

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

## **Condensed Interim Financial Statements**

**September 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)

|  |       | As at<br>September 30,<br>2013<br>\$ | As at<br>December 31,<br>2012<br>\$ | As at<br>January 1,<br>2012 |
|--|-------|--------------------------------------|-------------------------------------|-----------------------------|
|  | Notes |                                      |                                     |                             |
| <b>Assets</b>                            |       |                                      |                                     |                             |
| Current                                  |       |                                      |                                     |                             |
| Cash                                     |       | 70,395                               | 103,366                             | 371,599                     |
| Receivables                              |       | 8,206                                | 30,495                              | 90,621                      |
| Prepaid expenses                         |       | 21,561                               | 43,845                              | 145,015                     |
|  |       | 100,162                              | 177,706                             | 607,235                     |
| Investment in Excelaron                  | 4     | 4,621,418                            | 4,632,489                           | 4,671,778                   |
| Investment in Alamo                      | 5     | 32,165                               | 38,651                              | 56,860                      |
| Property, plant and equipment            | 6     | -                                    | 230,972                             | 717,879                     |
|  |       | 4,753,745                            | 5,079,818                           | 6,053,752                   |
| <b>Liabilities</b>                       |       |                                      |                                     |                             |
| Current                                  |       |                                      |                                     |                             |
| Accounts payable and accrued liabilities |       | 124,704                              | 262,052                             | 260,028                     |
| Due to joint venture partner             |       | -                                    | -                                   | 25,507                      |
| Loan payable                             | 7     | 173,004                              | -                                   | -                           |
| Consideration payable                    | 8     | 800,000                              | 800,000                             | 800,000                     |
|  |       | 1,097,708                            | 1,062,052                           | 1,085,535                   |
| Decommissioning liabilities              |       | -                                    | 53,919                              | 52,749                      |
|  |       | 1,097,708                            | 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                      |       | 2,182,148                            | 2,136,458                           | 1,959,250                   |
| Deficit                                  |       | (6,449,468)                          | (6,095,967)                         | (4,967,139)                 |
|  |       | 3,656,037                            | 3,963,848                           | 4,915,468                   |
|  |       | 4,753,745                            | 5,079,818                           | 6,053,752                   |
| Going-concern                            | 2     |                                      |                                     |                             |
| Subsequent event                         | 14    |                                      |                                     |                             |

**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<br>September 30, |             | 9 months ended<br>September 30, |             |
|--|-------|---------------------------------|-------------|---------------------------------|-------------|
|  |       | 2013<br>\$                      | 2012<br>\$  | 2013<br>\$                      | 2012<br>\$  |
| <b>Revenues</b>  |       |                                 |             |                                 |             |
| Oil sales  | 12    | -                               | 165,987     | 94,377                          | 600,161     |
| Royalties  |       | -                               | 3,319       | 1,888                           | 12,003      |
| Net revenues   |       | -                               | 162,668     | 92,489                          | 588,158     |
| Foreign exchange gain  |       | 1,090                           | 3,022       | (2,202)                         | 6,165       |
| Interest income  |       | -                               | 2           | -                               | 330         |
|  |       | 1,090                           | 165,692     | 90,287                          | 594,653     |
| <b>Expenses</b>  |       |                                 |             |                                 |             |
| Operating and transportation   |       | -                               | 35,655      | 42,185                          | 164,305     |
| Depletion  | 6     | -                               | 125,989     | 44,400                          | 434,098     |
| Impairment losses  |       | -                               | -           | -                               | 10,119      |
| Professional fees  |       | 12,502                          | 10,200      | 52,860                          | 70,245      |
| Salaries and benefits  |       | 15,119                          | 64,127      | 100,020                         | 324,940     |
| Consulting fees  |       | 11,558                          | 12,064      | 35,021                          | 35,934      |
| Share-based compensation   |       | 1,982                           | 29,069      | 45,690                          | 148,944     |
| Premises   |       | -                               | -           | -                               | -           |
| General and administrative   |       | 8,159                           | 2,066       | 25,490                          | 12,601      |
| Public company costs   |       | 631                             | 1,173       | 15,994                          | 20,050      |
| Investor relations   |       | (3)                             | 27          | 379                             | 7,486       |
| Travel   |       | 124                             | 14,878      | 2,369                           | 38,908      |
| Interest   |       | 3,243                           | -           | 3,243                           | -           |
| Gain on reduction in joint venture interest                                  |       | -                               | (29,721)    | -                               | (8,360)     |
| Loss (gain) on sale of property, plant and equipment                         |       | (21,577)                        | -           | 32,130                          | -           |
| Equity loss on Excelaron   |       | (401)                           | 66,123      | 37,522                          | 175,358     |
| Equity loss on Alamo   |       | 1,289                           | 5,878       | 6,486                           | 6,044       |
|  |       | 32,625                          | 337,528     | 443,788                         | 1,440,671   |
| <b>Net loss and comprehensive loss</b>                                       |       | (31,535)                        | (171,835)   | (353,501)                       | (846,018)   |
| <b>Basic and diluted loss per share</b>                                      |       | -                               | -           | -                               | (0.01)      |
| <b>Weighted average number of shares<br/>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<br>capital<br>\$ | Warrants<br>\$ | Contributed<br>surplus<br>\$ | Deficit<br>\$      | Total<br>\$      |
|------------------------------------|------------------------|----------------|------------------------------|--------------------|------------------|
| <b>Balance, December 31, 2012</b>  | 7,923,357              | -              | 2,136,458                    | (6,095,967)        | 3,963,848        |
| Share-based compensation           | -                      | -              | 45,690                       | -                  | 45,690           |
| Loss                               | -                      | -              | -                            | (353,501)          | (353,501)        |
| <b>Balance, September 30, 2013</b> | <b>7,923,357</b>       | <b>-</b>       | <b>2,182,148</b>             | <b>(6,449,468)</b> | <b>3,656,037</b> |
| <b>Balance, December 31, 2011</b>  | 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                               | -                      | -              | -                            | (846,018)          | (846,018)        |
| <b>Balance, September 30, 2012</b> | <b>7,923,357</b>       | <b>-</b>       | <b>2,108,194</b>             | <b>(5,813,157)</b> | <b>4,218,394</b> |

