



**United Hunter Oil and Gas Corp.**

Form 51-102F1  
Management's Discussion and Analysis  
For the Three Months Ended March 31, 2016

(Presented in Canadian Dollars)

May 11, 2016



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## ***United Hunter Oil & Gas Corp. Management's Discussion and Analysis***

Management's Discussion and Analysis ("MD&A") of the financial position of United Hunter Oil & Gas Corp. (the "Company", "United Hunter" or "UHO") should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015. Unless otherwise specified herein, the information provided is as at May 13, 2016. These documents and additional information about the Company are available at [www.sedar.com](http://www.sedar.com). Unless otherwise noted, dollar amounts are expressed in Canadian dollars. References to US\$ means America dollars.

### **Description of Business**

The Company is engaged in the exploration and development of oil and gas properties. The Company owns a 65% indirect joint venture interest in Excelaron, LLC ("Excelaron"), an exploration stage company based in San Luis Obispo, California, and owned 25% joint venture interest in Alamo Creek Oil LLC ("Alamo"), an exploration stage company based in San Luis Obispo, California. Alamo was dissolved on December 22, 2015. The Company's common shares are listed for trading on the TSX Venture Exchange under the symbol "UHO".

### **Forward-looking Statements**

The MD&A contains forward-looking statements intended to provide readers with a reasonable basis of assessing the performance of the Company. The use of the words "believe", "expect", "estimate", "will", "should", "intend", and similar expressions are intended to identify forward looking statements. Forward looking statements are based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Stakeholders reading this report are cautioned that any forward-looking statements, including those regarding us or our management's current beliefs, expectations, anticipations, estimations, projections, strategies, proposals, plans, or intentions, are not guarantees of future performance or results of events and involve risks and uncertainties. Such risks and uncertainties include but are not limited to; the Company's goals to acquire, sustain or grow production and reserves through prudent management and acquisitions; the impact of any potential acquisitions and the timing for achieving such impact; sufficiency of our capital resources to meet our on-going short, medium and long-term commitments; expectations regarding our the ability to raise sufficient capital resources to achieve these goals; statements with respect to: the focus of capital expenditures; the sale, farming in, farming out or development of certain exploration properties; the implied assessment pursuant to interest in our joint ventures resources in place based on certain estimates and assumptions that described resources exist in the quantities predicted or estimated, and can be profitably produced in the future; the impact of changes in petroleum and natural gas prices on cash flow; drilling plans, processing capacity; operating and other costs; treatment under governmental regulatory regimes and tax laws; liquidity and financial capital markets; The Company undertakes no obligation to update such forward-looking statements or information if circumstances or management's estimates or opinions should change, unless required by law.

Other factors, many of which are beyond the Company's control, and the effects of which are difficult to predict include, but are not limited to: general economic conditions in Canada, the United States of America and globally; supply and demand for petroleum and natural gas; industry conditions, including fluctuations in the price of petroleum and natural gas; governmental regulation of the petroleum and natural gas industry, including income tax, environmental and regulatory matters; fluctuation in foreign exchange or interest rates; risks and liabilities inherent in petroleum and natural gas operations, including exploration, development, exploitation, marketing and transportation risks; geological, technical, drilling and processing problems; unanticipated operating events which can reduce production or cause production to be shut-in or delayed; the ability of our industry partners to pay their proportionate share of joint interest billings; failure to obtain industry partner and other third party consents and approvals, when required; stock market volatility and market valuations; competition for, among other things, capital, acquisition of reserves, processing and transportation capacity, undeveloped land and skilled personnel; and the need to obtain required approvals from regulatory authorities.



In addition, other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements.

Readers should be aware that historical results are not necessarily indicative of future performance. No assurance can be given that any events anticipated by the forward looking statements or information will transpire or occur, or if any of them do, what benefits the Company may derive therefrom.

Statements relating to "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the described resources exist in the quantities predicted or estimated, and can be profitably produced in the future. There is no certainty that it will be commercially viable to produce any portion of the resources described in this MD&A.

