

# **United Hunter Oil & Gas Corp.**

## **Condensed Interim Financial Statements**

**June 30, 2013**

(expressed in US dollars)

(unaudited)

### **Management's Comments on Unaudited Interim Financial Statements**

These unaudited condensed interim financial statements of United Hunter Oil & Gas Corp. (the "Company") have been prepared by management and approved by the Board of Directors of the Company.

These unaudited condensed interim financial statements have not been reviewed by the Company's external auditors.

# United Hunter Oil & Gas Corp.

## Statements of Financial Position

(expressed in US dollars)  
(unaudited)

	Notes	As at June 30, 2013 \$	As at December 31, 2012 \$	As at January 1, 2012
<b>Assets</b>				
Current				
Cash		23,872	103,366	371,599
Accounts receivable		10,419	30,495	90,621
Prepaid expenses		38,057	43,845	145,015
		72,348	177,706	607,235
Investment in Excelaron	4	4,616,017	4,632,489	4,671,778
Investment in Alamo	5	33,454	38,651	56,860
Property, plant and equipment	6	-	230,972	717,879
		4,721,818	5,079,818	6,053,752
<b>Liabilities</b>				
Current				
Accounts payable and accrued liabilities		187,014	262,052	260,028
Due to joint venture partner		-	-	25,507
Loan payable	7	49,215	-	-
Consideration payable	8	800,000	800,000	800,000
		1,036,229	1,062,052	1,085,535
Decommissioning liabilities		-	53,919	52,749
		1,036,229	1,115,971	1,138,284
<b>Shareholders' equity</b>				
Share capital	9	7,923,357	7,923,357	7,519,574
Warrants		-	-	403,783
Contributed surplus		2,180,166	2,136,458	1,959,250
Deficit		(6,417,933)	(6,095,967)	(4,967,139)
		3,685,589	3,963,848	4,915,468
		4,721,819	5,079,818	6,053,752
Going-concern	2			

**Approved by the Board:**

Tim Turner  
Director

William Smith  
Director

# United Hunter Oil & Gas Corp.

## Statements of Loss and Comprehensive Loss

(expressed in US dollars)  
(unaudited)

	Notes	3 months ended June 30,		6 months ended June 30,	
		2013	2012	2013	2012
		\$	\$	\$	\$
<b>Revenues</b>					
Oil sales	12	15,027	207,247	94,377	434,174
Royalties		300	8,684	1,888	8,684
Net revenues		14,726	198,564	92,489	425,491
Foreign exchange gain		(7,059)	(2,712)	(3,292)	3,143
Interest income		-	(2)	-	328
		7,667	195,850	89,197	428,962
<b>Expenses</b>					
Operating and transportation		19,596	39,704	42,185	128,650
Depletion	6	6,613	161,567	44,400	308,108
Impairment losses		-	-	-	10,119
Professional fees		30,441	50,055	40,358	60,045
Salaries and benefits		37,023	119,665	84,901	260,813
Consulting fees		11,564	11,882	23,463	23,870
Share-based compensation		17,750	53,472	43,708	119,875
Premises		-	(4,066)	-	-
General and administrative		15,038	3,815	17,331	10,535
Public company costs		8,697	9,204	15,363	18,877
Investor relations		97	2,964	382	7,459
Travel		2,246	6,426	2,246	24,030
Equity loss on Excelaron		13,299	59,418	37,923	109,235
Equity loss on Alamo		4,698	77	5,197	166
Loss (gain) on reduction in joint venture interest		-	(22,639)	-	21,361
Loss on sale of property, plant and equipment		53,707	-	53,707	-
		220,768	491,544	411,164	1,103,142
<b>Net loss and comprehensive loss</b>		(213,100)	(295,694)	(321,966)	(674,181)
<b>Basic and diluted loss per share</b>		-	-	-	(0.01)
<b>Weighted average number of shares outstanding - basic and diluted</b>		120,302,722	120,302,722	120,302,722	120,302,722

# United Hunter Oil & Gas Corp.

## Statements of Changes in Equity

(expressed in US dollars)

(unaudited)