# United Hunter Oil & Gas Corp.

## Statements of Cash Flows

(expressed in US dollars)

(unaudited)

|   |       | 9 months ended   |                  |
|---|-------|------------------|------------------|
|   |       | September 30,    |                  |
|   | Notes | 2013             | 2012             |
|   |       | \$               | \$               |
| <b>Cash flow from operating activities</b>                                      |       |                  |                  |
| Loss  |       | (353,501)        | (846,018)        |
| Items not affecting cash  |       |                  |                  |
| Depletion   |       | 44,400           | 434,098          |
| Share-based compensation  |       | 45,690           | 148,944          |
| Interest not paid   |       | 3,243            | -                |
| Equity loss on Excelaron  |       | 37,522           | 175,358          |
| Equity loss on Alamo  |       | 6,486            | 6,044            |
| Loss on sale of property, plant and equipment                                   |       | 32,130           | -                |
| Gain on reduction in joint venture interest                                     |       | -                | (8,360)          |
| Changes in non-cash working capital   |       |                  |                  |
| Accounts receivable   |       | 22,289           | 19,849           |
| Due to joint venture partner  |       | -                | (25,507)         |
| Prepaid expenses  |       | 22,284           | (26,029)         |
| Accounts payable and accrued liabilities  |       | 33,741           | (30,673)         |
|   |       | <u>(105,717)</u> | <u>(152,294)</u> |
| <b>Cash flow from financing activities</b>                                      |       |                  |                  |
| Loan payable  |       | 173,004          | -                |
| <b>Cash flow from investing activities</b>                                      |       |                  |                  |
| Investment in Excelaron   |       | (26,450)         | (155,596)        |
| Property, plant and equipment   |       | (73,808)         | (8,024)          |
|   |       | <u>(100,258)</u> | <u>(163,620)</u> |
| <b>Net change in cash</b>   |       | <b>(32,970)</b>  | <b>(315,914)</b> |
| <b>Cash, beginning of period</b>  |       | <b>103,366</b>   | <b>371,599</b>   |
| <b>Cash, end of period</b>  |       | <b>70,396</b>    | <b>55,685</b>    |
| <b>Non-cash transaction</b>   |       |                  |                  |
| Accounts payable assumed and paid by purchaser of property, plant and equipment | 6     | 171,087          | -                |
| <b>Supplementary information</b>  |       |                  |                  |
| Interest received   |       | -                | 330              |
| Interest paid   |       | -                | -                |
| Income taxes paid   |       | -                | -                |

