 6.8 million common shares of Manitok ("**Manitok Shares**") on the open market during the period from March 17, 2014 and March 16, 2015.

## RESULTS OF OPERATIONS

### Petroleum and Natural Gas Revenue

The following table details Manitok's petroleum and natural gas ("**P&NG**") revenue, production and average realized sales prices by product for the Reporting Period and the Comparable Prior Period:

| | **Three months ended March 31, 2014** | | | | Three months ended March 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Total Revenue ($000)** | **Average Daily Production** | **%** | **Average ($/unit)** | Total Revenue ($000) | Average Daily Production | % | Average ($/unit) |
| Light oil (bbls) | **26,417** | **3,028** | **57** | **96.92** | 13,642 | 1,701 | 47 | 89.09 |
| Natural gas (mcf)[(1)] | **7,825** | **13,352** | **41** | **6.51** | 3,605 | 10,810 | 50 | 3.70 |
| NGLs (bbls) | **859** | **98** | **2** | **97.92** | 631 | 83 | 3 | 84.25 |
| **Total P&NG sales (boe)** | **35,101** | **5,351** | **100** | **72.88** | 17,878 | 3,586 | 100 | 55.39 |
| Royalty revenue | **11** | | | **0.02** | 143 | | | 0.44 |
| **Total P&NG revenue (boe)** | **35,112** | **5,351** | **100** | **72.90** | 18,021 | 3,586 | 100 | 55.83 |

(1) Includes sulphur revenue, but sulphur production volumes are excluded.

Total P&NG sales for the first quarter of 2014 increased 96% compared to the first quarter of 2013 as a result of a 49% increase in production and a 32% increase in average realized sales prices.

*Production*

Production averaged 5,351 boe/d in the first quarter of 2014, as compared to 3,586 boe/d in the Comparable Prior Period. The increase in average daily production in the Reporting Period as compared to the Comparable Prior Period was due to the successful drilling program in the Stolberg area for light oil and associated gas from the Cardium Formation and liquids rich natural gas from the Ostracod Formation, partially offset by approximately 550 boe/d related to the Foothills Asset Divestiture.

*Commodity Prices*

Manitok sells all of its crude oil on a spot basis and the majority of its natural gas production for prices based on the AECO daily spot price. The following table details the average reference price for the Reporting Period and the Comparable Prior Period:

| | **Three months ended March 31** | | |
|---|---|---|---|
| | **2014** | 2013 | Variance |
| **Benchmark prices** | | | |
| Light oil – WTI ($US/bbl) | **98.68** | 94.35 | 5% |
| Light oil – WTI ($CAD/bbl) | **108.55** | 95.29 | 14% |
| Light oil – Edmonton Par ($/bbl) | **100.18** | 88.60 | 13% |
| Natural gas – AECO daily spot ($/mmbtu) [(1)] | **5.71** | 3.20 | 78% |
| Exchange rate – ($CAD/$US) | **1.10** | 1.01 | 9% |
| **Average realized prices** | | | |
| Light oil ($/bbl) | **96.92** | 89.09 | 9% |
| Natural gas ($/mcf) | **6.51** | 3.70 | 76% |
| NGLs ($/bbl) | **97.92** | 84.25 | 16% |
| Average realized price ($/boe) | **72.88** | 55.39 | 32% |
| **Price differentials** | | | |
| Edmonton Par/WTI CAD ($/bbl) | **(8.37)** | (6.69) | 25% |
| Realized light oil/Edmonton Par ($/bbl) | **(3.26)** | 0.49 | 765% |
| Realized natural gas/AECO daily spot ($/mcf) | **0.80** | 0.50 | 60% |

(1) $1.00/mmbtu = $1.00/mcf based on a standard heat value mcf.

The price the Corporation receives for its P&NG production depends on a number of factors, including Canadian dollar AECO spot market prices for natural gas, Canadian dollar Edmonton Par ("**Edmonton Par**") crude oil prices, US dollar WTI oil prices, the Canadian/US dollar exchange rate and transportation and product quality differentials.

The price differential of Edmonton Par crude oil to WTI in Canadian dollar terms ("**WTI $CAD**") widened to negative $8.37/bbl in the first quarter of 2014 as compared to negative $6.69/bbl in the Comparable Prior Period, which negatively impacted Manitok's average realized price received for light oil. The price differential between

Edmonton Par crude oil and WTI $CAD changes due to a number of factors including, but not limited to, downtime in North American refineries, rising domestic production, regional bottlenecks and curtailment of key processing infrastructure, high inventory levels in North America and the lack of pipeline infrastructure connecting key consuming oil markets. The price differential of the Corporation's realized sales price to Edmonton Par crude oil widened to negative $3.26/bbl in the Reporting Period as compared to positive $0.49/bbl in the Comparable Prior Period. The price differential between the Corporation's realized sales price to Edmonton Par crude oil can change depending on the delivery terminal, crude oil quality and pipeline tariffs.

Manitok's average realized commodity price increased 32% to $72.88/boe in the first quarter of 2014 from $55.39/boe in the Comparable Prior Period, due to increased prices for light oil, natural gas and NGLs. Additionally, crude oil and NGL production increased from 50% of total production in the first quarter of 2013 to 59% of total production in the first quarter of 2014.

Manitok's petroleum and natural gas sales are impacted by world events that dictate the level of supply and demand for petroleum and natural gas. The Corporation is subject to fluctuations in commodity prices, which is partially mitigated with the use of derivative risk management contracts. See "Financial Instruments."

## Financial Instruments

The Corporation has entered into certain commodity price risk management contracts in order to reduce volatility in its financial results and to protect its funds from operations and anticipated capital expenditure program. The Corporation's current strategy is to hedge a portion of its oil and natural gas production using a combination of financial derivatives and physical delivery sales contracts to manage commodity risk.

### *Financial Derivatives*

As at March 31, 2014, the Corporation held the following derivative financial instruments:

| Product | Notional Quantity | Remaining Term | Reference | Strike Price | Type of Contract | Fair Value |
|---|---|---|---|---|---|---|
| Oil | 500 bbls/d | April 1, 2014 to December 31, 2014 | CAD$ WTI | $96.00 | Swap | (1,695) |
| Oil | 500 bbls/d | April 1, 2014 to December 31, 2014 | CAD$ WTI | $93.35 | Swap | (2,057) |
| Oil | 300 bbls/d | April 1, 2014 to December 31, 2014 | CAD$ WTI | $94.00 | Swap | (1,181) |
| Oil | 1,000 bbls/d | January 1, 2015 to December 31, 2015 | CAD$ WTI | $95.00 | Swap | (1,941) |
| Oil | 500 bbls/d | January 1, 2015 to December 31, 2015 | CAD$ WTI | $91.00 | Swap | (1,670) |
| Natural gas | 5,000 GJ/d | April 1, 2014 to December 31, 2014 | CAD$ AECO | $3.35 | Put option(1) | 47 |
| Natural gas | 5,000 GJ/d | April 1, 2014 to December 31, 2014 | CAD$ AECO | $3.75 | Put option(1) | 117 |
| Oil | 500 bbls/d | January 1, 2015 to December 31, 2015 | CAD$ WTI | $96.00 | Swaption(2) | (1,503) |
| Oil | 1,000 bbls/d | January 1, 2016 to December 31, 2016 | CAD$ WTI | $95.00 | Swaption(3) | (2,830) |
| Oil | 500 bbls/d | January 1, 2016 to December 31, 2016 | CAD$ WTI | $91.00 | Swaption(4) | (1,495) |
| **Total** | | | | | | **(14,208)** |

(1) As at March 31, 2014 Manitok recorded $1.0 million as a deferred premium on financial instruments liability, which represents the deferred put option premium payable to the counter-party on these contracts of $0.35/GJ.

(2) The counter-party to this contract holds a one-time option no later than December 31, 2014 to extend a swap on 500 bbls/d of oil at CAD$96.00 for the period indicated. The fair value amount represents the cost the Corporation would incur to exit the contract.

(3) The counter-party to this contract holds a one-time option no later than December 31, 2015 to extend a swap on 1,000 bbls/d of oil at CAD$95.00 for the period indicated. The fair value amount represents the cost the Corporation would incur to exit the contract.

(4) The counter-party to this contract holds a one-time option no later than December 31, 2015 to extend a swap on 500 bbls/d of oil at CAD$91.00 for the period indicated. The fair value amount represents the cost the Corporation would incur to exit the contract.

The following table provides a summary of the realized and unrealized gain (loss) on financial instruments:

| | Three months ended March 31 | | | |
|---|---|---|---|---|
| | **2014** | | 2013 | |
| | **$000** | **$/boe** | $000 | $/boe |
| Realized gain (loss) on financial instruments | **(1,976)** | **(4.10)** | 278 | 0.86 |
| Unrealized loss on financial instruments | **(6,175)** | **(12.82)** | (3,035) | (9.40) |

Subsequent to March 31, 2014, the Corporation entered into the following derivative financial instruments:

| Product | Notional Quantity | Term | Reference | Strike Price | Type of Contract |
|---|---|---|---|---|---|
| Oil | 500 bbls/d | June 1, 2014 to December 31, 2014 | CAD$ WTI | $105.17 | Swap |
| Oil | 1,000 bbls/d | June 1, 2014 to December 31, 2014 | CAD$ EDM – WTI diff | $8.67 | Swap |
| Natural gas | 5,000 GJ/d | January 1, 2015 to December 31, 2015 | CAD$ AECO | $3.73 | Put option[1] |

(1) The counter-party to this contract receives a deferred put option premium of $0.33/GJ.

*Physical Sales Contracts*

In addition to the financial derivative contracts discussed above, the Corporation has entered in physical sales contracts to manage commodity risk. These contracts are considered normal executory contracts and are not recorded at fair value in the financial statements. The Corporation has entered into the following physical sales contracts as at March 31, 2014:

| Product | Volume | Term[1] | Strike Price | Type of Contract |
|---|---|---|---|---|
| Natural gas | 6,000 GJ/d | April 1, 2014 to October 31, 2014 | $3.77 | AECO fixed price |

(1) Transactions with common terms have been aggregated and presented as the weighted average price.

## Royalty Expenses

Royalties are paid to the Government of Alberta and other land and mineral rights owners. The following table illustrates the Corporation's royalty expenses by product for the Reporting Period and the Comparable Prior Period:

| | **Three months ended March 31, 2014** | | | Three months ended March 31, 2013 | | |
|---|---|---|---|---|---|---|
| | **($000)** | **Effective Royalty Rate[1]** | **Average ($/unit)** | ($000) | Effective Royalty Rate[1] | Average ($/unit) |
| Light oil and NGLs (bbls) | **9,514** | **34.9%** | **33.82** | 4,790 | 33.6% | 29.82 |
| Natural Gas (mcf)[2][3] | **1,191** | **15.2%** | **0.99** | 412 | 11.4% | 0.42 |
| **Total Royalties (boe)** | **10,705** | **30.5%** | **22.23** | 5,202 | 29.1% | 16.12 |

(1) The effective royalty rate is calculated by dividing the royalties into the applicable P&NG sales category and into total sales for the period.
(2) Includes royalty expenses for sulphur, but sulphur production volumes are excluded.
(3) Includes natural gas cost allowance credits received from the government of Alberta.