The following table outlines certain forward-looking statements contained in this MD&A and provides material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

Page No.	Forward looking statements	Assumptions	Risk factors
6	<p>Other Activities</p> <p>"The Company will continue to source and review potential oil and gas prospects and other revenue generating projects for possible participation in the coming months".</p>	<p>The Company will review several potential oil and gas prospects and potentially other forms of revenue generating projects that the Company may find suitable in which to participate.</p>	<p>The Company may not find any appropriate oil and gas or other revenue generating opportunities in which it can participate due to inadequate financial resources or other factors.</p>
8	<p>Liquidity and Capital Resources – Liquidity</p> <p>"Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. After careful consideration, the Board has reasonable expectation that the Company can negotiate external financing to meet its working capital requirements through the end of the second quarter, 2016.</p>	<p>We have adequate financial resources to pay liabilities as they come due through 2016. Financing will be sought during the interim to continue as a going concern.</p>	<p>The Company is unable to obtain future financing to meet liabilities as they come due.</p>



## **Overall Performance**

### ***Huasna Property***

The Company holds an indirect 65% interest in Excelaron, which holds a 100% interest in an oil and natural gas property consisting of approximately 200 acres, including an undivided mineral ownership of 60.24 net acres out of 160.64 gross acres, on the western edge of the Huasna Basin, an existing California Department of Oil, Gas and Geothermal Resources designated oilfield within the Meridian Anticline located in Arroyo Grande, California ("Huasna"). The Company's objective is to pursue the exploration and development of these oil and gas properties held by Excelaron pursuant to the terms of a joint operating agreement. Its joint venture partner in Excelaron is Australia Oil Company Investments Pty Limited.

During the year ended December 31, 2014, after several years of Excelaron being denied the required permits and after unsuccessful legal actions to reverse these denials, the Company decided to write-down its investment in Excelaron resulting in the Company recognizing an impairment charge of \$3,742,916 (2013 - \$nil) which consisted of the carrying value of the investment of \$4,670,996 offset by a reversal of the consideration payable of \$928,080 that was not required to be paid out as the required permits have not been obtained. However, the Company will continue to manage the assets of Excelaron in this area and review each alternative available so as to develop this project in a reasonable, prudent manner.

Statements of loss for Excelaron:

	Three months ended March 31, 2016 \$	Three months ended March 31, 2015 \$
General and administrative	-	910
Leases	-	4,400
Professional fees	-	784
Net loss	-	6,094
Company's interest in the joint venture	-	25%
Equity loss	-	1,218

### ***Alamo Creek Oil, LLC - Porter Ranch Property***

The Company acquired a 45% joint venture interest in Alamo Creek Oil LLC ("Alamo") in the year 2010. Shortly after that, Alamo leased 4,068 acres adjacent to the Santa Maria Basin and south east of the Company's Huasna property ("Porter Ranch").

As at December 31, 2014, the Company reviewed the investment for indication of impairment and noted continuing equity losses in operations, the decline in market prices for oil and gas, and the market capitalization of Alamo was higher than their net assets. In addition, the minor use permit had yet to be approved and there was no guarantee that this permit would be acquired due to continued opposition to oil and gas exploration and production in the Huasna valley. Based on these factors, the Company recorded an impairment loss of \$27,675 on their investment in Alamo Creek. Alamo's oil and gas leases are due to expire at the end of December 2015. The Company and its partners have determined that continuation of this project is not economically viable due to the regulatory impediments and the risks they represent to the project. As a result the Company and its partners have decided not provide additional funds for Alamo to renew the leases.

On December 22, 2015, Alamo Creek was subsequently dissolved.



## **Impairment losses**

During the year ended December 31, 2015 the company recognized an impairment of \$3,485 on its investments in Alamo and Excelaron, \$2,990 and \$495 respectively. During the years ended December 31, 2014 and 2015, after several years of Excelaron being denied the required permits and filing unsuccessful legal actions to overturn the denial, the Company has decided to write-down its investment in Excelaron resulting in the Company recognizing an impairment of \$495 (2014 - \$3,742,916). The prior year impairment consisted of the carrying value of the investment of \$4,670,996 offset by a reversal of the consideration payable of \$928,080 which was not required to be paid out as the required permits had not been obtained.

