

United Hunter Oil & Gas Corp.

Condensed Interim Consolidated Financial Statements

September 30, 2012

(expressed in US dollars)

(unaudited)

Management's Comments on Unaudited Interim Consolidated Financial Statements

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

United Hunter Oil & Gas Corp.

Consolidated Statements of Financial Position

(expressed in US dollars)
(unaudited)

	Notes	As at September 30, 2012 \$	As at December 31, 2011 \$
Assets			
Current			
Cash and cash equivalents		73,652	413,967
Accounts receivable		64,677	118,587
Prepaid expenses		171,044	145,015
		309,373	677,569
Exploration and evaluation	2 and 4	4,760,886	4,745,297
Property, plant and equipment	5	291,787	717,879
		5,362,046	6,140,745
Liabilities			
Current			
Accounts payable and accrued liabilities		296,605	347,021
Due to joint venture partner		-	25,507
Consideration payable	6	800,000	800,000
		1,096,605	1,172,528
Decommissioning liabilities		54,562	52,749
		1,151,168	1,225,277
Shareholders' equity			
Share capital	7	7,923,357	7,519,574
Warrants	7	-	403,783
Contributed surplus		2,108,194	1,959,250
Deficit		(5,820,673)	(4,967,139)
		4,210,878	4,915,468
		5,362,046	6,140,745
Going-concern	2		

Approved by the Board:

Arthur Halleran
Director

Daniel Bloch
Director

United Hunter Oil & Gas Corp.

Consolidated Statements of Loss and Comprehensive Loss

(expressed in US dollars)

(unaudited)

	Notes	3 months ended September 30,		9 months ended September 30,	
		2012 \$	2011 \$	2012 \$	2011 \$
Revenues					
Oil sales		165,987	159,253	600,161	269,585
Royalties		3,319	-	12,003	-
Net revenues		162,667	159,253	588,158	269,585
Gain on revaluation of warrant liability		-	291,349	-	397,827
Foreign exchange loss		2,680	(72,118)	5,823	6,318
Interest income		10	2,508	356	15,014
		165,358	380,992	594,337	688,744
Expenses					
Operating and transportation		35,655	110,123	164,305	297,552
Depletion		125,989	94,183	434,098	151,519
Impairment losses		-	-	10,119	-
Professional fees		28,470	11,782	116,600	95,907
Management fees		-	-	-	48,750
Salaries		64,127	129,183	324,940	414,812
Consulting fees		12,064	20,430	35,934	181,594
Share-based compensation		29,069	102,317	148,944	362,172
Premises		1,170	13,687	2,340	45,572
General and administrative		10,305	17,595	22,368	43,673
Public company costs		1,173	1,341	20,050	18,665
Investor relations		1,166	40,864	28,215	151,224
Travel		14,878	17,232	38,908	49,246
Permitting		43,470	43,227	102,516	71,397
Loss (gain) on reduction in interest in joint	4	(22,825)	-	(1,464)	-
		344,711	601,964	1,447,871	1,932,083
Loss and comprehensive loss before income taxes		(179,353)	(220,971)	(853,535)	(1,243,338)
Deferred income tax reduction		-	23,812	-	85,124
Net loss and comprehensive loss		(179,353)	(197,159)	(853,535)	(1,158,214)
Basic and diluted loss per share		-	-	(0.01)	(0.01)
Weighted average number of shares outstanding - basic and diluted		120,302,722	120,302,722	120,302,722	120,302,722

United Hunter Oil & Gas Corp.