Royalties for the first quarter of 2014 were $10.7 million, as compared to $5.2 million for the Comparable Prior Period. The increase is primarily due to increased light oil and NGL royalties as a result of increased production volumes in the three month Reporting Period. The effective royalty rate increased to 30.5% in the first quarter of 2014 compared to 29.1% in the Comparable Prior Period, with light oil and NGLs averaging 34.9% compared to 33.6% and natural gas increasing to 15.2% from 11.4%. The increased effective royalty rate for natural gas is mainly due to higher natural gas prices in the first quarter of 2014 compared to the first quarter of 2013. Additionally, the effective royalty rate for natural gas has increased slightly due to the Foothills Asset Divestiture, as the wells included in the disposition generally had lower royalty rates as a result of lower production volumes per well.

Royalty expenses increased 129% in the first quarter of 2014 compared to the fourth quarter of 2013 as a result of higher commodity prices and three light oil wells drilled in 2013 that each exceeded the royalty incentive production volume maximum of 50,000 bbls of oil in approximately three to four months of production and were subject to a maximum royalty rate of 40% for the majority of the first quarter of 2014 as compared to a 5% new well royalty rate before the production volume threshold of 50,000 bbls of oil was exceeded.

### Operating Expenses

The following table compares operating expenses for the Reporting Period and the Comparable Prior Period:

| | **Three months ended March 31, 2014** | | Three months ended March 31, 2013 | | Variance | |
|---|---|---|---|---|---|---|
| | **$000** | **$/boe** | $000 | $/boe | $ | $/boe |
| Field operating expenses | **3,909** | **8.12** | 3,185 | 9.87 | 23% | (18%) |
| Recoveries | **(370)** | **(0.77)** | (236) | (0.73) | 57% | 5% |
| **Total operating expenses** | **3,539** | **7.35** | 2,949 | 9.14 | 20% | (20%) |

The increase in aggregate operating expenses in the first quarter of 2014 as compared to the Comparable Prior Period was due to the large increase in production volumes attributed to the successful drilling program in the Stolberg area.

Total operating expenses per boe decreased 20% in the first quarter of 2014 as compared to the Comparable Prior Period. The decrease is mainly attributable to increased production volumes through permanent facilities which have lower operating costs than temporary facilities. Additionally, operating expenses per boe decreased due to the Foothills Asset Divestiture which had higher operating costs per boe than the corporate average.

### Transportation and Marketing Expenses

The following table illustrates the Corporation's transportation and marketing (**"T&M"**) expenses for the Reporting Period and the Comparable Prior Period:

| | **Three months ended March 31** | | |
|---|---|---|---|
| | **2014** | 2013 | Variance |
| Total T&M expenses ($000) | **1,546** | 902 | 71% |
| Total T&M expenses ($/boe) | **3.21** | 2.79 | 15% |

These costs consist primarily of transportation costs and the significant increase in aggregate T&M expenses in the Reporting Period as compared to the Comparable Prior Period was due to the large increase in production volumes.

Total T&M expenses of $3.21/boe in the first quarter of 2014 increased 15% from $2.79/boe in the Comparable Prior Period due primarily to a higher percentage of crude oil production relative to natural gas. Crude oil transportation costs are higher on a per boe basis than natural gas transportation costs, and crude oil volumes represented 57% of total production volumes in the first quarter of 2014, as compared to 47% in the Comparable Prior Period.

### Operating Netback

The following table compares operating netbacks for the Reporting Period and the Comparable Prior Period:

| | **Three months ended March 31** | | |
|---|---|---|---|
| ($/boe) | **2014** | 2013 | Variance |
| Realized P&NG sales price | **72.88** | 55.39 | 32% |
| Royalty income | **0.02** | 0.44 | (95%) |
| Royalty expenses | **(22.23)** | (16.12) | 38% |
| Operating expenses, net of recoveries | **(7.35)** | (9.14) | (20%) |
| Transportation and marketing expenses | **(3.21)** | (2.79) | 15% |
| Operating netback before realized gain (loss) on financial instruments | **40.11** | 27.78 | 44% |
| Realized gain (loss) on financial instruments | **(4.10)** | 0.86 | (577%) |
| Operating netback | **36.01** | 28.64 | 26% |

Manitok's operating netback was $36.01/boe in the Reporting Period, a 26% increase from the Comparable Prior Period. The increase in operating netback was due mainly to higher realized petroleum prices and lower operating costs, partially offset by an increase in royalty expenses and realized losses on financial instruments.

## Administrative Expenses

The components of administrative expenses for the Reporting Period and the Comparable Prior Period are as follows:

| | **Three months ended March 31, 2014** | | Three months ended March 31, 2013 | | Variance |
|---|---|---|---|---|---|
| | **$000** | **%** | $000 | % | $ |
| *Cash:* | | | | | |
| Salaries and benefits[(1)] | **1,620** | **63** | 1,043 | 58 | 55% |
| Other[(2)] | **962** | **37** | 748 | 42 | 29% |
| | **2,582** | **100** | 1,791 | 100 | 44% |
| Operating overhead recoveries | **(180)** | **(7)** | (152) | (8) | 18% |
| Capitalized overhead recoveries[(3)] | **(711)** | **(28)** | (313) | (18) | 127% |
| General and administrative expenses, net | **1,691** | **65** | 1,326 | 74 | 28% |
| General and administrative expenses, net per boe | **3.51** | | 4.11 | | (15%) |
| *Non-cash:* | | | | | |
| Stock-based compensation | **152** | **100** | 700 | 100 | (78%) |
| Capitalized stock-based compensation[(3)] | **(60)** | **(39)** | (256) | (37) | (77%) |
| Stock-based compensation, net | **92** | **61** | 444 | 63 | (79%) |
| Stock-based compensation, net per boe | **0.19** | | 1.37 | | (86%) |
| **Total administrative expenses, net** | **1,783** | **65** | 1,770 | 71 | 1% |
| **Total administrative expenses, net per boe** | **3.70** | | 5.48 | | (32%) |

(1) Includes salaries and benefits paid to all Officers, Directors and employees of the Corporation.
(2) Includes costs such as rent, professional fees, insurance, computer software licenses and other business expenses incurred by the Corporation.
(3) Represents a portion of salaries, benefits, software and stock-based compensation that are directly attributable to the exploration and development activities of the Corporation.

### *General and administrative (cash)*

Net General and Administrative ("**G&A**") expenses increased on an aggregate basis in the first quarter of 2014 as compared to the Comparable Prior Period due primarily to an increase in the number of professional staff to accommodate the Corporation's growth. On a per boe basis, G&A has decreased 15% in the first quarter of 2014 as compared to the Comparable Prior Period due primarily to increased production volumes and an increase in capitalized overhead recoveries directly attributable to the increase in development and exploration activities.

### *Stock-based compensation (non-cash)*

In the first quarter of 2014, Manitok recorded stock-based compensation expense of $92,000, as compared to an expense of $444,000 in the Comparable Prior Period. The decrease is due to forfeitures of unvested stock options partially offsetting the amount expensed in the period.

A summary of the Corporation's outstanding stock options is presented below:

| | **Number** | **Weighted Average Exercise Price ($)** |
|---|---|---|
| **Outstanding, December 31, 2012** | **4,783,833** | **1.46** |
| Granted | 2,171,100 | 2.99 |
| Exercised | (742,826) | 1.23 |
| Forfeited | (604,667) | 2.41 |
| **Outstanding, December 31, 2013** | **5,607,440** | **1.98** |
| Granted | 1,491,000 | 2.40 |
| Exercised | (473,366) | 1.50 |
| Forfeited | (551,333) | 2.51 |
| **Outstanding, March 31, 2014** | **6,073,741** | **2.07** |

Each stock option entitles the holder to purchase one Manitok Share upon payment of the exercise price.

### Depletion and Depreciation Expense

The following table compares depletion and depreciation expenses ("**D&D**") for the Reporting Period and the Comparable Prior Period:

| | Three months ended March 31 | | |
|---|---|---|---|
| | **2014** | 2013 | Variance |
| Depletion and depreciation ($000) | **6,392** | 4,214 | 52% |
| Depletion and depreciation ($/boe) | **13.27** | 13.06 | 2% |

D&D expense is a function of the estimated proved plus probable reserve additions, the finding and development costs attributable to those reserves, the associated future development capital required to recover those reserves and production in the period. The Corporation determines its D&D expenses on an area basis.

D&D expenses increased on an aggregate basis in the Reporting Period due to the increase in production volumes from the Comparable Prior Period. On a boe basis, D&D expense in the first quarter of 2014 remained relatively consistent with the Comparable Prior Period.

### Asset Impairment Review

The Corporation's cash-generating units ("**CGUs**") are reviewed at each reporting date for indicators of potential impairment. Such indicators may include, but are not limited to, changes in the Corporation's business plan, deterioration in commodity prices or a significant downward revision of estimated recoverable reserves. If indicators of asset impairment exist, an impairment test is performed by comparing the carrying value of Manitok's CGUs to its recoverable amount.

Manitok performed an impairment assessment of its exploration and evaluation and petroleum and natural gas properties and equipment on a CGU basis and determined there were no impairment indicators identified in the Reporting Period. As a result, an impairment test was not required as at March 31, 2014.

### Finance Expenses

The components of the Corporation's finance expenses for the Reporting Period and Comparable Prior Period are as follows:

| | **Three months ended March 31, 2014** | | Three months ended March 31, 2013 | | Variance | |
|---|---|---|---|---|---|---|
| | **$000** | **$/boe** | $000 | $/boe | $ | $/boe |
| *Cash:* | | | | | | |
| Interest and fees on credit facilities | **197** | **0.41** | 95 | 0.29 | 107% | 41% |
| *Non-cash:* | | | | | | |
| Accretion on decommissioning obligations | **68** | **0.14** | 70 | 0.22 | (3%) | (36%) |
| **Total finance expenses** | **265** | **0.55** | 165 | 0.51 | 61% | 8% |

The aggregate finance expenses for the first quarter of 2014 increased from the Comparable Prior Period due to increased interest charges from higher average outstanding bank indebtedness. The Corporation's average outstanding bank indebtedness was approximately $17.5 million in the first quarter of 2014 as compared to $3.9 million in the Comparable Prior Period, calculated as the simple average of the daily amounts. The effective interest rate applicable to the credit facilities was 3.5% in the Reporting Period as compared to 3.6% in the Comparable Prior Period.

### Loss on Divestiture of Assets

In the first quarter of 2014, Manitok completed the Foothills Asset Divestiture for total cash consideration of approximately $21.9 million after post-closing adjustments. Total cash received as at March 31, 2014 was $14.9 million, with the remaining $7.0 million related to right of first refusal options held by third party entities being held in escrow and recorded to accounts receivable. The $7.0 million escrowed proceeds were collected in April 2014. Manitok recorded a loss of approximately $1.0 million ($0.8 million, net of tax) or $2.18 per boe, as a result of the disposition.

