

United Hunter Oil & Gas Corp.

Consolidated Financial Statements

December 31, 2017 and 2016

(expressed in Canadian dollars)



RSM Canada LLP

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of United Hunter Oil & Gas Corp.

We have audited the accompanying consolidated financial statements of United Hunter Oil & Gas Corp. and its subsidiary, which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of United Hunter Oil & Gas Corp. and its' subsidiary as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 28, 2017.

RSM Canada LLP

Licensed Public Accountants
Chartered Accountants
April 27, 2018
Toronto, Ontario

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United Hunter Oil & Gas Corp.

Consolidated Statements of Financial Position

(expressed in Canadian dollars)

	Notes	As at December 31,	
		2017	2016
		\$	\$
Assets			
Current			
Cash		69,365	83
Receivables		5,558	627
Prepaid expenses		9,961	5,667
		<u>84,884</u>	<u>6,377</u>
Liabilities			
Current			
Accounts payable and accrued liabilities	11	192,472	67,771
Loans payable	6 and 11	372,289	290,586
		<u>564,761</u>	<u>358,357</u>
Shareholders' equity (deficit)			
Share capital	7	8,982,214	8,883,214
Common shares to be issued		25,000	-
Contributed surplus		2,375,883	2,375,883
Accumulated other comprehensive loss		-	(1,363)
Deficit		(11,862,974)	(11,609,714)
		<u>(479,877)</u>	<u>(351,980)</u>
		<u>84,884</u>	<u>6,377</u>
Going-concern	2		
Subsequent event	13		

Approved by the Board:

Tim Turner
Director

Eldon Christian Shomber
Director

United Hunter Oil & Gas Corp.
Consolidated Statements of Loss and Comprehensive Loss

(expressed in Canadian dollars)

	Years ended December 31,	
	2017	2016
	\$	\$
Expenses		
Professional fees	13,685	30,836
Management fees, salaries and benefits	127,793	200,660
Consulting fees	15,000	-
Share-based compensation	-	42
General and administrative	11,899	22,655
Public company costs	38,994	20,825
Travel	28,731	1,969
Impairment of exploration and evaluation	-	102,808
Foreign exchange loss (gain)	(4,964)	171
Interest	22,123	7,857
	<u>253,260</u>	<u>387,823</u>
Loss	(253,260)	(387,823)
Other comprehensive income (loss)		
Foreign currency translation gain (loss)	1,363	(1,363)
Comprehensive loss	<u>(251,897)</u>	<u>(389,186)</u>
Basic and diluted loss per share	(0.01)	(0.01)
Weighted average number of shares outstanding - basic and	<u>32,722,875</u>	<u>32,650,957</u>

United Hunter Oil & Gas Corp.
Consolidated Statements of Changes in Equity

(expressed in Canadian dollars)

	Share capital		Shares to be issued	Contributed surplus	Accumulated other loss	Deficit	Total
	Number of shares	Amount \$					
Balance, December 31, 2016	32,650,957	8,883,214	-	2,375,883	(1,363)	(11,609,714)	(351,980)
Private placements	1,050,000	105,000	25,000	-	-	-	130,000
Share issue costs	-	(6,000)	-	-	-	-	(6,000)
Loss	-	-	-	-	-	(253,260)	(253,260)
Other comprehensive income	-	-	-	-	1,363	-	1,363
Balance, December 31, 2017	33,700,957	8,982,214	25,000	2,375,883	-	(11,862,974)	(479,877)
Balance, December 31, 2015	32,650,957	8,883,214	-	2,375,841	-	(11,221,891)	37,164
Share-based compensation	-	-	-	42	-	-	42
Loss	-	-	-	-	-	(387,823)	(387,823)
Other comprehensive income	-	-	-	-	(1,363)	-	(1,363)
Balance, December 31, 2016	32,650,957	8,883,214	-	2,375,883	(1,363)	(11,609,714)	(351,980)

United Hunter Oil & Gas Corp.