# United Hunter Oil & Gas Corp.

## Notes to Condensed Interim Financial Statements

### September 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 September 30, 2013, the Company had a working capital deficit of \$997,547 (December 31, 2012 - \$884,346) and for the 9 months September 30, 2013, the Company incurred losses of \$353,501 (2012 - \$846,018) and negative cash flows from operations of \$105,718 (2012 - \$152,294). 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 November 27, 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                 | 63,502    |
| Equity loss                 | (192,791) |
| Balance, December 31, 2012  | 4,632,489 |
| Investment                  | 26,450    |
| Equity loss                 | (37,522)  |
| Balance, September 30, 2013 | 4,621,418 |

### Summarized financial information

#### Statements of financial position

|  | September 30,<br>2013<br>\$ | December 31,<br>2012<br>\$ | January 1,<br>2012<br>\$ |
|--|-----------------------------|----------------------------|--------------------------|
| <b>Assets</b>                            |                             |                            |                          |
| Current                                  |                             |                            |                          |
| Cash                                     | 8,345                       | 47,437                     | 32,125                   |
| Accounts receivable                      | 3,410                       | 1,210                      | 1,210                    |
|  | 11,755                      | 48,647                     | 33,335                   |
| Exploration and evaluation               | 1,710,122                   | 1,759,303                  | 1,759,303                |
| Property, plant and equipment            | -                           | -                          | 819                      |
|  | 1,771,877                   | 1,808,769                  | 1,793,457                |
| <b>Liabilities</b>                       |                             |                            |                          |
| Current                                  |                             |                            |                          |
| Accounts payable and accrued liabilities | 82,776                      | 88,352                     | 131,438                  |
| <b>Members' equity</b>                   |                             |                            |                          |
| Share capital                            | 4,162,486                   | 4,136,076                  | 3,780,992                |
| Deficit                                  | (2,473,385)                 | (2,415,659)                | (1,377,333)              |
|  | 1,689,101                   | 1,720,417                  | 1,080,312                |
|  | 1,771,877                   | 1,808,769                  | 1,793,457                |

#### Statements of loss and comprehensive loss

|  | 9 months ended September 30, |            |
|--|------------------------------|------------|
|  | 2013<br>\$                   | 2012<br>\$ |
| <b>Expenses</b>                        |                              |            |
| Professional fees                      | 43,918                       | 71,316     |
| General and administrative             | 6,839                        | 8,858      |
| Investor relations                     | -                            | 31,891     |
| Permitting                             | 6,988                        | 157,716    |
|  | 57,745                       | 269,781    |
| <b>Net loss and comprehensive loss</b> | (57,745)                     | (269,781)  |



## 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                 | (6,486)  |
| Balance, September 30, 2013 | 31,165   |

## Summarized financial information

### Statements of financial position

|  | September 30,<br>2013<br>\$ | December 31,<br>2012<br>\$ | January 1,<br>2012<br>\$ |
|--|-----------------------------|----------------------------|--------------------------|
| <b>Assets</b>                            |                             |                            |                          |
| Current                                  |                             |                            |                          |
| Cash                                     | 1,100                       | 32,487                     | 47,747                   |
| <b>Liabilities</b>                       |                             |                            |                          |
| Current                                  |                             |                            |                          |
| Accounts payable and accrued liabilities | 15,714                      | 21,157                     | 3,463                    |
| <b>Members' equity</b>                   |                             |                            |                          |
| Share capital                            | 267,316                     | 267,316                    | 159,600                  |
| Deficit                                  | (281,930)                   | (255,987)                  | (115,315)                |
|  | (14,614)                    | 11,329                     | 44,285                   |
|  | 1,100                       | 32,487                     | 47,747                   |

### Statements of loss and comprehensive loss

|  | 9 months ended September 30, |            |
|--|------------------------------|------------|
|  | 2013<br>\$                   | 2012<br>\$ |
| <b>Expenses</b>                        |                              |            |
| Professional fees                      | 15,155                       | —          |
| General and administrative             | 163                          | 24,176     |
| Leases                                 | 10,625                       | 94,206     |
|  | 25,943                       | 118,382    |
| <b>Net loss and comprehensive loss</b> | (25,943)                     | (118,382)  |

## 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, September 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, September 30, 2013 | —           |

## Carrying amount

|                    |         |
|--------------------|---------|
|                    | \$      |
| January 1, 2012    | 717,879 |
| December 31, 2012  | 230,972 |
| September 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\$171,939, which was settled by the purchaser's assumption and payment of C\$171,939 of outstanding accounts payable of the Company.