### Income Taxes

The following table compares deferred income taxes for the Reporting Period and the Comparable Prior Period:

| | Three months ended March 31 | | |
|---|---|---|---|
| | **2014** | 2013 | Variance |
| Deferred income tax expense ($000) | **1,354** | 233 | 481% |
| Deferred income tax expense ($/boe) | **2.81** | 0.72 | 290% |

The increase in deferred income tax expense for the Reporting Period from the Comparable Prior Period was due primarily to an increase in net income before taxes and exploration expenditures utilized in a flow through share renunciation.

## CAPITAL EXPENDITURES AND CAPITAL RESOURCES

### Capital Expenditures

The following table sets forth a summary of the Corporation's capital expenditures incurred during the Reporting Period and the Comparable Prior Period:

| | Three months ended March 31 | |
|---|---|---|
| ($000) | **2014** | 2013 |
| Land | **180** | 1,386 |
| Seismic | **729** | 162 |
| Workovers and recompletions | **234** | 75 |
| Drilling and completions | **19,839** | 5,898 |
| Well equipment and facilities | **2,448** | 3,334 |
| Capitalized overhead[1] | **711** | 313 |
| **Total finding and development costs (F&D)** | **24,141** | 11,168 |
| Acquisitions (divestitures), net[2] | **(21,932)** | (67) |
| **Total finding, development and acquisition costs (FD&A)** | **2,209** | 11,101 |
| Administrative and other assets | **31** | 194 |
| **Total capital expenditures[3]** | **2,240** | 11,295 |

(1) Represents a portion of salaries and benefits that are directly attributable to the exploration and development activities of the Corporation that have been capitalized.
(2) Includes the Foothills Asset Divestiture in the Reporting Period.
(3) Excludes non-cash items such as capitalized stock-based compensation and decommissioning obligations.

In the first quarter of 2014, the Corporation drilled a total of 9 gross (6.8 net) wells. Of these nine wells, 5 (2.8 net) were drilled in the Stolberg area of Alberta and 4 (4.0 net) were drilled in the Entice area of Alberta. The equipping and facility capital spent relates mainly to the construction of a satellite oil battery and pipelines in the Stolberg area (79% net working interest), which was commissioned in March 2014.

Capital expenditures in the three month Reporting Period and Comparable Prior Period were allocated as follows:

| | Three months ended March 31 | |
|---|---|---|
| ($000) | **2014** | 2013 |
| Exploration and evaluation | **9,733** | 1,484 |
| Petroleum and natural gas properties and equipment, net of divestitures | **(7,493)** | 9,811 |
| **Total capital expenditures[1]** | **2,240** | 11,295 |

(1) Excludes non-cash items such as capitalized stock-based compensation and decommissioning obligations.

The Corporation incurred $9.7 million of exploration and evaluation additions in the first quarter of 2014. Approximately $6.1 million related to land, geological and geophysical, and drilling and completion costs in the Entice area, $3.3 million related to drilling and completion costs in the Quirk Creek area and $0.3 million related to other areas.

## Capital Resources and Liquidity

The following table sets forth a summary of the Corporation's capital resources for the Reporting Period and the Comparable Prior Period:

| ($000) | Three months ended March 31 2014 | 2013 |
|---|---|---|
| Funds from operations | **15,461** | 7,861 |
| Changes in non-cash operating working capital | **3,075** | (2,532) |
| Decommissioning expenditures | **(16)** | (110) |
| Increase (decrease) in credit facilities | **(9,552)** | 4,029 |
| Proceeds from the exercise of stock options | **709** | 22 |
| Repurchase of common shares | **(8,032)** | - |
| Changes in non-cash investing working capital | **595** | 3,049 |
| **Total capital resources** | **2,240** | 12,319 |
| Exploration and evaluation asset expenditures | **(9,733)** | (1,484) |
| Petroleum and natural gas properties and equipment expenditures | **(14,439)** | (9,878) |
| Property divestitures (acquisitions) | **21,932** | 67 |
| **Net increase (decrease) in cash** | **-** | 1,024 |

## Working Capital

The Corporation's working capital deficit (current assets less current liabilities), which excludes the current portion of the amount drawn on the credit facilities, the current portion of the fair value of financial instruments and the deferred premium on financial instruments increased to $19.9 million at March 31, 2014 as compared to $16.3 million at December 31, 2013. The working capital deficit at March 31, 2014 is largely comprised of costs incurred on the Corporation's drilling program in the Stolberg and Entice areas and will be financed with funds from operations and the Corporation's credit facilities.

At March 31, 2014, the major component of Manitok's current assets was revenue (43%) to be received from its marketers in respect of March 2014 production that was subsequently received in April 2014, and proceeds associated with the Foothills Asset Divestiture (31%) that were held in escrow by the Corporation's legal counsel in respect of right of first refusal options held by third party entities to the divestiture agreement. The proceeds held in escrow were received in April 2014. Current liabilities excluding the amount drawn on the credit facilities, the fair value of financial instruments and the deferred premium on financial instruments largely consisted of trade payables (43%) and accrued liabilities (18%) related to the Corporation's capital expenditure program. Manitok routinely assesses the financial strength of its marketers and joint venture partners. At this time, Manitok expects that such counterparties will be able to meet their financial obligations.

The Corporation manages its working capital using its funds from operations, funds from equity issuances, advances under its credit facilities, and asset divestitures. If applicable, Manitok will invest any excess cash in a short-term interest bearing account with its lender. The Corporation did not identify any liquidity issues with respect to the operation of its petroleum and natural gas business during the year.

### Bank Indebtedness

The amount outstanding on the Corporation's credit facilities was $6.7 million as at March 31, 2014, with an aggregate limit of $105.0 million as compared to $16.2 million as at December 31, 2013, with an aggregate limit was $105.0 million.

The following table indicates the Corporation's total available credit:

| As at, ($000) | **March 31, 2014** | December 31, 2013 |
|---|---|---|
| Maximum borrowing base limit[1][2] | | |
| Revolving operating demand loan facility | **85,000** | 85,000 |
| Acquisition and development demand loan facility[3] | **20,000** | 20,000 |
| | **105,000** | 105,000 |
| Principle amount utilized | | |
| Drawn revolving operating demand loan facility | **(6,685)** | (16,237) |
| Drawn acquisition and development demand loan facility | **-** | - |
| | **(6,685)** | (16,237) |
| **Undrawn credit facilities** | **98,315** | 88,763 |

(1) The Corporation's credit facilities are subject to a review of the borrowing base limit by the lender at any time in its sole discretion, and at least annually, which is directly impacted by the value of Manitok's petroleum and natural gas reserves. The credit facilities are currently under review by the Corporation's lender.

(2) The Corporation's lender requires quarterly compliance that the working capital ratio (current assets excluding the fair value of financial instruments plus any undrawn portion of the revolving operating demand loan facility divided by current liabilities excluding any current portion of an amount drawn on the credit facilities, the fair value of financial instruments and the deferred premium on financial instruments) is not less than 1:1. Manitok was in compliance with the financial covenant as at March 31, 2014 and December 31, 2013.

(3) The acquisition and development demand loan facility is restricted and subject to approval when utilized by the Corporation's lender to assist in the acquisition of producing petroleum and natural gas reserves and/or development of proved non-producing/undeveloped petroleum and natural gas reserves.

### Contractual Obligations

The Corporation enters into contractual obligations in the course of conducting its day-to-day business. The following table identifies Manitok's material contractual obligations at March 31, 2014:

| ($000) | **2014** | **2015** | **2016 - 2018** | **Thereafter** |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | 43,190 | - | - | - |
| Drawn on credit facilities | 6,685 | - | - | - |
| Deferred premium on financial instruments[1] | 963 | - | - | - |
| Minimum drilling and completion expenditures[2] | 16,956 | 33,000 | 51,000 | - |
| Office leases[3] | 771 | 2,454 | 3,915 | - |
| **Total estimated contractual obligations[4]** | **68,565** | **35,454** | **54,915** | **-** |

(1) Manitok recorded $1.0 million as a deferred premium on financial instruments liability, which represents the deferred put option premium payable to the counter-party of the contracts of $0.35/GJ.

(2) Pursuant to a lease issuance and drilling commitment agreement with Encana Corporation ("**Encana Agreement**"), Manitok has agreed to an annual work program including minimum annual drilling and completion expenditures over a three year term.

(3) Manitok is committed to operating leases relating to new office premises commencing on November 1, 2014 and expiring on November 30, 2017 and its current office premises which expires on February 28, 2017. In anticipation of relocating to new office space in the fourth quarter of 2014, the Corporation has subleased one of the two floors of its current premises effective from November 1, 2014 for the remainder of the lease term and is currently attempting to sublease the remaining floor. The recovery of rental costs from the sublease is not included in the table.

(4) Contractual commitments that are routine in nature and form part of the normal course of operations for Manitok are not included in the above table. The Corporation's decommissioning obligations are excluded from the table as these obligations arise from a regulatory requirement rather than from a contractual arrangement. Manitok estimates the total undiscounted cash flow to settle its decommissioning obligations at March 31, 2014 to be approximately $9.9 million and will be incurred as follows: 2015 - $0.2 million, 2016 to 2018 - $NIL and $9.7 million thereafter. The estimate for undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

## OFF-BALANCE SHEET TRANSACTIONS

Manitok was not involved in any off-balance sheet transactions that would result in a material change to its financial position, performance or funds from operations during the Reporting Period and Comparable Prior Period.

## OUTSTANDING SHARE DATA

At March 31, 2014, the Manitok Shares are the only class of shares issued and outstanding. Manitok Shares began trading on the TSX-V on July 29, 2010 under the symbol "**MEI**". The following table summarizes the Manitok Shares issued and outstanding:

| | Manitok Shares |
|---|---|
| **Outstanding, December 31, 2012** | **70,339,014** |
| Issue of Manitok Shares on November 8, 2013[1] | 7,041,900 |
| Issue of Manitok Shares upon exercise of options | 742,826 |
| Repurchase of Manitok Shares[2] | (3,631,400) |
| **Outstanding, December 31, 2013** | **74,492,340** |
| Issue of Manitok Shares upon exercise of options | 473,366 |
| Repurchase of Manitok Shares[2] | (3,350,300) |
| **Outstanding, March 31, 2014** | **71,615,406** |

(1) On November 8, 2013, Manitok completed a bought deal equity issuance pursuant to a short form prospectus offering whereby Manitok issued an aggregate of 1,403,000 Manitok Shares on a "flow-through" basis under the *Income Tax Act* (Canada) in respect of Canadian development expense ("**Manitok CDE Flow-through Shares**") at a price of $3.35 per Manitok CDE Flow-through Share and 5,638,900 Manitok Shares on a "flow-through" basis under the *Income Tax Act* (Canada) in respect of Canadian exploration expense "**Manitok CEE Flow-through Shares**") at a price of $3.60 per Manitok CEE Flow-through Share for net proceeds of approximately $23.5 million. Proceeds of the equity issuance were used to temporarily reduce the outstanding bank indebtedness from the Corporation's capital expenditure program, which will be redrawn and applied as needed to fund the 2014 capital expenditure program.