Consolidated Statements of Cash Flows

(expressed in Canadian dollars)

	Years ended December 31,	
	2017	2016
	\$	\$
Cash flow from operating activities		
Loss	(253,260)	(387,823)
Items not affecting cash		
Share-based compensation	-	42
Foreign exchange gain	(2,434)	-
Interest not paid	22,123	-
Changes in non-cash working capital		
Receivables	(4,931)	(456)
Prepaid expenses	(4,294)	5,596
Accounts payable and accrued liabilities	124,701	63,975
	<u>(118,096)</u>	<u>(318,666)</u>
Cash flow from financing activities		
Advances of loans payable	77,014	282,729
Repayment of loans payable	(15,000)	-
Private placement of common shares	105,000	-
Common shares to be issued	25,000	-
Share issue costs	(6,000)	-
	<u>186,014</u>	<u>282,729</u>
Net change in cash	67,918	(35,937)
Cash, beginning of year	83	37,383
Effect of foreign exchange rate changes on cash	1,363	(1,363)
Cash, end of year	<u>69,364</u>	<u>83</u>
Supplementary information		
Interest paid	-	-
Income taxes paid	-	-

United Hunter Oil & Gas Corp.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(expressed in Canadian dollars)

1. Nature of operations

United Hunter Oil & Gas Corp. (the "Company") is a public company engaged in the exploration and development of oil and gas properties. The Company was incorporated under the Business Corporations Act of Ontario on February 22, 2008 and its registered office is located at 77 King Street West, Suite 400, Toronto, Ontario, M5K 0A1.

2. Going-concern

The Company is in the exploration stage and has no revenue. During the year ended December 31, 2017, the Company recorded a loss of \$253,260 (2016 - \$387,823) and as at that date, the Company had an accumulated deficit of \$11,862,975 (2016 - \$11,609,714), working capital deficit of \$479,878 (2016 - \$351,980) and cash flow deficit from operations of \$118,095 (2016 - \$318,666). The losses, accumulated deficit, working capital deficit and cash flow deficit from operations limit the Company's ability to fund its operations and the acquisition, exploration and development of oil and gas properties. As a result, there is significant doubt about the Company's ability to continue as a going concern.

The continued operation of the Company is dependent upon the Company's ability to secure equity financing to meet its existing obligations and finance the acquisition, exploration and development of oil and properties. The Company is actively seeking to raise the necessary equity financing, however, there can be no assurance that additional equity financing will be available.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, balance sheet classifications and the reported expenses that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

3. Basis of presentation

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee.

The financial statements were approved and authorized for issue by the Board of Directors on April 27, 2018.

Basis of measurement

These financial statements have been prepared on the historical cost basis.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 year in which the estimates are revised and in any future years affected.

Information about judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are as follows:

Going concern

The Company applied judgment in assessing its ability to continue as a going concern for at least 12 months. See note 2.

Impairment of exploration and evaluation

Expenditures on exploration and evaluation are initially capitalized with the intent to establish commercially viable reserves. The Company makes estimates and applies judgment about future events and circumstances in determining whether the carrying amount of exploration and evaluation exceeds its recoverable amount, including the ability to renegotiate option agreements.

Deferred income taxes

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates at the reporting date in effect for the period in which the temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date. The recognition of deferred income tax assets is based on the assumption that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. See note 10.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary, United Hunter Texas, LLC ("UHT") until December 29, 2017, the date that UHT was dissolved. All intercompany transactions and balances are eliminated on consolidation.

Foreign currencies

Transactions in foreign currencies are translated to Canadian dollars at exchange rates in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to US dollars at the exchange rate in effect on the date that the fair value was determined. Foreign currency differences arising on translation are recognized in the consolidated statement of loss and comprehensive loss.

Financial instruments

Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value (i.e. quoted close price) and changes therein are recognized in profit or loss.

The Company has not classified any financial assets at fair value through profit or loss.

Held-to-maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available for sale and prevent the Company from classifying investment securities as held to maturity for the current and the following two financial years.

The Company has not classified any financial asset as held-to-maturity.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Company has classified cash as loans and receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

The Company has not classified any financial asset as available-for-sale.

Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Company has classified accounts payable and accrued liabilities and loans payable as other financial liabilities.

Impairment of non-derivative financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Financial assets carried at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the financial asset is reduced by the amount of the impairment loss and the impairment loss is recognized in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

An impairment loss in respect of a financial asset classified as available-for-sale is calculated as the difference between the acquisition cost and the current fair value, less any impairment loss recognized previously in profit or loss. The impairment loss is recognized when there is objective evidence that the impairment is other than temporary by reclassifying the loss from equity to profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss, except in the case where the decrease in impairment loss is recognized in other comprehensive income.

