Form 10-K for STRONGBOW RESOURCES INC.

13-Jun-2016

Annual Report

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our financial statements and the related notes that appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this annual report on Form 10-K.

General

We are focused on the acquisition, exploration, and development of oil and gas properties in the United States and Canada. As of June 13, 2016 we did not have any revenue from commercial production.

Results of Operations

Years Ended February 29, 2016 and February 28, 2015

The following summary of our results of operations should be read in conjunction with our audited financial statements for the years ended February 29, 2016 and February 28, 2015 which are included herein:

		February 29, 2016		February 28, 2015
Revenue	$	-	$	-
Expenses		(574,894)		(665,516)
Net Loss	$	(370,324)	$	(355,479)

Revenues

During the years ended February 29, 2016 and February 28, 2015, we did not generate any revenues from commercial production.

Expenses

Expenses decreased during the year ended February 29, 2016 to $574,894 as compared to $665,516 during the year ended February 28, 2015.

The table below details the changes in major expenditures for the year ended February 29, 2016 as compared to the corresponding year ended February 28, 2015:

Expenses	Increase / Decrease in Expenses	Explanation for Change
Management fees	Decrease of $14,700	Decrease due to the change in foreign exchange rates from CAD to the US dollar as management compensation (in CAD) remained unchanged in both fiscal years.
Office, travel and general and expenses	Decrease of $56,751	Decrease due to decreases in insurance, general office expenses, office rent, travel expenses as part of cost cutting initiatives.
Professional fees	Decrease of $38,810	Decrease due to less professional services used for corporate filings, accounting, and legal services.
Salaries and benefits	Increase of $127,910	Increase due to new hiring of COO and VP of Exploration during the year.
Stock-based compensation	Increase of $107,172	Increase due to stock options granted during in November 2015 whereas no stock options were granted in the comparative year.

For the year ended February 29, 2016, we recorded a gain on the fair value adjustment of derivative financial liability of $229,327. The derivative liability consists of the fair value of share purchase warrants that were issued in unit private placements that have an exercise price in a currency other than the functional currency of our company. The derivative liability is a non-cash liability as we will not be required to expend any cash.

Liquidity and Capital Resources

Working Capital

	At February 29, 2016	At February 28, 2015
Current assets	$ 33,514	$ 82,068
Current liabilities	1,286,228	1,124,840
Working capital deficit	$ (1,252,714)	$ (1,042,772)

We had cash of $22,426 and a working capital deficit of $1,252,714 as of February 29, 2016 compared to cash of $26,858 and working capital deficit of $1,042,772 as of February 28, 2015.

We anticipate general and administrative expense, excluding impairment of oil and gas property, if any, will be similar to fiscal 2016 during the upcoming fiscal year. In connection with oil and gas operations, we will retain the same number of executive officers. As a result, we estimate our general and administrative expense will be consistent during the next twelve months.

Our company's cash will not be sufficient to meet our working capital requirements for the next twelve month period. Our company plans to raise the capital required to satisfy our immediate short-term needs and additional capital required to meet our estimated funding requirements for the next twelve months primarily through the issuance of our equity securities. There is no assurance that our company will be able to obtain further funds required for our continued working capital requirements. The ability of our company to meet our financial liabilities and commitments is primarily dependent upon the continued financial support of our directors and shareholders, the continued issuance of equity to new shareholders, and our ability to achieve and maintain profitable operations.

There is substantial doubt about our ability to continue as a going concern as the continuation of our business is dependent upon obtaining further long-term financing, successful exploration of our property interests, the identification of reserves sufficient enough to warrant development, successful development of our property interests and, finally, achieving a profitable level of operations. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

Due to the uncertainty of our ability to meet our current operating and capital expenses, in their report on our audited financial statements for the year ended February 29, 2016, our independent auditors included an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. Our financial statements contain additional note disclosures describing the circumstances that lead to this disclosure by our independent auditors.

Cash Flows

	12 months ended February 29, 2016	12 months ended February 28, 2015
Cash used in operating activities	$ (238,717)	$ (623,099)
Cash provided by financing activities	282,793	626,811
Cash used in investing activities	(47,736)	(20,120)
Effect of Foreign Exchange	(772)	129
Change in cash	$ (4,432)	$ (16,279)

Cash Used in Operating Activities

Our cash used in operating activities for the twelve months ended February 29, 2016, compared to our cash used in operating activities for the twelve months ended February 28, 2015, decreased by $384,382, primarily due to decrease in non-cash items and non-cash working capital items from operations in the current year.

Cash Provided by Financing Activities

Our cash provided by financing activities for the twelve months ended February 29, 2016, compared to our cash provided by financing activities for the twelve months ended February 28, 2015, decreased by $344,018 due to less proceeds received from common stock issued for cash (which was partly offset by repayment of advances and notes payable in the comparative year). Even though proceeds received from common stock issued for cash was lower in the current year, we received cash for a future obligation to issue shares along with higher net proceeds received from related parties.