(2) On June 15, 2012, the TSX-V authorized the Corporation's notice to make a normal course issuer bid (**"2012 NCIB"**) to purchase for cancellation up to 4.4 million Manitok Shares on the open market during the period from June 18, 2012 to June 17, 2013. On January 28, 2013 the Corporation received approval from the TSX-V to increase the number of Manitok Shares that may be purchased under the 2012 NCIB to 5.8 million. For the year ended December 31, 2013, the Corporation purchased a total of 282,700 Manitok Shares for cancellation at a weighted average price of $2.54 per share pursuant to the 2012 NCIB program. On June 18, 2013, the TSX-V authorized the Corporation's notice to make a normal course issuer bid ("**2013 NCIB**") to purchase for cancellation up to 6.5 million Manitok Shares on the open market during the period from June 18, 2013 to June 17, 2014. For the year ended December 31, 2013, the Corporation purchased a total of 3,348,700 Manitok Shares for cancellation at a weighted average price of $2.44 per share pursuant to the 2013 NCIB program. For the three months ended March 31, 2014, the Corporation purchased a total of 2,865,900 Manitok Shares for cancellation at a weighted average price of $2.39 per share pursuant to the 2013 NCIB program. On March 11, 2014, the TSX-V authorized the Corporation's notice to make a normal course issuer bid ("**2014 NCIB**") to purchase for cancellation up to 6.8 million Manitok Shares on the open market during the period from March 17, 2014 to March 16, 2015. For the three months ended March 31, 2014, the Corporation purchased a total of 484,400 Manitok Shares for cancellation at a weighted average price of $2.36 per share pursuant to the 2014 NCIB program.

At May 27, 2014, there were 70,277,274 Manitok Shares outstanding and 5,290,074 stock options to purchase an equivalent number of Manitok Shares. The reduction in Manitok Shares as compared to March 31, 2014 relates to the activity in the 2014 NCIB program.

## SUMMARY OF QUARTERLY INFORMATION

| | 2014 | 2013 | | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|
| **Quarters Ended** | **Q1** | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| **OPERATING** | | | | | | | | |
| Average daily production | | | | | | | | |
| Light oil (bbls/d) | **3,028** | 2,755 | 1,781 | 2,016 | 1,701 | 1,618 | 1,171 | 301 |
| Natural gas (mcf/d) | **13,352** | 12,868 | 11,735 | 11,692 | 10,810 | 8,344 | 7,706 | 8,134 |
| NGLs (bbls/d) | **98** | 89 | 82 | 81 | 83 | 69 | 70 | 76 |
| Total (boe/d) | **5,351** | 4,989 | 3,819 | 4,045 | 3,586 | 3,078 | 2,525 | 1,733 |
| Average realized sales price (CAD$) | | | | | | | | |
| Light oil ($/bbl) | **96.92** | 82.30 | 101.86 | 89.77 | 89.09 | 82.53 | 82.88 | 84.14 |
| Natural gas ($/mcf) | **6.51** | 4.03 | 2.73 | 3.95 | 3.70 | 3.64 | 2.52 | 1.96 |
| NGLs ($/bbl) | **97.92** | 76.48 | 77.70 | 73.92 | 84.25 | 77.71 | 72.46 | 74.61 |
| Total ($/boe) | **72.88** | 57.21 | 57.55 | 57.64 | 55.39 | 54.99 | 48.14 | 27.08 |
| **OPERATING NETBACK ($ per boe)[1]** | | | | | | | | |
| Petroleum and natural gas sales | **72.88** | 57.21 | 57.55 | 57.64 | 55.39 | 54.99 | 48.14 | 27.08 |
| Realized gain (loss) on financial instruments | **(4.10)** | (0.48) | (4.59) | (0.96) | 0.86 | 3.37 | 2.07 | 2.11 |
| Royalty income | **0.02** | 0.01 | 0.03 | 0.61 | 0.44 | 0.43 | 0.38 | 0.32 |
| Royalty (expenses) recovery | **(22.23)** | (10.18) | (16.55) | (13.21) | (16.12) | (11.22) | (6.60) | 4.73 |
| Operating expenses, net | **(7.35)** | (8.83) | (5.90) | (6.42) | (9.14) | (10.48) | (7.26) | (8.77) |
| Transportation and marketing expenses | **(3.21)** | (3.10) | (2.56) | (2.93) | (2.79) | (3.17) | (2.62) | (1.87) |
| Operating netback[1] | **36.01** | 34.63 | 27.98 | 34.73 | 28.64 | 33.92 | 34.11 | 23.60 |
| **FINANCIAL** | | | | | | | | |
| Petroleum and natural gas revenue ($000) | **35,112** | 26,260 | 20,228 | 21,441 | 18,021 | 15,696 | 11,272 | 4,320 |
| Royalty (expenses) recovery ($000) | **(10,705)** | (4,670) | (5,814) | (4,863) | (5,202) | (3,177) | (1,534) | 745 |
| Realized gain (loss) on financial instruments ($000) | **(1,976)** | (220) | (1,614) | (355) | 278 | 955 | 480 | 332 |
| Unrealized gain (loss) on financial instruments ($000) | **(6,175)** | (3,591) | (2,063) | 148 | (3,035) | 19 | (1,340) | 1,393 |
| Interest and other revenue ($000) | **3** | 13 | 34 | 24 | 36 | 29 | - | 5 |
| Total revenue, net ($000) | **16,259** | 17,792 | 10,771 | 16,395 | 10,098 | 13,522 | 8,878 | 6,795 |
| Funds from operations ($000)[1] | **15,461** | 14,117 | 8,252 | 11,324 | 7,861 | 7,651 | 6,977 | 2,482 |
| Per share - basic ($)[1] | **0.21** | 0.19 | 0.12 | 0.16 | 0.11 | 0.11 | 0.11 | 0.04 |
| Per share - diluted ($)[1] | **0.21** | 0.19 | 0.12 | 0.16 | 0.11 | 0.11 | 0.11 | 0.04 |
| Net income (loss) ($000) | **331** | (1,417) | 336 | 4,831 | (135) | (2,157) | 1,460 | 499 |
| Per share - basic ($) | **-** | (0.02) | - | 0.07 | - | (0.03) | 0.02 | 0.01 |
| Per share - diluted ($)[2] | **-** | (0.02) | - | 0.07 | - | (0.03) | 0.02 | 0.01 |
| Capital expenditures, net ($000) | **2,240** | 44,236 | 17,499 | 6,335 | 11,295 | 13,422 | 16,230 | (2,364) |
| Book value of total assets ($000) | **185,390** | 192,580 | 150,129 | 139,671 | 135,648 | 126,322 | 120,553 | 104,319 |
| Working capital deficit ($000)[1] | **19,947** | 16,277 | 16,855 | 9,226 | 6,354 | 6,861 | 10,668 | 8,780 |
| Drawn on credit facilities ($000) | **6,685** | 16,237 | 4,565 | - | 7,130 | 3,101 | 9,638 | 2,135 |
| Total net debt ($000)[1] | **26,632** | 32,514 | 21,420 | 9,226 | 13,484 | 9,962 | 20,306 | 10,915 |
| Shareholders' equity ($000) | **102,256** | 109,096 | 94,076 | 95,877 | 91,024 | 90,437 | 77,027 | 75,112 |
| Common shares outstanding | | | | | | | | |
| End of period - basic | **71,615,406** | 74,492,340 | 68,999,040 | 70,086,140 | 70,357,180 | 70,339,014 | 61,726,031 | 61,736,031 |
| End of period - diluted | **77,689,147** | 80,099,780 | 75,704,480 | 76,661,580 | 76,759,280 | 75,122,847 | 66,541,531 | 66,571,531 |
| Weighted average for the period - basic | **73,097,543** | 72,638,096 | 69,401,001 | 70,219,904 | 70,348,151 | 68,908,419 | 61,726,357 | 61,797,394 |
| Weighted average for the period - diluted | **74,334,096** | 74,371,392 | 71,431,314 | 72,139,108 | 72,758,478 | 70,986,540 | 62,735,423 | 61,935,604 |

(1) Funds from operations, funds from operations per share, operating netback, working capital deficit and net debt do not have standardized meanings prescribed by GAAP and therefore should not be considered in isolation. These reported amounts and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of other companies where similar terminology is used. Where these measures are used they should be given careful consideration by the reader. Refer to the Non-GAAP Measures paragraph in the Advisories section of this MD&A.

(2) The basic and diluted weighted average shares outstanding are the same for periods in which the Corporation records a net loss.

## Discussion of Quarterly Results

The P&NG industry is cyclical in nature and the Corporation's financial position, results of operations and funds from operations are principally impacted by production levels and commodity prices.

Significant events that have impacted the Corporation's results during the past eight quarters include:

- In the fourth quarter of 2012, the Corporation completed an equity financing issuing 3.0 million Manitok Shares, 1.4 million Manitok CDE Flow-Through Shares and 4.0 million Manitok CEE Flow-Through Shares for net proceeds of approximately $16.5 million, which resulted in the significant increase to total assets and shareholders' equity.
- In the fourth quarter of 2012, Manitok recorded a net loss of $2.2 million, which was primarily a result of an impairment expense of $4.4 million and an exploration and evaluation expense of $1.0 million.
- In the first quarter of 2013, the Corporation recorded a net loss of $0.1 million, which was primarily a result of an unrealized loss on financial instruments of $3.0 million.
- Royalty expenses increased 64% in the first quarter of 2013 compared to the fourth quarter of 2012 as a result of four light oil wells drilled in 2012 that each exceeded the royalty incentive production volume maximum of 50,000 bbls of oil in approximately four to five months of production and were subject to a maximum royalty rate of 40% for the entire first quarter of 2013 as compared to a 5% new well royalty rate before the production volume threshold of 50,000 bbls of oil was exceeded.
- P&NG revenue was $2.3 million higher in the first quarter of 2013 compared to the fourth quarter of 2012; however, net total revenue was $3.4 million lower as a result of the significant increase in royalty expenses and an unrealized loss on financial instruments.
- In the second quarter of 2013, Manitok recorded net income of $4.8 million, which was primarily the result of increased revenue and a $0.7 million gain with respect to the divestiture of royalty interest properties.
- In the second quarter of 2013, the Corporation decreased net debt by $4.3 million from the first quarter of 2013 from increased funds from operations, reduced capital spending and proceeds from a divestiture of royalty interest properties.
- In the third quarter of 2013, net income decreased to $0.3 million from $4.8 million in the second quarter of 2013 due to a $1.2 million decrease in natural gas revenue, a $1.0 million increase in royalty expenses, a $1.3 million increase in the realized loss on financial instruments and a $2.2 million increase in the unrealized loss on financial instruments offset by the $1.3 million decrease in deferred income tax expense.
- Total net debt increased by $12.2 million in the third quarter of 2013 to $21.4 million as at September 30, 2013 due primarily to the $11.2 million increase in capital expenditures compared to the second quarter of 2013.
- The Corporation repurchased 1,087,100 Manitok shares in the third quarter of 2013 at an average price of $2.65 per share, pursuant to its 2013 NCIB.
- In the fourth quarter of 2013, Manitok increased average production to 4,989 boe/d compared to 3,819 boe/d in the third quarter of 2013 from bringing on new wells that were drilled in the second half of 2013. The higher production levels increased total revenue and funds from operations.
- In the fourth quarter of 2013, Manitok recorded a net loss of $1.4 million, which was primarily the result of an impairment expense of $1.5 million and an exploration and evaluation expense of $3.4 million.
- The Corporation completed an equity financing in the fourth quarter of 2013, issuing 1.4 million Manitok CDE Flow-Through Shares and 5.6 million Manitok CEE Flow-Through Shares for net proceeds of approximately $23.5 million, which contributed to the significant increase in total assets and shareholders' equity.
- In the fourth quarter of 2013, Manitok closed the Encana Agreement for approximately $19.7 million and incurred additional seismic processing costs of about $0.4 million in the Entice area for total capital expenditures of $20.1 million.
- The Corporation repurchased 2,261,600 Manitok shares in the fourth quarter of 2013 at an average price of $2.34 per share, pursuant to its 2013 NCIB.
- Total net debt increased by $11.1 million in the fourth quarter of 2013 to $32.5 million as at December 31, 2013 due primarily to the $44.2 million of capital expenditures, which was partially offset by the equity financing and funds from operations in the quarter.
- In the first quarter of 2014, the Corporation completed the Foothills Asset Divestiture, which resulted in a reduction of production volumes, lower net capital expenditures in the quarter and a loss on the asset divestiture of $1.0 million.