Exploration and evaluation

Recognition and measurement

Exploration and evaluation, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as exploration and evaluation. The costs are accumulated by property pending the determination of technical feasibility and commercial viability. Pre-license costs are expensed when incurred. Pre-exploration costs are expensed unless it is considered probable that they will generate future economic benefits.

The recoverability of amounts shown for exploration and evaluation is dependent upon the ability of the Company to obtain financing to complete the exploration and development of its mineral resource properties, the existence of economically recoverable reserves and future profitable production, or alternatively, upon the Company's ability to recover its costs through a disposition of its mineral resource properties. The amounts shown for exploration and evaluation do not necessarily represent present or future value. Changes in future conditions could require a material change in the amount recorded for exploration and evaluation.

The technical feasibility and commercial viability of extracting a mineral resource from a property is considered to be determinable when proved and/or probable reserves are determined to exist and the necessary permits have been received to commence production. A review the technical feasibility and commercial viability of each property is carried out at least annually. Upon determination of technical feasibility and commercial viability, exploration and evaluation is first tested for impairment and then reclassified to property, plant and equipment and/or intangibles or expensed to the statement of income (loss) and comprehensive income (loss) to the extent of any impairment.

Impairment

Exploration and evaluation is assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

An impairment loss is recognized in the statement of loss and comprehensive loss if the carrying amount of a property exceeds its estimated recoverable amount. The recoverable amount of property used in the assessment of impairment of exploration and evaluation is the greater of its value in use ("VIU") and its fair value less costs of disposal ("FVLCTS"). VIU is determined by estimating the present value of the future net cash flows at a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the property. FVLCTS refers to the price that would be received to sell the property in an orderly transaction between market participants. For a property that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the property belongs. Impairment losses previously recognized are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount only to the extent that the property's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

Decommissioning liabilities

The Company's activities may give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration. Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the date of the statement of financial position. The fair value of the estimated obligation is recorded as a liability with a corresponding increase in the carrying amount of the related asset. The obligation is subsequently adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion costs whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

As at December 31, 2017 and 2016, the Company had no decommissioning liabilities.

Share capital

Share capital is classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects. In situations where the Company issues units, the value of the warrants is included as a separate reserve of the Company's equity.

Share-based payments

The Company offers a stock option plan for its officers, directors, employees and consultants. The fair value of stock options for each vesting period is determined using the Black-Scholes option pricing model and is recorded over the vesting period as an increase to stock-based compensation or asset and contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the exercise of stock options, the proceeds received by the Company and the related contributed surplus are recorded as an increase to share capital. In the event that vested stock options expire, previously recognized share-based compensation is not reversed. In the event that stock options are forfeited, previously recognized share-based compensation associated with the unvested portion of the stock options forfeited is reversed.

The fair value of share-based payment transactions to non-employees and other share-based payments including shares issued to acquire exploration and evaluation are based on the fair value of the goods and services received. If the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or services.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost. No provisions were recorded as at December 31, 2017 and 2016.

Income tax

Income tax expense comprises current and deferred taxes. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted earnings per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted.

New standards and interpretations not yet adopted

The following amendment to standards will be effective for periods beginning on or after January 1, 2018:

IFRS 9, Financial Instruments ("IFRS 9")

This standard will replace *IAS 39, Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The Company has not determined the extent of the impact of IFRS 9 on its financial statements.

The following new standard will be effective for periods beginning on or after January 1, 2019:

IFRS 16, Leases ("IFRS 16")

This standard will replace *IAS 17, Leases*. IFRS 16 provides an updated definition of a lease contract, including guidance on the combination and separation of contracts. The standard requires lessees to recognize a right-of-use asset and a lease liability for substantially all lease contracts. The accounting for lessors is substantially unchanged from IAS 17. The Company has not determined the extent of the impact of IFRS 16 on its financial statements.

5. Exploration and evaluation

Option agreement to purchase oil and gas interests in Archer County, Texas

On December 12, 2016, the Company paid US\$75,000 to acquire an exclusive option to purchase oil and gas interests in the Hull Silk Sikes 4,300' Sand Unit (the "HSS Unit") in Archer County, Texas. The HSS Unit is approximately 12 miles southwest of Wichita Falls, Texas and comprises approximately 2,300 acres in a single operating unit.