	Share capital \$	Warrants \$	Contributed surplus \$	Deficit \$	Total \$
<b>Balance, December 31, 2012</b>	7,923,357	-	2,136,458	(6,095,967)	3,963,848
Share-based compensation	-	-	43,708	-	43,708
Loss	-	-	-	(321,966)	(321,966)
<b>Balance, June 30, 2013</b>	<b>7,923,357</b>	<b>-</b>	<b>2,180,166</b>	<b>(6,417,933)</b>	<b>3,685,589</b>
<b>Balance, December 31, 2011</b>	7,519,574	403,783	1,594,094	(2,177,691)	7,339,760
Share-based compensation	-	-	119,875	-	119,875
Warrants expired	-	(403,783)	-	-	(403,783)
Loss	-	-	-	(674,181)	(674,181)
<b>Balance, June 30, 2012</b>	<b>7,519,574</b>	<b>-</b>	<b>1,713,969</b>	<b>(2,851,872)</b>	<b>6,381,671</b>

# United Hunter Oil & Gas Corp.

## Statements of Cash Flows

(expressed in US dollars)  
(unaudited)

	6 months ended June 30,	
	2013	2012
	\$	\$
<b>Cash flow from operating activities</b>		
Loss	(321,966)	(674,181)
Items not affecting cash		
Depletion	44,400	146,541
Share-based compensation	43,708	66,403
Equity loss on Excelaron	37,923	-
Equity loss on Alamo	5,197	-
Loss on sale of property, plant and equipment	53,707	-
Changes in non-cash working capital		
Accounts receivable	20,076	(21,022)
Due to joint venture partner	-	498
Prepaid expenses	5,788	17,525
Accounts payable and accrued liabilities	77,715	(18,332)
Decommissioning liabilities	-	1,020
	<u>(33,451)</u>	<u>(481,548)</u>
<b>Cash flow from financing activities</b>		
Loan payable	49,215	-
<b>Cash flow from investing activities</b>		
Investment in Excelaron	(21,450)	(40,260)
Property, plant and equipment	(73,808)	(8,024)
	<u>(95,258)</u>	<u>(48,284)</u>
<b>Net change in cash</b>	(79,494)	(529,832)
<b>Cash, beginning of period</b>	103,366	413,967
<b>Cash, end of period</b>	<u>23,872</u>	<u>(115,865)</u>
<b>Non-cash transaction</b>		
Accounts payable assumed and paid by purchaser of property, plant and equipment	145,422	-
<b>Supplementary information</b>		
Interest received	-	328
Interest paid	-	-
Income taxes paid	-	-

# United Hunter Oil & Gas Corp.

## Notes to Condensed Interim Financial Statements

### June 30, 2013

(expressed in US dollars)  
(unaudited)

#### 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 owns a 65% indirect joint venture interest in Excelaron, LLC ("Excelaron"), an exploration stage company based in San Luis Obispo, California; a 25% joint venture interest in Alamo Creek Oil LLC ("Alamo"), an exploration stage company based in San Luis Obispo, California; and interests in oil and gas properties in Alberta.

The Company was incorporated under the Business Corporations Act of Ontario on February 22, 2008 and its registered office is located at 181 Bay Street, Suite 1800, Toronto, ON M5J 2T9.

#### 2. Going concern

These condensed interim financial statements were prepared on a going concern basis, which assumes that the Company will 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.

The Company has financed its operations through the issue of equity. At June 30, 2013, the Company had a working capital deficit of \$963,882 (December 31, 2012 - \$494,959) and for the 6 months June 30, 2013, the Company incurred losses of \$321,967 (2012 - \$674,181) and negative cash flows from operations of \$33,451 (2012 - \$481,548). The working capital deficiency and losses limit the Company's ability to fund operations and the exploration and development of oil and gas properties. In addition, there is uncertainty whether the Company will secure conditional use permits for its planned exploration and development of the Huasna property and in the event the conditional use permits are secured, the Company is committed to make a payment of \$800,000. As a result, there is significant doubt about the Company's ability to continue as a going concern.

The continuation of the Company as a going concern is dependent on completing an equity financing and securing conditional use permits for its Huasna property. The Company will work to raise the necessary financing and secure the conditional use permits, but the outcome of these efforts cannot be predicted at this time.