- In the first quarter of 2014, petroleum and natural gas revenue increased 34% from the fourth quarter of 2013 as a result of increased production volumes and higher commodity prices.
- Royalty expenses increased 129% in the first quarter of 2014 compared to the fourth quarter of 2013 as a result of higher commodity prices and three light oil wells drilled in 2013 that each exceeded the royalty incentive production volume maximum of 50,000 bbls of oil in approximately three to four months of production and were subject to a maximum royalty rate of 40% for the majority of the first quarter of 2014 as compared to a 5% new well royalty rate before the production volume threshold of 50,000 bbls of oil was exceeded.
- The Corporation repurchased 3,350,300 Manitok shares in the first quarter of 2014 at an average price of $2.39 per share, pursuant to its 2013 NCIB and 2014 NCIB.
- Total net debt decreased by $5.9 million to $26.6 million as at March 31, 2014 from December 31, 2013 due primarily to proceeds from the Foothills Asset Divestiture and funds from operations, which was partially offset by the share repurchases and capital expenditures in the first quarter of 2014.

## POTENTIAL TRANSACTIONS

Within its focus area, the Corporation is always reviewing potential property acquisitions and corporate mergers and acquisitions for the purposes of determining whether any such potential transaction is of interest to the Corporation, as well as the terms on which such a potential transaction would be available. As a result, the Corporation may from time to time be involved in discussions or negotiations with other parties or their agents in respect of potential property acquisitions and corporate merger and acquisition opportunities. The Corporation is not committed to any such potential transaction and cannot be reasonably confident that it can complete any such potential transaction until appropriate legal documentation has been signed by the relevant parties.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

### Critical Judgments in Applying Accounting Policies

The following are critical judgments that management has made in the process of applying the Corporation's IFRS accounting policies and that have the most significant effect on the amounts recognized in these financial statements:

*(i) Identification of CGUs*

Manitok's assets are aggregated into CGUs for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. CGUs have been determined based on similar geological structure, shared infrastructure, geographical proximity, operating structure, commodity type and similar exposures to market risks. By their nature, these assumptions are subject to management's judgment and may impact the carrying value of the Corporation's assets in future periods.

*(ii) Identification of impairment indicators*

IFRS requires Manitok to assess, at each reporting date, whether there are any indicators that its assets may be impaired. Manitok is required to consider information from both external sources (such as a negative downturn in commodity prices and significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in reserves, significant adverse effect on the financial and operational performance of a CGU and evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment and may impact the carrying value of the Corporation's assets in future periods.

### Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the Reporting Period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities within the next financial year.

*(i) Reserves*

Reported recoverable quantities of proved and probable reserves requires estimation regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Corporation's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Manitok's petroleum and natural gas interests are evaluated by independent reserve engineers at least annually.

The Corporation's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proved and probable if producibility is supported by either production or conclusive formation tests. Manitok's oil and gas reserves are determined in accordance with the standards contained in National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* and the *Canadian Oil and Gas Evaluation Handbook*.

*(ii) Share-based payments*

All equity-settled, share-based awards issued by the Corporation are fair valued using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, weighted average expected life of the instrument, expected dividend yield, risk-free interest rate and estimated forfeiture rate at the initial grant date.

*(iii) Decommissioning obligations*

The Corporation estimates future remediation costs of production facilities, well sites, gathering systems and facilities at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires an estimate regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

*(iv) Impairment of non-financial assets*

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding future cash flows taking into account key assumptions including future petroleum and natural gas prices, expected forecasted production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amount of the Corporation's assets, and impairment charges and reversals will affect income or loss.

*(v) Taxes*

Manitok files corporate income tax, goods and service tax and other tax returns with various provincial and federal taxation authorities in Canada. There can be differing interpretations of applicable tax laws and regulations. The resolution of any differing tax positions through negotiations or litigation with tax authorities can take several years to complete. The Corporation does not anticipate that there will be any material impact upon the results of its operations, financial position or liquidity.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. Estimates of future taxable income are based on forecasted cash flows from operations. To the extent that any interpretation of tax law is challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability of Manitok to realize the deferred tax assets recorded at the balance sheet date could be impacted.

## CHANGES IN ACCOUNTING POLICIES

On January 1, 2014, the Corporation adopted the following new standards:

*(i) Levies*

IFRS Interpretations Committee ("**IFRIC**") 21 *Levies* is effective January 1, 2014, and addresses payments made to government bodies. There was no impact to the Corporation's financial statements as a result of adopting this new standard.

*(ii) Financial Instruments: Presentation*

IAS 32 *Financial Instruments: Presentation* is effective January 1, 2014, and has been amended to clarify certain requirements for offsetting financial assets and liabilities. There was no impact to the Corporation's financial statements as a result of adopting this new standard.

### Future Changes in Accounting Standards and Interpretations

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition. IFRS 9 addresses the classification and measurement of financial instruments, sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The new standard simplifies the measurement of financial assets by classifying all financial assets as those being recorded at amortized cost or being recorded at fair value. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized. The Corporation has not fully completed its evaluation of the effect of adopting the standard on its financial statements.

## RISK FACTORS & RISK MANAGEMENT

Manitok monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations or taxation. In addition, Manitok maintains a level of liability, business interruption and property insurance which is believed to be adequate for the Corporation's size and activities, but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims. See "Forward-Looking Information" in this MD&A and "Risk Factors" in Manitok's most recently filed Annual Information Form for additional information.

## IMPACT OF NEW ENVIRONMENTAL REGULATIONS

The oil and gas industry is currently subject to regulation pursuant to a variety of provincial and federal environmental legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability and the imposition of material fines and penalties.

## CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

**Unaudited** *(expressed in thousands of Canadian dollars)*

| As at | March 31, 2014 | December 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Accounts receivable | **22,598** | 18,579 |
| Deposits and prepaid expenses | **644** | 457 |
| | **23,242** | 19,036 |
| **Non-current assets:** | | |
| Exploration and evaluation assets (note 5) | **56,833** | 54,106 |
| Petroleum and natural gas properties and equipment (note 6) | **105,315** | 119,438 |
| | **162,148** | 173,544 |
| | **185,390** | 192,580 |
| **LIABILITIES** | | |
| **Current liabilities:** | | |
| Accounts payable and accrued liabilities | **43,189** | 35,313 |
| Credit facilities (note 7) | **6,685** | 16,237 |
| Deferred premium on financial instruments (note 13) | **963** | 1,278 |
| Fair value of financial instruments (note 13) | **7,527** | 3,842 |
| | **58,364** | 56,670 |
| **Non-current liabilities:** | | |
| Fair value of financial instruments (note 13) | **6,681** | 3,876 |
| Flow-through share premium (note 9d) | **978** | 2,102 |
| Decommissioning obligations (note 8) | **5,022** | 11,225 |
| Deferred income taxes | **12,089** | 9,611 |
| | **24,770** | 26,814 |
| | **83,134** | 83,484 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (note 9) | **115,368** | 119,586 |
| Contributed surplus | **5,152** | 5,451 |
| Deficit | **(18,264)** | (15,941) |
| | **102,256** | 109,096 |
| Commitments (note 14) | | |
| | **185,390** | 192,580 |

*The accompanying notes are an integral part of these condensed interim financial statements.*

## CONDENSED INTERIM STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

**Unaudited** *(expressed in thousands of Canadian dollars, except per share amounts)*

| **Three months ended** | **March 31, 2014** | March 31, 2013 |
|---|---|---|
| **REVENUE** | | |
| Petroleum and natural gas | **35,112** | 18,021 |
| Royalty expenses | **(10,705)** | (5,202) |
| Net revenue from petroleum and natural gas sales | **24,407** | 12,819 |
| Realized gain (loss) on financial instruments | **(1,976)** | 278 |
| Unrealized loss on financial instruments | **(6,175)** | (3,035) |
| Interest and other | **3** | 36 |
| | **16,259** | 10,098 |
| **EXPENSES** | | |
| Operating, net of recoveries | **3,539** | 2,949 |
| Transportation and marketing | **1,546** | 902 |
| Administrative, net of recoveries | **1,783** | 1,770 |
| Depletion and depreciation (note 6) | **6,392** | 4,214 |
| Finance expenses | **265** | 165 |
| Loss on asset divestitures | **1,049** | - |
| | **14,574** | 10,000 |
| **INCOME BEFORE INCOME TAXES** | **1,685** | 98 |
| Deferred income tax expense | **1,354** | 233 |
| **TOTAL NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)** | **331** | (135) |
| Net income (loss) per common share (note 11) | | |
| basic | **-** | - |
| diluted | **-** | - |

*The accompanying notes are an integral part of these condensed interim financial statements.*

## CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

**Unaudited** *(expressed in thousands of Canadian dollars, except for share information)*

| | Number of Common Shares | Share Capital | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|---|
| As at December 31, 2012 | 70,339,014 | 102,668 | 3,753 | (15,984) | 90,437 |
| Net loss for the period | - | - | - | (135) | (135) |
| Issued on exercise of stock options | 18,166 | 36 | (14) | - | 22 |
| Stock-based compensation expensed | - | - | 444 | - | 444 |
| Stock-based compensation capitalized | - | - | 256 | - | 256 |
| As at March 31, 2013 | 70,357,180 | 102,704 | 4,439 | (16,119) | 91,024 |
| | | | | | |
| As at December 31, 2013 | 74,492,340 | 119,586 | 5,451 | (15,941) | 109,096 |
| Net income for the period | - | - | - | 331 | 331 |
| Issued on exercise of stock options (note 10) | 473,366 | 1,160 | (451) | - | 709 |
| Normal course issuer bid (note 9) | (3,350,300) | (5,378) | - | (2,654) | (8,032) |
| Stock-based compensation expensed | - | - | 92 | - | 92 |
| Stock-based compensation capitalized | - | - | 60 | - | 60 |
| **As at March 31, 2014** | **71,615,406** | **115,368** | **5,152** | **(18,264)** | **102,256** |