As at December 31, 2014 and 2015, the Company reviewed the investment in Alamo Creek for indication of impairment and noted continuing equity losses in operations, the decline in market prices for oil and gas, and the market capitalization of Alamo was higher than net assets. In addition, the minor use permit had yet to be approved and there is no guarantee that this permit will be acquired due to continued opposition to oil and gas exploration and production in the Huasna valley resulting in the dissolution of Alamo Creek on December 22, 2015. Based on these factors, the Company recorded an impairment loss of \$2,990 (2014-\$27,675) on their investment in Alamo Creek.

## **Other Activities**

During 2014 and 2015, the Company initiated three different consulting agreements with industry consultants to assist the Company in sourcing and performing technical and commercial reviews on certain identified, and newly sourced, oil and gas prospects in California and internationally. The Company has identified and is currently reviewing several prospective international projects that would be suitable assets to acquire a working interest in and we will continue with any due diligence necessary to secure any one or more of these prospective projects that would suit the Company's future objectives. Besides the current opportunities, the Company will continue to search and evaluate potential oil and gas prospects and other revenue generating projects for possible participation in the coming months.



## **Result of Operations**

Selected Information the Three Months Ended March 31, 2016

	Three months ended March 31,	Three months ended March 31,
	2016	2015
	\$	\$
Expenses		
Consulting fees	-	6,245
Equity loss on Alamo (Note 3)	-	1,419
Equity loss on Excelaron (Note 3)	-	4,255
Foreign exchange loss (gain)	372	(13,343)
General and administrative	5,936	5,921
Professional fees	1,431	34,052
Public company costs	8,766	10,366
Salaries and benefits (Note 6)	41,431	41,815
Share-based compensation (Note 8)	21	2,629
Travel	-	2,408
Interest expense	83	-
<b>Total expenses</b>	<b>58,040</b>	<b>95,767</b>

Expenses for current Year Ended

The Company had a net and comprehensive loss for the three months ended March 31, 2016 of \$54,040 compared to a \$95,767 for the three months ended March 31, 2015. The decrease in net loss is mainly due to cutting measures and the decline in activities on our California assets. Significant increases and decreases over the three months ended March 31, 2016 compared to the corresponding prior period in 2015 are as follows:

- The Company has incurred no consulting fees at March 31, 2016 (March 31, 2015: \$6,245).
- No equity losses on Alamo or Excelaron was recorded during the current three month period. Alamo Creek was dissolved on December 22 of 2015 and as a result of the denial of drilling permits for Excelaron further work was completed during the current quarter ( March 31, 2015: \$1,419, \$4,255 respectively).
- Professional fees have declined to \$1,431 from \$34,052 during in the prior three month period. The reduction in professional fees is a result of a lower cost for our year-end audit. Legal fees were also reduced as a result of cost cutting measures.
- Public company costs have remained the same year over year. However, during the three months ended March 31, 2016 to \$8,766 from \$10,366 in the prior three month. The Company did not incur as much in costs for shareholder reporting due to the decrease in operations.
- Salary expenses have remained about the same in the comparable periods. However, during the three months ended March 31, 2016 of the \$41,431 recorded \$13,500 has been accrued and remains unpaid.



## Summary of Quarterly Results (prepared in accordance with IFRS)

	Q1	Q2	Q3	Q4	Q1	Q3	Q4	Q1
	2014	2014	2014	2014	2015	2015	2015	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Net revenue	-	-	-	-	-	-	-	-
Net loss and comprehensive loss	53,421	126,550	141,937	3,964,757	95,766	122,873	37,169	57,957
Loss per share	(0.01)	(0.00)	(0.00)	(0.21)	(0.04)	(0.00)	(0.01)	(0.00)

The loss during the three months ended March 31, 2016 was \$57,957 a decrease from the loss incurred during the comparative three months ended March 31, 2015 of 95,766. The decrease in net loss is attributable to the Company actively cutting costs to preserve capital.

### Liquidity & Capital Resources

The Company has financed its operations through the issuance of equity. At March 31, 2016, the Company had working capital deficit of \$20,855 (2015: \$243,328). For the three months ended March 31, 2016, the Company incurred losses of \$57,957 (2015 - \$95,767) and negative cash flows from operations of \$39,226 (2015 - \$95,381). Limited working capital and losses limit the Company's ability to fund future operations, exploration and development of oil and gas properties. The Company has impaired its two main projects due to unsuccessful and prolonged attempts to secure the necessary drilling permits for Alamo Creek and Excelaron.