The option provided the Company with the exclusive right to purchase the interest, for a period that has been extended, by way of two negotiated Purchase and Sale Agreements ("PSA") for a combined purchase price of US\$13,000,000, subject to any closing cost adjustments as defined in the PSA's, payable over a 5-year period from closing. The Company would receive an estimated 80.23% net revenue interest, which includes an enhanced oil recovery tax credit of 2.3% of the market value of the total operated basis from the State of Texas.

Agreement to acquire producing and drillable prospects in South Texas

Through its US subsidiary, United Hunter Texas, LLC ("UHT"), the Company reached an agreement with Vesta Resources, LLC and others to acquire a working interest operatorship in two producing wells and 100% working interest in eight additional prospects in multiple South Texas Counties for an all-inclusive cost of \$400,000. The final Purchase and Sale Agreements, to be executed by UHT, are subject to completion of its due diligence, including negotiation of, and any adjustments to, the purchase price, board approval, financing and TSX Venture Exchange approval.

After sufficient due diligence, the Company elected to not pursue these projects and both of the aforementioned agreements expired by their own terms and \$102,808 of capitalized costs were written off in 2016.

6. Loans payable

	\$
Balance, December 31, 2015	–
Advances	282,729
Interest	7,857
Balance, December 31, 2016	290,586
Advances	77,014
Interest	22,123
Foreign exchange gain	(2,434)
Repayment	(15,000)
Balance, December 31, 2017	372,289

	Outstanding at December 31,	
	2017	2016
	\$	\$
6% promissory notes, unsecured, due on demand	212,729	190,729
12% promissory notes, unsecured, due on demand	92,000	92,000
6% promissory note for US\$30,000, unsecured, due on March 1, 2018	37,440	–
Accrued interest	29,927	7,857
	<u>372,089</u>	<u>290,586</u>

During year ended December 31, 2017, the Company received the following proceeds from the issue of unsecured promissory notes:

Date	Interest rate	Due date	\$
January 17, 2017	6%	On demand	12,000
May 2, 2017	6%	On demand	15,000
August 8, 2017	6%	On demand	10,000
			US\$
March 1, 2017	6%	March 1, 2018	30,000

See note 13 for subsequent event.

7. Share capital

Authorized

Unlimited number of common shares without par value.
Unlimited number of preference shares, issuable in series.

Private placements of common shares

On November 28, 2017, the Company completed a private placement consisting of 700,000 common shares for gross proceeds of \$70,000. In connection with the private placement, the Company paid a cash commission of \$3,500.

On December 6, 2017, the Company completed a private placement consisting of 350,000 common shares for gross proceeds of \$35,000.

On November 28, 2017, the Company announced its intention to complete an additional non-brokered private placement of up to 10,000,000 common shares at a price of \$0.10 for gross proceeds of up to \$1,000,000. As at December 31, 2017, the Company had received \$25,000 in respect of a subscription agreement for 250,000 common shares. See note 13 for subsequent event.

Stock options

The Company may grant stock options to directors, officers, employees and consultants for up to 10% of the issued and outstanding common shares. At December 31, 2017, the Company may grant up to 3,370,095 stock options (December 31, 2016 – 3,265,096). The exercise price for stock options will not be less than the market price of the common shares on the date of the grant, less any discount permissible under the rules of the TSX Venture Exchange. The maximum term for stock options will be 5 years and the options will be subject to vesting limitations imposed by the board of directors of the Company.

A summary of the Company's stock options outstanding and exercisable at December 31, 2017 is presented below:

	Weighted- average exercise price \$	Number of stock options
Balance, December 31, 2015	0.59	250,000
Cancelled	0.07	(110,000)
Balance, December 31, 2016	1.00	140,000
Expired	1.00	(35,000)
Cancelled	1.00	(35,000)
Balance, December 31, 2017	1.00	70,000

Exercise price	Expiry date	Number of stock options outstanding and exercisable
\$1.00	November 26, 2018	70,000

The weighted average remaining contractual life of the outstanding stock options is 0.92 years.

8. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Accounts payable and accrued liabilities and loans payable

The fair value of accounts payable and accrued liabilities and loans payable approximates their carrying value due to their short term to maturity.