*The accompanying notes are an integral part of these condensed interim financial statements.*

## CONDENSED INTERIM STATEMENTS OF CASH FLOWS

**Unaudited** *(expressed in thousands of Canadian dollars)*

| Three months ended | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Cash provided by (used in): | | |
| **OPERATING ACTIVITIES:** | | |
| Net income (loss) | **331** | (135) |
| Adjustments for items not affecting operating cash: | | |
| Deferred income tax expense | **1,354** | 233 |
| Depletion and depreciation expense | **6,392** | 4,214 |
| Stock-based compensation expense | **92** | 444 |
| Finance expense | **265** | 165 |
| Unrealized loss on financial instruments | **6,175** | 3,035 |
| Loss on asset divestiture | **1,049** | - |
| Interest paid | **(197)** | (95) |
| Decommissioning expenditures (note 8) | **(16)** | (110) |
| Changes in non-cash operating working capital | **3,075** | (2,532) |
| | **18,520** | 5,219 |
| **FINANCING ACTIVITIES:** | | |
| Increase (decrease) in credit facilities | **(9,552)** | 4,029 |
| Proceeds from the exercise of stock options | **709** | 22 |
| Repurchase of common shares | **(8,032)** | - |
| | **(16,875)** | 4,051 |
| **INVESTING ACTIVITIES:** | | |
| Exploration and evaluation asset expenditures | **(9,733)** | (1,484) |
| Petroleum and natural gas properties and equipment expenditures | **(14,439)** | (9,878) |
| Net divestiture of petroleum and natural gas properties and equipment | **21,932** | 67 |
| Changes in non-cash investing working capital | **595** | 3,049 |
| | **(1,645)** | (8,246) |
| **NET INCREASE IN CASH** | **-** | 1,024 |
| **CASH, BEGINNING OF PERIOD** | **-** | 145 |
| **CASH, END OF PERIOD** | **-** | 1,169 |
| Cash interest paid | **197** | 95 |

*The accompanying notes are an integral part of these condensed interim financial statements.*

## 1. REPORTING ENTITY AND NATURE OF OPERATIONS

Manitok Energy Inc. ("**Manitok**" or the "**Corporation**") is domiciled and incorporated in Canada. The Corporation is engaged in the exploration for, and the development, production and acquisition of petroleum and natural gas reserves in Western Canada. Manitok conducts its operations in the Western Canadian Sedimentary Basin and currently all of the Corporation's activities are in Alberta. Manitok's financial year end is December 31st and the Corporation's registered office is located at Suite 1600, 421 – 7th Avenue S.W., Calgary, Alberta, Canada T2P 4K9. Manitok common shares are listed on the TSX Venture Exchange ("**TSX-V**") under the symbol "**MEI**".

These unaudited condensed interim financial statements ("**Financial Statements**") were approved and authorized for issuance by the Board of Directors on May 27, 2014.

## 2. BASIS OF PREPARATION

The Financial Statements present Manitok's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at March 31, 2014 and for the three months ended March 31, 2014, and the 2013 comparative period. The Financial Statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**").

The Financial Statements have been prepared following the same IFRS accounting policies and methods of computation, as disclosed in the annual audited financial statements for the year ended December 31, 2013, except as detailed in note 3. Certain information and disclosures normally required to be included in the notes to the annual audited financial statements have been condensed, omitted or have been disclosed on an annual basis only. Accordingly, these Financial Statements should be read in conjunction with the annual audited financial statements and the notes thereto for the year ended December 31, 2013.

The Financial Statements have been prepared on a historical cost basis, except for certain financial and non-financial assets and liabilities, which have been measured at fair value. The Financial Statements include the accounts of Manitok only and are expressed in Canadian dollars, unless otherwise stated. There are no subsidiary companies.

## 3. CHANGES IN ACCOUNTING POLICIES

*(i) Levies*

IFRS Interpretations Committee ("**IFRIC**") 21 *Levies* is effective January 1, 2014, and addresses payments made to government bodies. There was no impact to the Corporation's Financial Statements as a result of adopting this new standard.

*(ii) Financial Instruments: Presentation*

IAS 32 *Financial Instruments: Presentation* is effective January 1, 2014, and has been amended to clarify certain requirements for offsetting financial assets and liabilities. There was no impact to the Corporation's Financial Statements as a result of adopting this new standard.

## 4. DETERMINATION OF FAIR VALUES

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Corporation's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The fair value measurement of derivative financial instruments has a fair value hierarchy of level 2.

## 5. EXPLORATION AND EVALUATION ASSETS

The components of the Corporation's Exploration and Evaluation ("**E&E**") assets are as follows:

| | Total |
|---|---|
| As at December 31, 2012 | 20,311 |
| Additions[(1)] | 37,145 |
| Exploration and evaluation expense | (3,350) |
| As at December 31, 2013 | 54,106 |
| Additions[(1)] | 10,198 |
| Dispositions[(2)] | (7,471) |
| **As at March 31, 2014** | **56,833** |

(1) Includes non-cash items such as capitalized stock-based compensation and decommissioning obligations.

(2) On February 28, 2014, the Corporation divested of oil and gas properties for total cash consideration of approximately $21.9 million after post-closing adjustments. Total cash received as at March 31, 2014 was $14.9 million, with the remaining $7.0 million related to right of first refusal options held by third party entities being held in escrow and recorded to accounts receivable. The $7.0 million escrowed proceeds were collected in April 2014. The Corporation recorded a loss of $1.0 million on the divestiture during the three months ended March 31, 2014.

E&E assets consist of the Corporation's exploration projects which are pending the determination of economic quantities of proved and probable reserves. Additions represent the Corporation's share of costs incurred on E&E assets during the period. Manitok capitalized cash and non-cash administrative costs directly attributable to E&E additions of $503,000 in the three months ended March 31, 2014 (March 31, 2013 – $143,000).

## 6. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

The components of the Corporation's Petroleum and Natural Gas ("**P&NG**") Properties and Equipment are as follows:

| | P&NG | Corporate | Total |
|---|---|---|---|
| *Cost*: | | | |
| As at December 31, 2012 | 118,595 | 889 | 119,484 |
| Additions | 46,697 | 379 | 47,076 |
| Asset divestiture[1] | (2,696) | - | (2,696) |
| Change in decommissioning obligations | (724) | - | (724) |
| As at December 31, 2013 | 161,872 | 1,268 | 163,140 |
| Additions | 14,381 | 31 | 14,412 |
| Asset divestiture[2] | (35,457) | - | (35,457) |
| Change in decommissioning obligations | 729 | - | 729 |
| **As at March 31, 2014** | **141,525** | **1,299** | **142,824** |
| *Accumulated depletion and depreciation and impairment*: | | | |
| As at December 31, 2012 | (22,328) | (265) | (22,593) |
| Depletion and depreciation expense | (19,378) | (266) | (19,644) |
| Impairment expense (note 8) | (1,465) | - | (1,465) |
| As at December 31, 2013 | (43,171) | (531) | (43,702) |
| Asset divestiture[2] | 12,585 | - | 12,585 |
| Depletion and depreciation expense | (6,319) | (73) | (6,392) |
| **As at March 31, 2014** | **(36,905)** | **(604)** | **(37,509)** |
| *Net book value*: | | | |
| As at December 31, 2013 | 118,701 | 737 | 119,438 |
| **As at March 31, 2014** | **104,620** | **695** | **105,315** |

(1) In June 2013, the Corporation divested of non-core royalty interest properties for total cash consideration of $3.4 million after post-closing adjustments. The Corporation recorded a gain of $0.7 million on the divestiture during the year ended December 31, 2013.

(2) On February 28, 2014, the Corporation divested of oil and gas properties for total cash consideration of approximately $21.9 million after post-closing adjustments. Total cash received as at March 31, 2014 was $14.9 million, with the remaining $7.0 million related to right of first refusal options held by third party entities being held in escrow and recorded to accounts receivable. The $7.0 million escrowed proceeds were collected in April 2014. The Corporation recorded a loss of $1.0 million on the divestiture during the three months ended March 31, 2014.

At March 31, 2014, estimated future development costs of $53.3 million (December 31, 2013 – $69.0 million) associated with the development of the Corporation's proved and probable reserves were added to the Corporation's net book value in the depletion and depreciation calculation. Manitok capitalized cash and non-cash administrative costs directly attributable to P&NG properties and equipment of $268,000 in the three months ended March 31, 2014 (March 31, 2013 – $425,000).

## 7. CREDIT FACILITIES

The components of the Corporation's credit facilities include:

| | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Revolving operating demand loan facility | **6,685** | 16,237 |
| Acquisition and development demand loan facility[1] | **-** | - |
| **Credit facilities** | **6,685** | 16,237 |

(1) The acquisition and development demand loan facility is restricted and subject to approval when utilized, by the Corporation's lender, to assist in the acquisition of producing petroleum and natural gas reserves and/or development of proved non-producing/undeveloped petroleum and natural gas reserves.

The Corporation's credit facilities consist of an $85.0 million revolving operating demand loan facility and a $20.0 million acquisition and development demand loan facility, for total credit facilities of $105.0 million. The credit facilities are secured by a fixed charge debenture on the assets of the Corporation.

Advances under the credit facilities are available by way of Canadian prime rate loans and bankers' acceptances at the prevailing interest rates plus borrowing margins based on a pricing grid dependent on the net debt to cash flow ratio (as defined by the lender) calculated at the Corporation's previous quarter end. Standby fees are charged on the undrawn facilities. The effective interest rate applicable to the total debt issued under the revolving operating demand loan facility was 3.5% (March 31, 2013 – 3.6%).

The lending agreement provides for a financial covenant that requires the Corporation to maintain a working capital ratio (current assets excluding the fair value of financial instruments plus any undrawn portion of the revolving operating demand loan facility divided by current liabilities excluding any current portion of an amount drawn on the credit facilities, the fair value of financial instruments and the deferred premium on financial instruments) of at least 1:1. As of March 31, 2014, the Company was compliant with the covenant.

The credit facilities are subject to review by the lender at any time in its sole discretion, and at least annually and any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall must be eliminated by the Corporation. The credit facilities are currently under review by the Corporation's lender.

## 8. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from net ownership interests in petroleum and natural gas properties and equipment including well sites and facilities. Manitok estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations as at March 31, 2014 to be approximately $9.9 million (December 31, 2013 – $21.0 million) with the majority of costs anticipated to be incurred between 2029 and 2045. A risk-free discount rate of 3.0% (December 31, 2013 – 3.2%) and an inflation rate of 2% (December 31, 2013 – 2%) was used to calculate the fair value of the decommissioning obligation.