Cash Used in Investing Activities

Our cash used in investing activities for the twelve months ended February 29, 2016, compared to our cash used in investing activities for the twelve months ended February 28, 2015, increased by $27,616 due to an increase of expenditures on oil and gas properties. However, in the comparative year, we purchased equipment which did not occur in the current year.

Outstanding Shares, Options, Warrants and Convertible Securities

As of June 13, 2016, we have 31,082,567 shares of common stock outstanding, 2,300,000 stock options outstanding and 1,280,000 warrants outstanding. In addition, as of June 13, 2016, 1,000,000 shares of our common stock and 1,000,000 warrants are issuable upon conversion of a secured convertible debenture with a principal of $200,000 with an interest rate of 10% per annum.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our stockholders.

Going Concern

Our audited financial statements and information for the period ended February 29, 2016, have been prepared by our management on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. We have generated no revenues to date and have incurred a net loss of $370,324 during the 12 month period ended February 29, 2016, and $3,620,720 from inception (July 9, 2004) through February 29, 2016. We cannot provide any assurance that we will ultimately achieve profitable operations or become cash flow positive, or raise additional funds through the sale of debt and/or equity.

Application of Critical Accounting Policies

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We regularly evaluate estimates and assumptions. We base our estimates and assumptions on current facts, historical experience and various other factors we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. Our actual results may differ materially and adversely from our estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected. The most significant estimates with regard to these financial statements relate to carrying values of oil and gas properties, the assumptions used to record asset retirement obligations and the estimated useful life of financial instruments.

Fair Value of Financial instruments

The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The estimated fair value of cash, prepaid expenses, other receivables, accounts payable and amounts due to related parties approximates their carrying value due to their short-term nature.

Foreign Currency Translation

The Company's functional currency is the Canadian dollar and reporting currency is the United States dollar. The Company translates assets and liabilities to US dollars using year-end exchange rates, stockholders' deficit accounts are translated at historical exchange rates, and translates revenues and expenses using average exchange rates during the period. Gains and losses arising on settlement of foreign currency denominated transactions or balances are included in the other comprehensive income. The Company has not to the date of these financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

Oil and Gas Properties

The Company utilizes the full cost method to account for its investment in oil and gas properties. Accordingly, all costs associated with acquisition, exploration and development of oil and gas reserves, including such costs as leasehold acquisition costs, interest costs relating to unproved properties, geological expenditures, tangible and intangible development costs including direct internal costs are capitalized to the full cost pool. When the Company commences production from established proven oil and gas reserves, capitalized costs, including estimated future costs to develop the reserves and estimated abandonment costs, net of salvage, will be depleted on the units-of-production method using estimates of proved reserves. Costs of unproved properties are not amortized until the proved reserves associated with the projects can be determined or until impairment occurs. If an assessment of such properties indicates that properties are impaired, the amount of impairment is added to the capitalized cost base to be amortized.

The capitalized costs included in the full cost pool are subject to a "ceiling test", which limits such costs to the aggregate of the (i) estimated present value, using a ten percent discount rate, of the future net revenues from proved reserves, based on current economic and operating conditions, (ii) the lower of cost or estimated fair value of unproven properties included in the costs being amortized, (iii) the cost of properties not being amortized, less (iv) income tax effects related to differences between the book and tax basis of the cost of properties not being amortized and the cost or estimated fair value of unproved properties included in the costs being amortized.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in the statement of operations. The Company's oil and gas properties are under development with minimal production to date. Accordingly, no amortization is being recorded.

Equipment

Equipment is recorded at cost and amortized on a straight line basis over 20 years.

Income Taxes

Income taxes are determined using the liability method. Deferred tax assets and liabilities, if any, are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes that date of enactment. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

We account for uncertainty in income taxes by applying a two-step method. First, we evaluate whether a tax position has met a more likely than not recognition threshold, and second, it measures that tax position to determine the amount of benefit, if any, to be recognized in the financial statements. The application of this method did not have a material effect on our financial statements.

Asset Retirement Obligations

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs an obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The estimated fair value of the asset retirement obligation is based on the current cost escalated at an inflation rate and discounted at a credit adjusted risk-free rate. This liability is capitalized as part of the cost of the related asset and amortized over its useful life. The liability accretes until the Company settles the obligation.

Loss per share

We present both basic and diluted earnings (loss) per share (EPS) on the face of the statements of operations. Basic EPS is computed by dividing net earnings
(loss) available to common shareholders by the weighted average number of shares outstanding during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including convertible debt, stock options, and warrants, using the treasury stock method. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive. Diluted EPS figures are equal to those of basic EPS for each period since we have incurred losses since inception.

Recently issued accounting pronouncements

The Company adopted accounting pronouncements that are applicable effective March 1, 2015. There was no material impact on adoption of these recent accounting pronouncements on its financial position, results of operations or cash flows.

The Company has also reviewed recently issued accounting pronouncements and plans to adopt those that are applicable to it. It does not expect the adoption of these pronouncements to have a material impact on its financial position, results of operations or cash flows.