As at March 31, 2016, the Company had no assets or operations that generate revenue, and has an accumulated deficit of \$11,279,931. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing in its pursuit of additional projects. Management will seek additional financing through the sale of equity or loans generated from private lenders to cover its operating expenditures when necessary. While there can be no certainty that these sources will provide additional funds required for the next twelve months, management is of the opinion that sufficient working capital may still be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a significant risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors, current market conditions, and inability to secure new assets to date, indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern or in its present form. After careful consideration, the Board has reasonable expectation that the Company can negotiate external financing to meet its working capital requirements through the end of the second quarter, 2016. However, in order to acquire new projects with the potential to produce oil and/or gas in commercial quantities equity financing will be required. The continuation of the Company as a going concern is dependent on raising the necessary financing and secure new projects, but the outcome of these efforts cannot be predicted at this time.



### *Revenues*

The Company has generated no current revenues.

### *Financing*

On December 7, 2015, the Company issued 220,690 common shares with a fair value of \$7,724 to settle debt of \$16,000 owed to a company controlled by the President of the Company, resulting in a gain on settlement of debt of \$8,276 which has been included in the statement of operations.

On March 10, 2016, the Company issued a promissory note for proceeds of \$12,000. The note bears interest of 12% per annum payable on demand.

The net proceeds from the private placement have been and will be used for: continuing expenses, identifying new projects, and the repayment of debt.

At March 31, 2016 the Company had a cash balance of \$10,157.

In order to continue its efforts to acquire and carry out additional operations on its 65% interest in Excelaron, or an interest in any other projects which management believes the Company should undertake, further funds will be required either through further equity financing and/or loans.

### *Impairment*

During the year ended December 31, 2014 the Company wrote down the full cost of its capitalized assets. As at March 31, 2016, the investment accounts were as follows:

	Alamo	Excelaron	Total
	\$	\$	\$
Balance, December 31, 2014			
Cash investments	5,674	3,571	9,245
Impairment	(2,990)	(495)	(3,485)
Equity loss for the year	(2,684)	(3,076)	(5,760)
Cash investments	(8,358)	(6,647)	(15,005)
Balance, December 31, 2015	-	-	-
Balance, March 31, 2016	-	-	-

### *Cash Flows from Operation Activities*

Cash outflows used for operating activities amounted to \$39,226 for the three years ended March 31, 2016 compared to \$95,381 for the three months ended March 31, 2016. The decrease in cash used in operations is attributable an increase in accounts payable.

### *Cash Flows from Financing Activities*

Cash inflows from financing activities consisted of a \$12,000 loan during the three months ended March 31, 2016 bearing an interest rate of 12% per annum payable on demand. There were no financial transactions in the corresponding period in 2015

### *Cash Flows on Investing Activities*

No investing activities were recorded in either three month period ending March 31, 2016 or 2015.



## **Legal Matters**

The Company may, from time to time, be involved in various claims, lawsuits or disputes with third parties, or breach of contract incidental to the operations of its business. The Company is not currently involved in any claims, disputes, litigation or other actions with third parties which it believes could have a material adverse effect on its financial condition or results of operations.

### **Disclosure of Outstanding Share Data (As at April 29, 2016)**

#### **Shares**

##### *Authorized:*

Unlimited number of common shares, no par value.

Unlimited number of preference shares, issuable in series. The preference shares are issuable in series and may be issued in one or more series, from time to time, by the directors of the Company. The directors of the Company are authorized to fix, among other things, the designation, preferences, rights and restrictions attaching to each series of preference shares, in addition to the entitlement of each series of preference shares to receive the assets of the Company available on a liquidation, dissolution or winding-up of the Company. The preference shares are entitled to preference over the common shares and any other shares ranking junior to the such preference shares with respect to, among other things, payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Company. Unless the rights attaching to the preference shares state otherwise, each preference share carries one vote at all meetings of shareholders, other than at meetings of the holders of the common shares meeting separately as a class.

##### *Outstanding*

32,650,957 common shares.

No preferred shares are outstanding.

On December 7, 2015, the Company issued 220,690 common shares with a fair value of \$7,724 to settle debt of \$16,000 owed to a company controlled by the President of the Company, resulting in a gain on settlement of debt of \$8,276 which has been included in the statement of operations.