A reconciliation of the decommissioning obligations is provided below:

| | **March 31, 2014** | December 31, 2013 |
|---|---|---|
| **Opening Balance** | **11,225** | 11,476 |
| Obligations incurred | **540** | 995 |
| Obligations disposed | **(7,362)** | - |
| Actual expenditures | **(16)** | (222) |
| Changes in estimates(1) | **567** | (1,330) |
| Accretion expense | **68** | 306 |
| **Ending Balance** | **5,022** | 11,225 |

(1) Changes are largely due to the revision in the remediation cost estimates and a change in the risk-free discount rate.

## 9. SHARE CAPITAL

(a) Authorized:
- Unlimited number of voting common shares
- Unlimited number of preferred shares issuable in series, with rights and privileges to be designated by the board of directors at the time of issuance

(b) Issued and outstanding:

| | **Number of common shares** | **Amount** |
|---|---|---|
| **Outstanding, December 31, 2012** | **70,339,014** | **102,668** |
| Issued, net of costs (note 9c) | 1,403,000 | 4,065 |
| Issued, net of costs (note 9d) | 5,638,900 | 16,253 |
| Tax effect of share issue costs (note 9e) | - | 378 |
| Issued on exercise of stock options (note 10) | 742,826 | 1,529 |
| Normal course issuer bid (note 9f) | (3,631,400) | (5,307) |
| **Outstanding, December 31, 2013** | **74,492,340** | **119,586** |
| Issued on exercise of stock options (note 10) | 473,366 | 1,160 |
| Normal course issuer bid (note 9f) | (3,350,300) | (5,378) |
| **Outstanding, March 31, 2014** | **71,615,406** | **115,368** |

(c) On November 8, 2013, Manitok closed a bought deal equity financing completed by way of a short form prospectus, for the issuance of 1,403,000 common shares of Manitok ("**Manitok Shares**") on a "flow-through" basis under the *Income Tax Act* (Canada) in respect of Canadian development expense ("**Manitok CDE Flow-through Shares**") at a price of $3.35 per Manitok CDE Flow-through Share for gross proceeds of $4.7 million (net proceeds - $4.4 million). The Corporation had until December 31, 2013 to incur the $4.7 million in development expenditures. The amount recorded to share capital from the issuance of Manitok CDE Flow-through Shares reflects the fair market value of Manitok Shares, which was $3.10 per Manitok Share less share issue costs. The difference between the total value of Manitok CDE Flow-through Shares and the fair value of Manitok Shares of $0.4 million was initially recognized as a flow-through share premium liability on the Statements of Financial Position when the Manitok CDE Flow-through Shares were issued. In 2013, the Corporation fulfilled the entire $4.7 million of eligible development expenditures and fully reversed the $0.4 million flow-through share premium liability.

(d) On November 8, 2013, Manitok closed a bought deal equity financing completed by way of a short form prospectus, for the issuance of 5,638,900 Manitok Shares on a "flow-through" basis under the *Income Tax Act* (Canada) in respect of Canadian exploration expense ("**Manitok CEE Flow-through Shares**") at a price of $3.60 per Manitok CEE Flow-through Share for gross proceeds of $20.3 million (net proceeds - $19.1 million). A total of 57,800 Manitok CEE Flow-through Shares were purchased by insiders. The Corporation has until December 31, 2014 to incur the $20.3 million in exploration expenditures. The amount recorded to share capital from the issuance of Manitok CEE Flow-through Shares reflects the fair market value of Manitok Shares, which was $3.10 per Manitok Share less share issue costs. The difference between the total value of Manitok CEE Flow-through Shares and the fair value of Manitok Shares of $2.8 million was initially recognized as a flow-through share premium liability on the Statements of Financial Position when the Manitok CEE Flow-through Shares were issued. As at March 31, 2014, the Corporation has fulfilled $13.3 million of eligible exploration expenditures and has reversed $1.8 million of the flow-through share premium liability.

(e) Manitok recognized a deferred income tax benefit of $0.4 million related to the share issue costs of $1.5 million incurred with respect to the issuance of 1,403,000 Manitok CDE Flow-through Shares and 5,638,900 Manitok CEE Flow-through Shares on November 8, 2013.

(f) On June 15, 2012, the TSX-V authorized the Corporation's notice to make a normal course issuer bid (**"2012 NCIB"**) to purchase for cancellation up to 4.4 million Manitok Shares on the open market during the period from June 18, 2012 to June 17, 2013. On January 28, 2013, Manitok received approval of the TSX-V to increase the number of Manitok Shares that may be repurchased under the 2012 NCIB to an aggregate of up to 5.8 million Manitok Shares. For the year ended December 31, 2013, the Corporation purchased a total of 282,700 Manitok Shares for cancellation at a weighted average price of $2.54 per share pursuant to the 2012 NCIB, which excludes the fees incurred to implement the 2012 NCIB program. The excess of the purchase price over the book value of $307,000 was recorded partially to contributed surplus ($44,000) and the remaining ($263,000) was charged to deficit.

On June 18, 2013, the TSX-V authorized the Corporation's notice to make a normal course issuer bid ("**2013 NCIB**") to purchase for cancellation up to 6.5 million Manitok Shares on the open market during the period from June 18, 2013 to June 17, 2014. For the year ended December 31, 2013, the Corporation purchased a total of 3,348,700 Manitok Shares for cancellation at a weighted average price of $2.44 per share pursuant to the 2013 NCIB, which excludes the fees incurred to implement the 2013 NCIB program. The excess of the purchase price over the book value of $3.3 million was charged to retained earnings. For the three months ended March 31, 2014, the Corporation purchased a total of 2,865,900 Manitok Shares for cancellation at a weighted average price of $2.39 per share pursuant to the 2013 NCIB, which excludes the fees incurred to implement the 2013 NCIB program. The excess of the purchase price over the book value of $2.3 million was charged to deficit.

On March 11, 2014, the TSX-V authorized the Corporation's notice to make a normal course issuer bid ("**2014 NCIB**") to purchase for cancellation up to 6.8 million Manitok Shares on the open market during the

period from March 17, 2014 to March 16, 2015. For the three months ended March 31, 2014, the Corporation purchased a total of 484,400 Manitok Shares for cancellation at a weighted average price of $2.35 per share pursuant to the 2014 NCIB, which excludes the fees incurred to implement the 2014 NCIB program. The excess of the purchase price over the book value of $0.4 million was charged to deficit.

## 10. STOCK-BASED COMPENSATION

At March 31, 2014, the Corporation's stock option plan permitted the grant of options to a maximum of 7,161,541 Manitok Shares. At March 31, 2014, there remained available for issuance stock options in respect of 1,087,800 Manitok Shares. For stock options exercised during the three months ended March 31, 2014, the weighted average trading price was $2.42 (March 31, 2013 - $3.12) per Manitok Share.

A summary of the Corporation's outstanding stock options as at March 31, 2014 is presented below:

| | Number | Weighted Average Exercise Price ($) |
|---|---|---|
| **Outstanding, December 31, 2012** | **4,783,833** | **1.46** |
| Granted | 2,171,100 | 2.99 |
| Exercised | (742,826) | 1.23 |
| Forfeited | (604,667) | 2.41 |
| **Outstanding, December 31, 2013** | **5,607,440** | **1.98** |
| Granted | 1,491,000 | 2.40 |
| Exercised | (473,366) | 1.50 |
| Forfeited | (551,333) | 2.51 |
| **Outstanding, March 31, 2014** | **6,073,741** | **2.07** |

The range of exercise prices for stock options outstanding and exercisable under the plan at March 31, 2014 is as follows:

| **Exercise Prices** | | **Awards Outstanding** | | | **Awards Exercisable** | | |
|---|---|---|---|---|---|---|---|
| Low | High | Quantity | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Quantity | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price |
| $1.10 | $1.50 | 1,831,807 | 1.7 | $1.18 | 1,701,141 | 1.6 | $1.17 |
| $1.51 | $3.25 | 4,241,934 | 3.9 | $2.45 | 1,190,864 | 3.1 | $2.30 |
| | | **6,073,741** | **3.3** | **$2.07** | **2,892,005** | **2.2** | **$1.64** |

The fair value of each option granted in the period is estimated using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

| | **Three months ended March 31,** | |
|---|---|---|
| | **2014** | 2013 |
| Weighted average fair value of options granted | **$1.34** | $1.91 |
| Risk-free interest rate | **1.44%** | 1.39% |
| Expected life (years) | **4.2** | 4.1 |
| Expected volatility | **73%** | 83% |
| Estimated forfeiture rate | **8.6%** | 4.4% |
| Expected dividends | **-** | - |

## 11. PER SHARE INFORMATION

| | Three months ended March 31, | |
|---|---|---|
| | **2014** | 2013 |
| Net income (loss) | **331** | (135) |
| Weighted average Manitok shares outstanding - basic | **73,097,543** | 70,348,151 |
| Weighted average Manitok shares outstanding - diluted | **74,334,096** | 70,348,151 |
| Net income (loss) per share – basic ($) | **-** | - |
| Net income (loss) per share – diluted ($) | - | - |

The weighted average diluted Manitok Shares outstanding for the three months ended March 31, 2014 excludes 2,708,194 (March 31, 2013 – 6,402,100) stock options that are anti-dilutive.

## 12. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, including potential obligations arising from acquisitions; to maintain a capital structure that allows Manitok to finance its growth strategy using internally-generated cash flow from operating activities and its available debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders.

Manitok strives to properly exploit its current asset base and to acquire top quality assets. As such, the Corporation is not averse to maintaining a higher ratio of debt to total capital if management determines the assets it is acquiring or the projects it is drilling are of high quality. However, the Corporation manages its capital structure and makes adjustments considering changes in economic conditions and the risk characteristics of the assets. In order to maintain or adjust the capital structure, Manitok may issue new Manitok Shares or debt, increase the credit facility limits, or adjust its capital spending to manage current and projected debt levels. Management expects to be able to continue to raise equity and obtain debt financing sufficient to meet both its short-term and long-term growth requirements in the current environment.

There were no changes in the Corporation's approach to capital management during the three months ended March 31, 2014 reporting period.

The following table shows the Corporation's total available credit:

| As at | **March 31, 2014** | December 31, 2013 |
|---|---|---|
| Maximum borrowing base limit[(1)(2)] | | |
| Revolving operating demand loan facility | **85,000** | 85,000 |
| Acquisition and development demand loan facility[(3)] | **20,000** | 20,000 |
| | **105,000** | 105,000 |
| Principle amount utilized | | |
| Drawn revolving operating demand loan facility | **(6,685)** | (16,237) |
| Drawn acquisition and development demand loan facility | **-** | - |
| | **(6,685)** | (16,237) |
| **Undrawn credit facilities** | **98,315** | 88,763 |

(1) The Corporation's credit facilities are subject to a review of the borrowing base limit by the lender at any time in its sole discretion, and at least annually, which is directly impacted by the value of Manitok's petroleum and natural gas reserves. The credit facilities are currently under review by the Corporation's lender.