## 7. Loans payable

Loans payable of \$173,004 include the following amount denominated in Canadian dollars:

|  | Principal<br>C\$ | Accrued<br>interest<br>C\$ | Total<br>C\$ |
|--|------------------|----------------------------|--------------|
| 6% unsecured promissory note due on December 31, 2013                        | 100,000          | 1,249                      | 101,249      |
| 10% unsecured promissory note due on the earlier of demand and June 14, 2014 | 50,000           | 1,521                      | 51,521       |
| 10% unsecured promissory note due on the earlier of demand and July 12, 2014 | 25,000           | 548                        | 25,548       |
|  | 175,000          | 3,318                      | 178,318      |

## 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<br>shares | Amount<br>\$ |
|--|---------------------|--------------|
| Balance, January 1, 2012, December 31, 2012 and September 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 September 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<br>options | Weighted-<br>average<br>exercise<br>price<br>C\$ |
|-----------------------------|----------------------|--|
| Balance, December 31, 2012  | 8,975,000            | 0.15   |
| Granted                     | 350,000              | 0.10   |
| Cancelled                   | (4,650,000)          | 0.15   |
| Balance, September 30, 2013 | 4,675,000            | 0.14   |

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

| Exercise price | Expiry date        | Options<br>outstanding | Options<br>exercisable |
|----------------|--------------------|------------------------|------------------------|
| C\$0.15        | May 12, 2015       | 1,700,000              | 1,700,000              |
| C\$0.15        | July 20, 2015      | 1,000,000              | 1,000,000              |
| C\$0.15        | August 31, 2015    | 75,000                 | 75,000                 |
| C\$0.15        | January 18, 2016   | 650,000                | 650,000                |
| C\$0.15        | May 5, 2016        | 200,000                | 200,000                |
| C\$0.15        | September 19, 2016 | 350,000                | 350,000                |
| C\$0.10        | September 4, 2017  | 350,000                | 233,333                |
| C\$0.10        | May 30, 2018       | 350,000                | 116,667                |
|                |                    | 4,675,000              | 4,325,000              |

The weighted average remaining contractual life of outstanding stock options is 2.3 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.

See note 14 for subsequent event.

## 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, receivables, accounts payable and accrued liabilities and consideration payable*

The fair values of cash, receivables, 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, 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 September 30, 2013, the Company had the following monetary assets and liabilities denominated in Canadian dollars:

|  | <b>C\$</b>    |
|--|---------------|
| <b>Assets</b>                            |               |
| Cash                                     | 72,557        |
| Receivables                              | 8,458         |
|  | <hr/> 81,015  |
| <b>Liabilities</b>                       |               |
| Accounts payable and accrued liabilities | 128,481       |
| Loan payable                             | 178,318       |
|  | <hr/> 306,799 |

As at September 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 \$11,289.

### *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 9 months ended September 30, 2013, revenues of \$94,377 (2012 - \$600,161) were derived from one external customer.

### **13. Related party transactions**

|   | <b>9 months ended September 30,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2013</b>                         | <b>2012</b> |
|   | <b>\$</b>                           | <b>\$</b>   |
| <b>Royalties</b>  |                                     |             |
| Paid to 2 former directors  | 1,888                               | 12,003      |
| <b>Legal fees</b>   |                                     |             |
| Paid to a firm, of which, a former director is a partner                  | 23,541                              | 40,154      |
| <b>Salaries</b>   |                                     |             |
| Paid to a person related to a former director for administration services | –                                   | 20,886      |

### **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>9 months ended September 30,</b> |                |
|---|-------------------------------------|----------------|
|   | <b>2013</b>                         | <b>2012</b>    |
|   | <b>\$</b>                           | <b>\$</b>      |
| Salaries  | 94,913                              | 306,038        |
| Share-based payments, representing amortization of share-based compensation | 34,171                              | 104,825        |
|   | <u>129,084</u>                      | <u>410,863</u> |

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

Subject to regulatory approval, the Company granted 700,000 stock options entitling the holder to purchase one common share for \$0.10 for 5 years from the date of grant. The stock options will vest with 1/3 on date of grant and 1/3 each in 2 annual instalments.