On June 30, 2014, the Company effected a share consolidation on the basis of one new common share for ten old common shares. All share and per share numbers have been retroactively restated for all periods presented.

On September 2, 2014, the Company completed a private placement of 20,000,000 common shares at \$0.05 per share for gross proceeds of \$1,000,000. In connection with the private placement, the Company incurred share issuance costs of \$7,100.

On December 15, 2014, the Company issued 400,000 common shares with a fair value of \$24,000 to settle debt owed to the President of the Company.

#### **Stock options**

The Company may grant options to its directors, officers, employees and consultants to acquire up to 10% of the issued and outstanding common shares at the time of the grant.

##### *Outstanding*

The Company granted 35,000 stock options to a director on July 30, 2014 at an exercise price of \$1.00 and with an expiry date five years from the date of grant. The stock options will vest 1/3 on the date of grant and an additional 1/3 vesting each subsequent year until the options are fully vested on July 30, 2016. The Company also granted 110,000 stock options at September 1, 2014, to a consultant at an exercise price of \$0.07 for five years from the grant date. These options fully vested three months from the grant date.



Exercise price \$	Number of stock options	Outstanding		Exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of stock options	Weighted average exercise price \$
0.07	110,000	3.4	0.07	110,000	0.07
1.00	140,000	2.4	1.00	128,333	1.00
	250,000	2.8	0.59	238,333	0.57

The fair value of stock options granted was determined using the Black-Scholes option pricing model assuming no expected dividends and the following weighted average assumptions:

	2016	2015	2014
Risk-free rate	–	–	1.59%
Volatility	–	–	112%
Weighted average expected life (years)	–	–	4

The fair value of stock options vested during the three months ended March 31, 2016 was \$21 (2015 - \$2,629) which was recorded as stock-based compensation and charged to operations. The weighted average fair value of stock options vested during the year ended March 31, 2016 was \$0.05 (2014 – \$0.04) per option.

### **Related Party Transactions**

- During the three months ended March 31, 2016, the amount of \$22,500 (2015 – \$22,500) was incurred to a company controlled by the President of the Company for salaries and benefits.
- During the three months ended March 31, 2016, the amount of \$18,000 (2015 – \$18,000) was incurred to the Chief Financial Officer of the Company for salaries and benefits.
- During the three months ended March 31, 2016, the amount of \$21 (2015 - \$229) was recognized as stock-based compensation for the vesting of stock options granted to directors and officers of the Company.

### **Off Balance Sheet Arrangements and Proposed Transactions**

The Company does not have any off-balance sheet arrangements. The Company has no proposed transactions.

### **Financial Instruments and Other Instruments**

#### (a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position at March 31, 2016 as follows:

Fair Value Measurements Using				Balance, March 31, 2016 \$
Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$		
10,157	–	–		10,157



The fair values of other financial instruments, which include amounts receivable, and accounts payable and accrued liabilities, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and amounts receivable. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. Amounts receivable consists of GST refunds due from the Government of Canada. The carrying amount of financial assets represents the maximum credit exposure.

(c) Foreign Exchange Rate Risk

The Company operates in Canada and United States, but has the majority of its cash held in Canada in Canadian dollars. Future exploration programs may be denominated in US dollars. Foreign exchange risk arises from purchase transactions as well as financial assets and liabilities denominated in these foreign currencies.

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 the United States dollar.

(d) Interest Rate Risk

The Company's cash may contain highly liquid investments that earn interest at market rates. The Company manages its interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity necessary to fund daily operations. Fluctuations in market interest rates do not have a significant impact on the Company's results of operations due to the short term to maturity of the investments held.

(e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

(f) Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

### **Changes in Accounting Policies including Initial Adoption**

#### Accounting Standards Issued But Not Early Adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the three months ended March 31, 2016, and have not been applied in preparing these financial statements.

IFRS 9, *Financial Instruments* (New)

IFRS 11, *Joint Arrangements* (Amended)

IAS 28, *Investments in Associates and Joint Ventures* (Amended)

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the financial statements.

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



## **Risks and Uncertainties**

The Company is subject to various risks and uncertainties due to the nature of the business and its present stage of development.