(2) The Corporation's lender requires quarterly compliance that the working capital ratio (current assets excluding the fair value of financial instruments plus any undrawn portion of the revolving operating demand loan facility divided by current liabilities excluding any current portion of an amount drawn on the credit facilities, the fair value of financial instruments and the deferred premium on financial instruments) is not less than 1:1. Manitok was in compliance with the financial covenant as at March 31, 2014 and December 31, 2013.

(3) The acquisition and development demand loan facility is restricted and subject to approval when utilized, by the Corporation's lender, to assist in the acquisition of producing petroleum and natural gas reserves and/or development of proved non-producing/undeveloped petroleum and natural gas reserves.

The capital structure of the Corporation is as follows:

| As at | **March 31, 2014** | December 31, 2013 |
|---|---|---|
| Total shareholders' equity[(1)] | **102,256** | 109,096 |
| Total shareholders' equity as a % of total capital | **79%** | 77% |
| | | |
| Working capital deficit[(2)] | **19,947** | 16,277 |
| Drawn on credit facilities | **6,685** | 16,237 |
| Total net debt | **26,632** | 32,514 |
| Total net debt as a % of total capital | **21%** | 23% |
| **Total capital** | **128,888** | 141,610 |

(1) Shareholders' equity is defined as share capital plus contributed surplus plus retained earnings, less any deficit.

(2) Working capital deficit is defined as current assets less current liabilities excluding the amount drawn on the credit facilities, the fair value of financial instruments and the deferred premium on financial instruments.

## 13. FINANCIAL INSTRUMENTS & RISK MANAGEMENT CONTRACTS

Manitok is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews risk management activities and all outstanding positions. Management identifies and analyzes the risks faced by the Corporation, sets appropriate risk limits and controls, and monitors risks and market conditions and the Corporation's activities.

The Corporation attempts to mitigate commodity price risk through the use of various derivative financial instruments and physical delivery sales contracts. These instruments are not used for trading or speculative purposes. Manitok has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity contracts to be effective economic hedges. As a result, all such financial derivative contracts are recorded on the Statements of Financial Position at fair value, with the changes in fair value being recognized as an unrealized gain or loss in income or loss.

*Financial Derivatives*

As at March 31, 2014, the Corporation held the following derivative financial instruments:

| Product | Notional Quantity | Remaining Term | Reference | Strike Price | Type of Contract | Fair Value |
|---|---|---|---|---|---|---|
| Oil | 500 bbls/d | April 1, 2014 to December 31, 2014 | CAD$ WTI | $96.00 | Swap | (1,695) |
| Oil | 500 bbls/d | April 1, 2014 to December 31, 2014 | CAD$ WTI | $93.35 | Swap | (2,057) |
| Oil | 300 bbls/d | April 1, 2014 to December 31, 2014 | CAD$ WTI | $94.00 | Swap | (1,181) |
| Oil | 1,000 bbls/d | January 1, 2015 to December 31, 2015 | CAD$ WTI | $95.00 | Swap | (1,941) |
| Oil | 500 bbls/d | January 1, 2015 to December 31, 2015 | CAD$ WTI | $91.00 | Swap | (1,670) |
| Natural gas | 5,000 GJ/d | April 1, 2014 to December 31, 2014 | CAD$ AECO | $3.35 | Put option(1) | 47 |
| Natural gas | 5,000 GJ/d | April 1, 2014 to December 31, 2014 | CAD$ AECO | $3.75 | Put option(1) | 117 |
| Oil | 500 bbls/d | January 1, 2015 to December 31, 2015 | CAD$ WTI | $96.00 | Swaption(2) | (1,503) |
| Oil | 1,000 bbls/d | January 1, 2016 to December 31, 2016 | CAD$ WTI | $95.00 | Swaption(3) | (2,830) |
| Oil | 500 bbls/d | January 1, 2016 to December 31, 2016 | CAD$ WTI | $91.00 | Swaption(4) | (1,495) |
| **Total** | | | | | | **(14,208)** |
| | | | | | | |
| **Current liabilities** | | | | | | **(7,527)** |
| **Non-current liabilities** | | | | | | **(6,681)** |

(1) As at March 31, 2014 Manitok recorded $1.0 million as a deferred premium on financial instruments liability, which represents the deferred put option premium payable to the counter-party on these contracts of $0.35/Gigajoule.
(2) The counter-party to this contract holds a one-time option no later than December 31, 2014 to extend a swap on 500 barrels per day of oil at CAD$96.00 for the period indicated. The fair value amount represents the cost the Corporation would incur to exit the contract.
(3) The counter-party to this contract holds a one-time option no later than December 31, 2015 to extend a swap on 1,000 barrels per day of oil at CAD$95.00 for the period indicated. The fair value amount represents the cost the Corporation would incur to exit the contract.
(4) The counter-party to this contract holds a one-time option no later than December 31, 2015 to extend a swap on 500 barrels per day of oil at CAD$91.00 for the period indicated. The fair value amount represents the cost the Corporation would incur to exit the contract.

The fair value of these commodity risk management liabilities at March 31, 2014 was $14.2 million (December 31, 2013 – $7.7 million). As at March 31, 2014, a 10% decrease to the forward price curves outlined in the swap contracts above would result in approximately $12.2 million of additional pre-tax income.

Subsequent to March 31, 2014, the Corporation entered into the following derivative financial instruments:

| Product | Notional Quantity | Term | Reference | Strike Price | Type of Contract |
|---|---|---|---|---|---|
| Oil | 500 bbls/d | June 1, 2014 to December 31, 2014 | CAD$ WTI | $105.17 | Swap |
| Oil | 1,000 bbls/d | June 1, 2014 to December 31, 2014 | CAD$ EDM – WTI diff | $8.67 | Swap |
| Natural gas | 5,000 GJ/d | January 1, 2015 to December 31, 2015 | CAD$ AECO | $3.73 | Put option(1) |

(1) The counter-party to this contract receives a deferred put option premium of $0.33/Gigajoule.

*Physical Sales Contracts*

In addition to the financial derivative contracts discussed above, the Corporation has entered in physical sales contracts to manage commodity risk. These contracts are considered normal executory contracts and are not recorded at fair value in the financial statements. The Corporation has entered into the following physical sales contracts as at March 31, 2014:

| Product | Volume | Term(1) | Strike Price | Type of Contract |
|---|---|---|---|---|
| Natural gas | 6,000 GJ/d | April 1, 2014 to October 31, 2014 | $3.77 | AECO fixed price |

(1) Transactions with common terms have been aggregated and presented as the weighted average price.

The Corporation has not entered into any physical sales contracts subsequent to March 31, 2014.

## 14. COMMITMENTS

The Corporation is committed to incur exploration expenditures of $20.3 million on or before December 31, 2014, related to the Manitok CEE Flow-through Share issuance completed on November 8, 2013, as indicated in note 9d. Manitok will be subject to Part XII.6 tax based on the prescribed rate on the balance of exploration expenditures not yet incurred at the end of each month subsequent to January 31, 2014. As at March 31, 2014, the costs incurred for exploration expenditures were approximately $13.3 million leaving about $7.0 million to be spent on or before December 31, 2014.

On October 21, 2013, the Corporation announced that it entered into a three year Lease Issuance and Drilling Commitment Agreement with Encana Corporation ("**Encana Agreement**"), whereby Manitok acquired petroleum and natural gas leases in the Entice area of southeast Alberta. Pursuant to the Encana Agreement, Manitok has agreed to an annual work program including minimum annual drilling and completion expenditures and a minimum annual number of wells drilled, completed and tied-in or abandoned over a three year term. As at March 31, 2014, the Corporation is committed to the following minimum number of wells and minimum drilling and completion expenditures in the Entice area:

| | Original Minimum Commitment | | Work Program | | Remaining Minimum Commitment | |
|---|---|---|---|---|---|---|
| Year | Number of wells | Drilling and Completion Expenditures | Number of wells | Drilling and Completion Expenditures | Number of wells | Drilling and Completion Expenditures |
| 2014 | 7 | 22,000 | 4 | 5,044 | 3 | 16,956 |
| 2015 | 9 | 33,000 | - | - | 9 | 33,000 |
| 2016 | 14 | 51,000 | - | - | 14 | 51,000 |
| Total | 30 | 106,000 | 4 | 5,044 | 26 | 100,956 |

Manitok is committed to operating leases relating to new office space commencing on November 1, 2014 and expiring on November 30, 2017 and its current office premises which expires on February 28, 2017. In anticipation of relocating to new office space in the fourth quarter of 2014, the Corporation has subleased one of the two floors of its current premises effective from November 1, 2014 for the remainder of the lease term and is currently attempting to sublease the remaining floor. The Corporation is committed to the following aggregate minimum lease payments including expected operating costs**:**

| **Year** | |
|---|---|
| 2014 | 771 |
| 2015 | 2,454 |
| 2016 | 2,465 |
| 2017 | 1,450 |

**OFFICERS**

**Massimo M. Geremia**
President and Chief Executive Officer

**Cameron G. Vouri, P. Eng.**
Vice President and Chief Operating Officer

**Robert G. Dion, C.A.**
Vice President, Finance and Chief Financial Officer

**Tim Jerhoff, P.Eng.**
Vice President, Production and Engineering

**Donald Martin, P.Geol.**
Vice President, Exploration - Plains

**Gregory E. Peterson, LL.B.**
Corporate Secretary

**DIRECTORS**

**Bruno P. Geremia, C.A.** (1) (2) (3)
Chairman of the Board
Calgary, Alberta

**Robert J. Dales** (1) (2)
Calgary, Alberta

**Wilfred A. Gobert** (2) (3)
Calgary, Alberta

**Gregory E. Peterson, LL.B.** (3)
Calgary, Alberta

**Tom Spoletini** (1) (2) (3)
Calgary, Alberta

**Cameron G. Vouri, P. Eng.** (1)
Calgary, Alberta

**Massimo M. Geremia** (1) (2)
Calgary, Alberta

**SOLICITOR**

**Gowling Lafleur Henderson LLP**
Calgary, Alberta

**AUDITOR**

**KPMG LLP**
Chartered Accountants
Calgary, Alberta

**INDEPENDENT RESERVE EVALUATOR**

**Sproule Associates Limited**
Calgary, Alberta

**BANKER**

**National Bank of Canada**
Calgary, Alberta

**TRANSFER AGENT**

**Valiant Trust Company**
Calgary, Alberta

**STOCK EXCHANGE LISTING**

**TSX Venture Exchange**
Symbol: MEI

**WEBSITE**

www.manitokenergy.com

**HEAD OFFICE**

2500, 639 – 5th Avenue S.W.
Calgary, Alberta T2P 0M9
Phone: 403-984-1750
Fax: 403-984-1749
Email info@manitok.com

*(1) Reserve and Occupational Health & Safety Committee Member*
*(2) Audit Committee Member*
*(3) Compensation Committee Member*