Consolidated Statements of Changes in Equity

(expressed in US dollars)

(unaudited)

	Share capital \$	Warrants \$	Contributed surplus \$	Deficit \$	Total \$
Balance, December 31, 2011	7,519,574	403,783	1,959,250	(4,967,139)	4,915,468
Share-based compensation	-	-	148,944	-	148,944
Warrants expired	403,783	(403,783)	-	-	-
Loss	-	-	-	(853,535)	(853,535)
Balance, September 30, 2012	7,923,357	-	2,108,194	(5,820,673)	4,210,878
Balance, December 31, 2010	7,519,574	-	1,593,489	(1,671,226)	7,441,837
Share-based compensation	-	-	362,172	-	362,172
Loss	-	-	-	(1,158,214)	(1,158,214)
Balance, September 30, 2011	7,519,574	-	1,955,661	(2,829,440)	6,645,794

United Hunter Oil & Gas Corp.

Consolidated Statements of Cash Flows

(expressed in US dollars)
(unaudited)

	9 months ended September 30,	
	2012	2011
	\$	\$
Cash flow from operating activities		
Loss	(853,535)	(1,158,214)
Items not affecting cash		
Depletion	434,098	151,519
Share-based compensation	148,944	362,172
Gain on reduction in interest in joint venture	(1,464)	-
Gain on revaluation of warrant liability	-	(397,827)
Deferred income tax reduction	-	(85,124)
Changes in non-cash working capital		
Accounts receivable	53,910	(65,366)
Due to joint venture partner	(25,507)	95,137
Prepaid expenses	(26,029)	(85,461)
Accounts payable and accrued liabilities	(48,585)	(669,935)
	<u>(318,167)</u>	<u>(1,853,100)</u>
Cash flow from investing activities		
Exploration and evaluation expenditures	(14,125)	(1,380,661)
Property, plant and equipment	(8,024)	-
	<u>(22,148)</u>	<u>(1,380,661)</u>
Net change in cash and cash equivalents	(340,316)	(3,233,761)
Cash and cash equivalents, beginning of period	413,967	3,641,755
Cash and cash equivalents, end of period	<u>73,651</u>	<u>407,994</u>
Cash and cash equivalents consist of the following:		
Cash	73,652	(127,873)
Short-term investments	-	535,867
	<u>73,652</u>	<u>407,994</u>
Supplementary information		
Interest paid	-	-
Income taxes paid	-	-

United Hunter Oil & Gas Corp.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2012

(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 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 September 30, 2012, the Company had a working capital deficit of \$787,232 (December 31, 2011 - \$494,959) and for the 9 months ended September 30, 2012, the Company incurred losses of \$853,535 (2011 - \$1,158,214) and negative cash flows from operations of \$318,167 (2011 - \$1,853,100). 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 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 interim financial statements are prepared in accordance with IAS 34, *Interim Financial Reporting*, using accounting policies consistent with IFRS.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of September 30, 2012. Any subsequent changes to IFRS that are reflected in the annual financial statements for the year ending December 31, 2012 could result in the restatement of these interim financial statements.

These 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, 2011.

The interim financial statements were approved and authorized for issue by the Board of Directors on November 27, 2012.

New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations are effective for periods beginning on or after January 1, 2013:

IFRS 10, Consolidation ("IFRS 10")

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11, Joint Arrangements ("IFRS 11")

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13, Fair Value Measurement ("IFRS 13")

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement.

Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to other standards

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10-13.

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.

Effect of new standards

IFRS 9, IFRS 10, IFRS 11 and IFRS 12 are expected to have an effect on the consolidated 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. Exploration and evaluation

	Huasna \$	Porter Ranch \$	Total \$
Balance, December 31, 2011	4,688,437	56,860	4,745,297
Additions	–	36,950	36,950
Loss due to reduction in joint venture interest	–	(21,361)	(21,361)
Balance, September 30, 2012	4,688,437	72,449	4,760,886

Exploration and evaluation consists of the Company's exploration projects which are pending the determination of proved or probable reserves. Additions represent the Company's share of costs incurred on exploration and evaluation during the period.

Huasna

See note 11 for subsequent event.

Porter Ranch

Effective March 31, 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% and the Company recorded a gain of \$1,464 on the reduction of its interest in Porter Ranch.