These condensed interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate.

#### 3. Basis of presentation

##### Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards and its interpretations adopted by the International Accounting Standards Board.

The accounting policies used in these condensed interim financial statements are consistent with those disclosed in the Company's audited financial statements for the year ended December 31, 2012, except for changes in accounting policies resulting from the adoption of new accounting standards.

These condensed interim financial statements do not include certain information and disclosures normally included in annual financial statements prepared in accordance with IFRS and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2012.

These condensed interim financial statements were approved and authorized for issue by the Board of Directors on August 29, 2013.

##### Changes in accounting standards

On January 1, 2013, the Company adopted the following new standards, amendments to standards and interpretations which are effective for periods beginning on or after January 1, 2013:

- IFRS 10            *Consolidation*
- IFRS 11           *Joint Arrangements*
- IFRS 12           *Disclosure of Interests in Other Entities*
- IFRS 13           *Fair Value Measurement*
- IAS 27             *Separate Financial Statements*
- IAS 28             *Investments in Associates and Joint Ventures*

Other than the adoption of IFRS 11, the adoption of these accounting standards had no impact on these condensed interim financial statements.

## **IFRS 11**

### *Joint arrangements*

The Company adopted IFRS 11 effective January 1, 2013. This standard replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*.

A joint arrangement is a contractual arrangement that gives two or more parties joint control over the arrangement. Joint arrangements are classified as joint ventures or joint operations.

### *Joint ventures*

A joint venture is a joint arrangement where the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is considered to exist when all parties to the joint venture are required to reach unanimous consent over decisions about relevant business activities pertaining to the contractual arrangement. Interests in joint ventures are recognized as an investment and accounted for using the equity method of accounting.

### *Joint Operations*

A joint operation is a joint arrangement where the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, of the arrangement. Interests in joint operations are accounted for by recognizing the party's share of assets, liabilities, revenues, and expenses incurred jointly.

### *Effect of the standard*

The Company has classified its investments in Excelaron LLC and Alamo Creek Oil LLC as joint ventures which are accounted for using the equity method. See note 15.

## **New standards and interpretations not yet adopted**

The following amendment to standards and interpretations is effective for periods beginning on or after January 1, 2015:

### *IFRS 9, Financial Instruments ("IFRS 9")*

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments - Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 is expected to have an effect on the financial statements of the Company. The Company has not determined the extent of the impact of these standards and does not plan to early adopt these new standards.

## **4. Investment in Excelaron LLC**

The Company holds an indirect 65% joint venture interest in Excelaron, which holds a 100% interest in an oil and natural gas property consisting of 260 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 is subject to a 5% assignable gross overriding royalty payable on all amounts received directly or indirectly by the Company that can be attributed to the Company's 65% joint venture interest in Excelaron.

The planned exploration and development of Huasna requires Excelaron to secure necessary permits from regulatory authorities. On August 21, 2012, the Board of Supervisors of San Luis Obispo County ("County") denied Excelaron's application for conditional use permits. On November 19, 2012, Excelaron filed a petition for writ of mandate, complaint inverse condemnation and damages action ("Petition") in the Superior Court of the State of California, County of San Luis Obispo ("Superior Court") against the County seeking a writ commanding the County to set aside its decision denying Huasna and either approving or remanding Huasna to the Board of Supervisors for further consideration consistent with the Court's opinion on the merits or to recover just compensation for the value of Huasna, as well as reasonable attorney's fees, expenses, and costs of the suit.

On March 18, 2013, the Superior Court ruled to dismiss the Petition. On April 8, 2013, the Company filed an Appeal of the Judgment of Dismissal after an order sustaining a demurrer by the Superior Court of California, County of San Luis Obispo.