Classification of fair value of financial instruments

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 - quoted prices in active markets for identical assets and liabilities;
- Level 2 - inputs, other than the quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3 - inputs for the asset or liability that are not based on observable market data

9. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities, including credit risk, liquidity risk and market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from the Company's cash and receivables. The maximum exposure to credit risk is equal to the carrying amount of cash and receivables. The Company's limits its exposure to credit risk on its cash by holding its cash in deposits with high credit quality Canadian chartered banks.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities that are settled in cash or other financial assets. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities as they come due. The amounts for accounts payable and accrued liabilities are subject to normal trade terms. Loans payable and accrued interest of \$319,729 are due on demand and a loan payable plus accrued interest of US\$31,250 is due on March 1, 2018.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments.

Foreign exchange risk

Foreign exchange risk is the risk of financial loss to the Company due to a change in foreign exchange rates. The majority of the Company's cash is held in Canadian dollars. Foreign exchange risk arises as the Company makes expenditures denominated in US dollars and has loans payable of US\$31,250.

The Company does not use derivative instruments to hedge exposure to foreign exchange rate risk. However, management of the Company believes there is no significant exposure to foreign currency fluctuations due to the limited number of transactions conducted in US dollars.

Interest rate risk

Interest rate risk is the risk of financial loss to the Company due to a change in interest rates. The Company's exposure to interest rate risk is limited due to the short-term nature of its financial instruments. In addition, loans payable bear interest at fixed rates of interest.

Capital management

Capital of the Company consists of share capital, contributed surplus and deficit. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can acquire, explore and develop mineral resource properties for the benefit of its shareholders. The Company manages its capital structure and makes adjustments based on the funds available to the Company in light of changes in economic conditions. The Board of Directors has not established quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the Company. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that consider various factors, including successful capital deployment and general industry conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company's principal source of capital is from the issue of common shares and loans payable. In order to achieve its objectives, the Company intends to raise additional funds as required.

The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to capital management during the year.

10. Income taxes

The Company's effective income tax rate differs from the amount that would be computed by applying the combined federal and provincial statutory rate of 26.5% (2016 - 26.0%) to the net loss for the year. The reasons for the difference are as follows:

Provision for income taxes

	2017 \$	2016 \$
Expected income tax recovery based on statutory rate	(66,753)	(100,834)
Increase (decrease) resulting from:		
Permanent differences and other	24,597	—
Rate changes	(46,888)	—
Change in unrecognized deferred income tax assets	89,044	100,834
Deferred income tax recovery	—	—

Deferred income tax balances

The Company's deferred income tax assets are as follows:

	2017 \$	2016 \$
Equity investments	604,666	619,079
Non-capital loss carryforward	1,946,750	1,844,203
Share issue costs	1,648	738
	2,553,064	2,464,020
Benefit of deferred tax assets not recorded	(2,553,064)	(2,464,020)
	—	—

Due to losses incurred in the current year and expected future operating results, management determined that it is unlikely that the deferred income tax assets will be realized. Accordingly, the future income tax assets have not been recorded.

Losses carried forward

At December 31, 2017, the Company had non-capital loss carryforwards which expire as follows:

	\$
2028	60,000
2029	515,000
2030	3,751,000
2031	1,085,000
2032	194,000
2033	347,000
2034	554,000
2035	299,000
2036	285,000
2037	255,000
	7,345,000

As at December 31, 2017, the Company had resource deductions of \$2,281,575 which may be carried forward indefinitely to reduce taxable income in future years.

11. Comparative amounts

The comparative amounts for accounts payable and accrued liabilities and loans payable have been reclassified to conform to the current year's presentation.

12. Related party transactions

Compensation of key management personnel

The Company considers its directors and officers to be key management personnel. Transactions with key management personnel are set out as follows:

	Years ended December 31,		Outstanding at December 31,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Management fees	127,793	132,000	141,095	33,795

13. Subsequent events

Private placement

Subsequent to December 31, 2017, the Company completed a private placement consisting of 10,000,000 common shares for gross proceeds of \$1,000,000. Of the private placement, two officers of the Company acquired 865,870 common shares.

Repayment of loans payable

Subsequent to December 31, 2017, the Company repaid loans payable of \$372,289.

Proposed share consolidation

At the Annual General and Special Meeting to be held on April 30, 2018, the shareholders of the Company will be asked to approve an amendment to the articles of the Company in order to consolidate the common shares by a ratio of 2.5:1.