5. Property, plant and equipment

Cost

Balance, December 31, 2011	\$ 1,663,851
Additions	8,024
Balance, September 30, 2012	1,671,875

Accumulated depletion and impairment losses

Balance, December 31, 2011	\$ 945,990
Depletion	434,098
Balance, September 30, 2012	1,380,088

Carrying amount

Balance, September 30, 2012	\$ 291,787
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6. 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.

7. Share capital

Authorized

An unlimited number of common shares
Unlimited number of preference shares, issuable in series.

Outstanding

	Number of shares	Amount \$
Balance, December 31, 2011	120,302,722	7,519,574
Fair value of warrants expired	–	403,783
Balance, September 30, 2012	120,302,722	7,923,357

See note 11 for subsequent event.

Warrants

A summary of the Company's warrants is presented below:

	Number of warrants	Weighted- average exercise price C\$	Amount \$
Balance, December 31, 2011	33,525,000	0.38	403,783
Expired	33,525,000	0.38	(403,783)
Balance, September 30, 2012	—	—	—

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 September 30, 2012, 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 outstanding	Weighted- average exercise price C\$
Balance, December 31, 2011	10,375,000	0.15
Expired	(1,000,000)	0.15
Balance, September 30, 2012	9,375,000	0.15
Options exercisable	6,583,333	0.15

A summary of the Company's outstanding stock options at September 30, 2012 is presented below:

Exercise price	Expiry date	Number of options outstanding	Number of options exercisable
C\$0.15	May 12, 2015	6,350,000	4,233,334
C\$0.15	July 20, 2015	1,000,000	1,000,000
C\$0.15	August 31, 2015	425,000	283,333
C\$0.15	January 18, 2016	650,000	433,333
C\$0.15	May 5, 2016	600,000	400,000
C\$0.15	September 19, 2016	350,000	233,333
		9,375,000	6,583,333

The weighted average remaining contractual life of outstanding stock options is 2.81 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.

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and consideration payable

The fair values of cash and cash equivalents, 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 September 30, 2012, the fair value of these balances approximated their carrying value due to their short term to maturity.

Exploration and evaluation and 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 exploration and evaluation and 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 and cash equivalents, accounts payable and accrued liabilities and consideration payable approximate fair value due to their short-term nature.

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

The Company's limits its exposure to credit risk on its cash and cash equivalents 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.

Equity price risk

Equity risk arises from the effect of changes in the market value of the Company's common shares on the determination of fair value of the warrant liability as calculated using the Black-Scholes option pricing model.

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 September 30, 2012, the Company had the following monetary assets and liabilities denominated in Canadian dollars:

	C\$
Assets	
Cash and cash equivalents	54,748
Accounts receivable	69,596
	<hr/> 124,344
Liabilities	
Accounts payable and accrued liabilities	169,918
	<hr/> (45,574)

As at September 30, 2012, a 5% change in the exchange rate between the US dollar and Canadian dollar would have resulted in an impact on operations of \$2,279.

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.

10. Related party transactions

	9 months ended September 30,	
	2012	2011
	\$	\$
Legal fees		
Payable to a firm, of which, a director is a partner	40,154	–
Rent		
Paid to a company controlled by a director for office premises	–	12,648
Paid to a company controlled by an officer for office premises	–	7,050
Salaries		
Paid to a person related to a director for administration services	20,886	2,535
Office		
Paid to a company controlled by an officer for office services	–	2,525

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:

	9 months ended September 30,	
	2012	2011
	\$	\$
Salaries	306,038	358,964
Share-based payments, representing amortization of share-based compensation	104,825	236,567
	410,863	595,531

11. Subsequent events

Huasna

On November 19, 2011, Excelaron filed a petition for writ of mandate, complaint inverse condemnation and damages action 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 suit.

Consolidation of outstanding shares

Subject to receiving shareholder approval, the Company has proposed the consolidation of the issued common shares on the basis of 1 new share for 4 old common shares.