	\$
Balance, January 1, 2012	4,761,778
Investments	40,260
Equity loss	(192,791)
<hr/> Balance, December 31, 2012	<hr/> 4,632,489
Investment	21,450
Equity loss	(37,923)
<hr/> Balance, June 30, 2013	<hr/> 4,616,017

### Summarized financial information

#### Statements of financial position

	June 30, 2013 \$	December 31, 2012 \$	January 1, 2012 \$
<b>Assets</b>			
Current			
Cash	26,419	47,437	32,125
Accounts receivable	1,410	1,210	1,210
	<hr/> 27,829	<hr/> 48,647	<hr/> 33,335
Exploration and evaluation	1,760,121	1,759,303	1,759,303
Property, plant and equipment	–	–	819
	<hr/> 1,787,950	<hr/> 1,808,769	<hr/> 1,793,457
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities	104,446	88,352	131,438
<b>Members' equity</b>			
Share capital	4,157,505	4,136,076	3,780,992
Deficit	(2,747,002)	(2,415,659)	(1,377,333)
	<hr/> 1,683,504	<hr/> 1,720,417	<hr/> 1,080,312
	<hr/> 1,787,950	<hr/> 1,808,769	<hr/> 1,793,457

#### Statements of loss and comprehensive loss

	6 months ended June 30, 2013 \$	2012 \$
<b>Expenses</b>		
Professional fees	48,440	43,207
General and administrative	3,514	3,870
Investor relations	–	30,137
Permitting	6,388	90,840
	<hr/> 58,342	<hr/> 168,054
<b>Net loss and comprehensive loss</b>	<hr/> (58,342)	<hr/> (168,054)



## 5. Investment in Alamo Creek Oil LLC

The Company owns a 25% joint venture interest in Alamo Creek Oil LLC ("Alamo") which has leased 4,068 acres ("Porter Ranch") adjacent to the Santa Maria Basin, which is south east of the Company's Huasna property. Effective June 30, 2012, the Company declined to pay its share of a cash call and its joint venture interest in Alamo was reduced from 45% to 25%.

	\$
Balance, January 1, 2012	49,767
Equity loss	(11,616)
Balance, December 31, 2012	38,651
Equity loss	(5,197)
Balance, June 30, 2013	33,454

## Summarized financial information

### Statements of financial position

	June 30, 2013 \$	December 31, 2012 \$	January 1, 2012 \$
<b>Assets</b>			
Current			
Cash	20,538	32,487	47,747
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities	29,998	21,157	3,463
<b>Members' equity</b>			
Share capital	267,316	267,316	159,600
Deficit	(276,776)	(255,987)	(115,315)
	(9,460)	11,329	44,285
	20,538	32,487	47,747

### Statements of loss and comprehensive loss

	6 months ended June 30,	
	2013 \$	2012 \$
<b>Expenses</b>		
Professional fees	10,118	626
General and administrative	1,832	38
Leases	8,840	94,206
	20,790	94,870
<b>Net loss and comprehensive loss</b>	(20,790)	(94,870)

## 6. Property, plant and equipment

### Cost

	\$
Balance, January 1, 2012	1,663,851
Additions	66,844
Balance, December 31, 2012	1,730,695
Additions	73,808
Disposition	(1,804,503)
Balance, June 30, 2013	—

## Accumulated depletion and impairment losses

	\$
Balance, January 1, 2012	945,973
Depletion	528,943
Impairment losses	24,807
Balance, December 31, 2012	1,499,723
Depletion	44,400
Disposition	(1,544,123)
Balance, June 30, 2013	—

## Carrying amount

	\$
January 1, 2012	717,879
December 31, 2012	230,972
June 30, 2013	—

On April 26, 2013, the Company disposed of its interest in Atlee to a company controlled by a former director of the Company for C\$150,010, which was settled by the purchaser's assumption and payment of C\$150,010 of outstanding accounts payable of the Company.

## 7. Loan payable

The loan payable is unsecured, bears interest at the rate of 10% per annum and is due on the earlier of demand and June 14, 2014. See note 14 for subsequent event.

## 8. Consideration payable

Pursuant to its acquisition of Excelaron, the Company is committed to pay US\$800,000 when Excelaron secures its permits for its planned operations on its oil and gas properties. In the event that Excelaron does not secure such permits or the Company does not pay the US\$800,000, the Company's 65% Membership Interest in Excelaron will be reduced to a 40% Membership Interest.

## 9. Share capital

### Authorized

An unlimited number of common shares

Unlimited number of preference shares, issuable in series.