### ***Liquidity***

The Company has financed its operations through the issuance of equity. At March 31, 2016, the Company had working capital deficit of \$20,855 (2015: \$243,328). For the three months ended March 31, 2016, the Company incurred losses of \$57,957 (2015 - \$95,767) and negative cash flows from operations of \$39,226 (2015 - \$95,381). Limited working capital and losses limit the Company's ability to fund future operations, exploration and development of oil and gas properties. The Company has impaired its two main projects due to unsuccessful and prolonged attempts to secure the necessary drilling permits for Alamo Creek and Excelaron.

As at March 31, 2016, the Company had no assets or operations that generate revenue, and has an accumulated deficit of \$11,279,931. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing in its pursuit of additional projects. Management will seek additional financing through the sale of equity or loans generated from private lenders to cover its operating expenditures when necessary. While there can be no certainty that these sources will provide additional funds required for the next twelve months, management is of the opinion that sufficient working capital may still be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a significant risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors, current market conditions, and inability to secure new assets to date, indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern or in its present form. After careful consideration, the Board has reasonable expectation that the Company can negotiate external financing to meet its working capital requirements through the end of the second quarter, 2016. However, in order to acquire new projects with the potential to produce oil and/or gas in commercial quantities equity financing will be required. The continuation of the Company as a going concern is dependent on raising the necessary financing and secure new projects, but the outcome of these efforts cannot be predicted at this time.

### ***Permits***

The operations of the Company require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits, including conditional use permits that may be required to carry out exploration and development of its projects.

### ***Exploration***

The Company is exposed to the inherent risks associated with oil and gas exploration and development, including the uncertainty of oil and gas resources and their development into recoverable reserves; the uncertainty as to potential project delays from circumstances beyond the Company's control; and the timing of production; as well as title risks, risks associated with joint venture agreements and the possible failure to obtain mining licenses.

### ***Commodity price***

The Company is exposed to commodity price risk with respect to oil and gas prices. A significant decline in oil and gas commodity prices may affect the Company's ability to obtain capital for the exploration and development of its interest in oil and gas properties.

### ***Share-based payments***

Share-based payments are measured using a Black-Scholes option pricing model. Measurement inputs include share price on grant date, exercise price, expected volatility (based on historical volatility of securities of comparable companies), weighted average expected life and forfeiture rate (both based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds).

### ***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

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities and consideration payable approximate fair value due to their short-term nature.

### ***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 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.

### ***Capital management***

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and equity comprised of issued share capital and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2015.

### **Other Information**

#### ***Additional Disclosure for Venture Corporations without Significant Revenue***

The following tables set out a breakdown of material components of the general and administration costs and capitalized exploration and evaluation of the Company:

#### *General and administrative costs*

	<b>Three months ended March 31</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Bank charges	441	562
Office	1,557	1,609
Insurance	3,938	3,750
	5,936	5,921

### **Critical Accounting Estimates**

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.

### **Judgments**

The key judgments made in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements are as follows:

#### *Identification of cash generating units*

Cash generating units ("CGUs") are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into cash generating units requires significant judgment and interpretations with respect to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

### **Estimates**

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

#### *Recoverability of Accounts Receivable*

The Company reviews the recoverability of accounts receivable on a regular basis and uses specific identification for any write down of accounts receivable that is considered to be uncollectable. As the Company's accounts receivable consists of only GST receivable from the Government of Canada, it considers the full balance of the accounts receivable to be collectable.

#### *Impairment of investment in joint ventures*

The Company assesses the carrying amount of its investment in joint ventures at each reporting date to determine whether there are any indicators that the carrying amount of the investment may be impaired. For the purposes of determining fair value of its investments in joint ventures, management assesses the recoverable amount of each CGU considering estimated recoverable production, commodity or contracted prices, foreign exchange rates, production levels, capital and cash costs. Changes in any of these assumptions or judgments could result in a significant difference between the carrying amount and fair value of these investments.

#### *Share-based compensation*

*The Company uses the Black-Scholes option pricing model in determining share-based compensation, which requires a number of assumptions to be made, including the risk-free interest rate, expected life, forfeiture rate, and expected share price volatility. Consequently, the actual share-based compensation expense may vary from the amount estimated.*

#### *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.