### Outstanding

	Number of shares	Amount \$
Balance, January 1, 2012, December 31, 2012 and June 30, 2013	120,302,722	7,923,357

### Stock options

Under its stock option plan, the Company may grant options to its employees to acquire up to 10% of the issued and outstanding common shares at the time of the grant. As at June 30, 2013, there were 12,030,272 common shares available for issuance under the stock option plan.

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

	Number of options	Weighted- average exercise price C\$
Balance, December 31, 2012	8,975,000	0.15
Granted	350,000	0.10
Cancelled	(900,000)	0.15
Balance, June 30, 2013	8,425,000	0.15

A summary of the Company's outstanding stock options at June 30, 2013 is presented below:

Exercise price	Expiry date	Options outstanding	Options exercisable
C\$0.15	May 12, 2015	5,250,000	5,250,000
C\$0.15	July 20, 2015	1,000,000	1,000,000
C\$0.15	August 31, 2015	75,000	50,000
C\$0.15	January 18, 2016	650,000	650,000
C\$0.15	May 5, 2016	400,000	400,000
C\$0.15	September 19, 2016	350,000	233,333
C\$0.10	September 4, 2017	350,000	116,667
C\$0.10	May 30, 2018	350,000	116,667
		8,425,000	7,816,667

The weighted average remaining contractual life of outstanding stock options is 2.27 years.

A summary of the stock options granted and the assumptions for the calculation of the fair value of those stock options using the Black-Scholes option pricing model is presented below.

	May 30, 2013
Options granted	350,000
Exercise price	C\$0.100
Share price	C\$0.005
Expiry date	May 30, 2018
Fair value	\$500
Risk-free interest rate	1.48%
Expected volatility	100%
Expected life of options	5 years
Expected dividend yield	Nil
Forfeiture rate	Nil
Vesting	1/3 on date of grant and 1/3 each in 2 annual instalments

Expected volatility was based on historical volatility of securities of comparable companies. The weighted-average grant date fair value of stock options granted during period was \$0.001 per stock option.

#### 10. 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.

##### *Cash, accounts receivable, accounts payable and accrued liabilities and consideration payable*

The fair values of cash, accounts receivable, accounts payable and accrued liabilities and consideration payable are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At June 30, 2013, December 31, 2012 and January 1, 2012, the fair value of these balances approximated their carrying value due to their short term to maturity.

##### *Property, plant and equipment*

The Company estimated the VIU to determine the recoverable amounts of the Company's CGUs for impairment testing based on consideration of the following:

- net present value of proved plus probable reserves using a pre-tax discount rate of 10% as determined by independent qualified reserves evaluators;
- management's estimate of the fair value of undeveloped land; and
- a review of the values indicated by the metrics of recent market transactions of similar assets within the oil and gas industry.

The market value of other items of property, plant and equipment is based on the quoted market prices for similar items.

### *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 behaviour), 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, loan payable and consideration payable approximate fair value due to their short-term nature.

## **11. 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.

### ***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 principally from the Company's cash balances and receivables. The maximum exposure to credit risk is equal to the balances of cash and receivables.

The Company's limits its exposure to credit risk on its cash by holding its cash balances in deposits with a high credit quality Canadian chartered bank.

### ***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 and consideration payable are due in less than one year.

### ***Market risk***

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

### ***Currency risk***

Currency risk arises from the Company's financial instruments and purchases that are denominated in a currency other than the US dollar, the Company's functional currency. As at June 30, 2013, the Company had the following monetary assets and liabilities denominated in Canadian dollars:

	<b>C\$</b>
<b>Assets</b>	
Cash	24,253
Accounts receivable	10,585
	34,838
<b>Liabilities</b>	
Accounts payable and accrued liabilities	189,945
Loan payable	50,000
	(205,106)

As at June 30, 2013, a 5% change in the exchange rate between the US dollar and Canadian dollar would have resulted in an impact on operations of \$10,255.

*Interest rate risk*

The Company's exposure to interest rate risk is limited due to the short-term nature of its financial instruments.

**Capital management**

Capital of the Company consists of share capital, warrants, 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 oil and gas 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. 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.

**12. Revenues**

For the 6 months ended June 30, 2013, revenues of \$97,377 (2012 - \$434,174) were derived from one external customer.

**13. Related party transactions**

	<b>6 months ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
<b>Royalties</b>		
Payable to 2 directors	1,888	8,684
<b>Legal fees</b>		
Payable to a firm, of which, a former director is a partner	20,671	40,154
<b>Salaries</b>		
Paid to a person related to a director for administration services	–	20,886

These transactions were in the normal course of business.

**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:

	<b>6 months ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Salaries	75,302	221,093
Share-based payments, representing amortization of share-based compensation	33,140	85,226
	<u>108,442</u>	<u>306,319</u>

#### **14. Subsequent event**

The Company received proceeds of a loan payable for \$25,000. The loan payable is unsecured, bears interest at the rate of 10% per annum and is due on the earlier of demand and July 12, 2014.

#### **15. Transition to IFRS 11**

Effective January 1, 2013, the Company adopted IFRS11 *Joint Arrangements* ("IFRS11") which replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. The most significant result from the adoption is the change in the method of accounting for the Company's investments in Excelaron and Alamo. Under the previous standards, Excelaron and Alamo were proportionately consolidated whereas under IFRS11 the Company is required to account for the investment using the equity method of accounting. In accordance with the transition requirements, the initial equity investment is measured as the aggregate of the carrying amount of the assets and liabilities that the Company had previously proportionately consolidated as at the beginning of the immediately preceding period, January 1, 2012.

Reconciliation of the Company's statements of financial position, statements of comprehensive income, and statements of cash flow have been provided to reflect the new standards and amendments. The following reconciliations have been provided:

- (i) Reconciliation of statements of financial position as at December 31, 2012 and January 1, 2012.
- (ii) Reconciliation of statements of loss and comprehensive loss for the 6 months and 3 months ended June 30, 2012 and the year ended December 31, 2012.

Reconciliation of Statement of Financial Position at December 31, 2012

	Reported \$	Effect of transition to IFRS 11 \$	Adjusted \$
<b>Assets</b>			
Current			
Cash	142,322	(38,956)	103,366
Accounts receivable	31,281	(786)	30,495
Prepaid expenses	43,846	–	43,846
	217,449	(39,742)	177,706
Investment in Excelaron	–	4,632,489	4,632,489
Investment in Alamo	–	38,651	38,651
Exploration and evaluation	4,727,088	(4,727,088)	–
Property, plant and equipment	230,972	–	230,972
	5,175,509	(95,690)	5,079,818
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities	324,770	(62,718)	262,052
Consideration payable	800,000	–	800,000
	1,124,770	(62,718)	1,062,052
Decommissioning liabilities	53,919	–	53,919
	1,178,689	(62,718)	1,115,970
<b>Shareholders' equity</b>			
Share capital	7,923,357	–	7,923,357
Contributed surplus	2,136,458	–	2,136,458
Deficit	(6,062,995)	(32,972)	(6,095,967)
	3,996,820	(32,972)	3,963,848
	5,175,509	(29,746)	5,079,818

Reconciliation of Statement of Financial Position at January 1, 2012

	Reported \$	Effect of transition to IFRS 11 \$	Adjusted \$
<b>Assets</b>			
Current			
Cash	413,967	(42,367)	371,599
Accounts receivable	118,587	(27,966)	90,621
Prepaid expenses	145,015	–	145,015
	677,569	(70,334)	607,235
Investment in Excelaron LLC	–	4,671,778	4,671,778
Investment in Alamo Creek Oil LLC	–	56,860	56,860
Exploration and evaluation	4,745,297	(4,745,297)	–
Property, plant and equipment	717,879	–	717,879
	6,140,745	(86,993)	6,053,752
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities	347,021	(86,993)	260,028
Due to joint venture partner	25,507	–	25,507
Consideration payable	800,000	–	800,000
	1,172,528	(86,993)	1,085,535
Decommissioning liabilities	52,749	–	52,749
	1,225,277	(86,993)	1,138,284
<b>Shareholders' equity</b>			
Share capital	7,519,574	–	7,519,574
Warrants	403,783	–	403,783
Contributed surplus	1,959,250	–	1,959,250
Deficit	(4,967,139)	–	(4,967,139)
	4,915,468	–	4,915,468
	6,140,745	(86,993)	6,053,752



**Reconciliation of Statement of Loss and Comprehensive Loss for the year ended December 31, 2012**

	Reported \$	Effect of transition to IFRS 11 \$	Adjusted \$
<b>Revenues</b>			
Oil sales	729,463	–	729,463
Royalties	14,590	–	14,590
Net revenues	714,874	–	714,874
Foreign exchange gain	5,058	–	5,058
Interest income	348	(17)	331
	720,280	(17)	720,263
<b>Expenses</b>			
Operating and transportation	198,554	–	198,554
Depletion	528,943	–	528,943
Impairment losses	24,807	–	24,807
Professional fees	169,420	(64,455)	104,964
Salaries	387,154	–	387,154
Consulting fees	61,049	–	61,049
Stock-based compensation	177,208	–	177,208
Premises	2,550	(2,340)	210
General and administrative	82,084	(9,990)	72,093
Public company costs	33,693	–	33,693
Investor relations	29,698	(22,192)	7,506
Travel	38,241	–	38,241
Permitting	105,445	(105,447)	–
Gain on reduction in joint venture interest	(32,972)	32,972	–
Other loss	10,206	–	10,206
Equity loss in Excelaron	–	192,791	192,791
Equity loss in Alamo	–	11,616	11,616
	1,816,136	32,955	1,849,035
<b>Net loss and comprehensive loss</b>	<b>(1,095,856)</b>	<b>32,972</b>	<b>(1,128,775)</b>

**Reconciliation of Statement of Loss and Comprehensive Loss for the 6 months ended June 30, 2012**

	Reported \$	Effect of transition to IFRS 11 \$	Adjusted \$
<b>Revenues</b>			
Oil sales	434,174	–	434,174
Royalties	8,684	–	8,684
Net revenues	425,491	–	425,491
Foreign exchange gain	3,143	–	3,143
Interest income	345	(17)	328
	428,979	(17)	428,962
<b>Expenses</b>			
Operating and transportation	128,650	–	128,650
Depletion	308,108	–	308,108
Impairment losses	10,119	–	10,119
Professional fees	88,130	(28,085)	60,045
Salaries	260,813	–	260,813
Consulting fees	23,870	–	23,870
Stock-based compensation	119,875	–	119,875
Premises	1,170	(1,170)	–
General and administrative	12,063	(1,528)	10,535
Public company costs	18,877	–	18,877
Investor relations	27,049	(19,590)	7,459
Travel	24,030	–	24,030
Permitting	59,046	(59,046)	–
Loss on reduction in joint venture interest	21,361	–	21,361
Equity loss in Excelaron	–	109,235	109,235
Equity loss in Alamo	–	166	166
	1,103,160	(17)	1,103,143
<b>Net loss and comprehensive loss</b>	<b>(674,181)</b>	<b>–</b>	<b>(674,181)</b>

**Reconciliation of Statement of Loss and Comprehensive Loss for the 3 months ended June 30, 2012**

	Reported \$	Effect of transition to IFRS 11 \$	Adjusted \$
<b>Revenues</b>			
Oil sales	207,247	–	207,247
Royalties	8,684	–	8,684
Net revenues	198,564	–	198,564
Foreign exchange gain	(2,785)	72	(2,712)
Interest income	3	(5)	(2)
	195,782	67	195,850
<b>Expenses</b>			
Operating and transportation	39,704	–	39,704
Depletion	161,567	–	161,567
Professional fees	69,377	(19,322)	50,055
Salaries	119,665	–	119,665
Consulting fees	11,882	–	11,882
Stock-based compensation	53,472	–	53,472
Premises	(4,066)	–	(4,066)
General and administrative	4,963	(1,148)	3,815
Public company costs	9,204	–	9,204
Investor relations	15,102	(12,138)	2,964
Travel	6,426	–	6,426
Permitting	26,820	(26,820)	–
Gain on reduction in joint venture interest	(22,639)	–	(22,639)
Equity loss in Excelaron	–	59,418	59,418
Equity loss in Alamo	–	77	77
	491,477	67	491,545
<b>Net loss and comprehensive loss</b>	<b>(295,695)</b>	<b>–</b>	<b>(295,695)</b>