#### **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 9 months and 3 months ended September 30, 2012 and the year ended December 31, 2012.

Reconciliation of Statement of Financial Position at December 31, 2012

|  | Reported<br>\$ | Effect of<br>transition to<br>IFRS 11<br>\$ | Adjusted<br>\$ |
|--|----------------|---|----------------|
| <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<br>\$ | Effect of<br>transition to<br>IFRS 11<br>\$ | Adjusted<br>\$ |
|--|----------------|---|----------------|
| <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<br>\$     | Effect of<br>transition to<br>IFRS 11<br>\$ | Adjusted<br>\$     |
|---|--------------------|---|--------------------|
| <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 9 months ended September 30, 2012**

|   | Reported<br>\$   | Effect of<br>transition to<br>IFRS 11<br>\$ | Adjusted<br>\$   |
|---|------------------|---|------------------|
| <b>Revenues</b>                             |                  |   |                  |
| Oil sales                                   | 600,161          | –   | 600,161          |
| Royalties                                   | 12,003           | –   | 12,003           |
| Net revenues                                | 588,158          | –   | 588,158          |
| Foreign exchange gain                       | 6,165            | –   | 6,165            |
| Interest income                             | 356              | (26)  | 330              |
|   | 594,679          | (26)  | 594,653          |
| <b>Expenses</b>                             |                  |   |                  |
| Operating and transportation                | 164,305          | –   | 164,305          |
| Depletion                                   | 434,098          | –   | 434,098          |
| Impairment losses                           | 10,119           | –   | 10,119           |
| Professional fees                           | 116,600          | (46,355)                                    | 70,245           |
| Salaries                                    | 324,940          | –   | 324,940          |
| Consulting fees                             | 35,934           | –   | 35,934           |
| Stock-based compensation                    | 148,944          | –   | 148,944          |
| Premises                                    | 2,340            | (2,340)                                     | –                |
| General and administrative                  | 22,088           | (9,487)                                     | 12,601           |
| Public company costs                        | 20,050           | –   | 20,050           |
| Investor relations                          | 28,215           | (20,729)                                    | 7,486            |
| Travel                                      | 38,908           | –   | 38,908           |
| Permitting                                  | 102,516          | (102,516)                                   | –                |
| Gain on reduction in joint venture interest | (8,360)          | –   | (8,360)          |
| Equity loss in Excelaron                    | –                | 175,358                                     | 175,358          |
| Equity loss in Alamo                        | –                | 6,044                                       | 6,044            |
|   | 1,440,696        | (26)  | 1,440,672        |
| <b>Net loss and comprehensive loss</b>      | <b>(846,017)</b> | <b>–</b>                                    | <b>(846,018)</b> |

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

|   | Reported<br>\$   | Effect of<br>transition to<br>IFRS 11<br>\$ | Adjusted<br>\$   |
|---|------------------|---|------------------|
| <b>Revenues</b>                             |                  |   |                  |
| Oil sales                                   | 165,987          | –   | 165,987          |
| Royalties                                   | 3,319            | –   | 3,319            |
| Net revenues                                | 162,667          | –   | 162,667          |
| Foreign exchange gain                       | 3,022            | –   | 3,022            |
| Interest income                             | 10               | (8)   | 2                |
|   | 165,700          | (8)   | 165,691          |
| <b>Expenses</b>                             |                  |   |                  |
| Operating and transportation                | 35,655           | –   | 35,655           |
| Depletion                                   | 125,989          | –   | 125,989          |
| Professional fees                           | 28,470           | (18,270)                                    | 10,200           |
| Salaries                                    | 64,127           | –   | 64,127           |
| Consulting fees                             | 12,064           | –   | 12,064           |
| Stock-based compensation                    | 29,069           | –   | 29,069           |
| Premises                                    | 1,170            | (1,170)                                     | –                |
| General and administrative                  | 10,025           | (7,959)                                     | 2,066            |
| Public company costs                        | 1,173            | –   | 1,173            |
| Investor relations                          | 1,166            | (1,139)                                     | 27               |
| Travel                                      | 14,878           | –   | 14,878           |
| Permitting                                  | 43,470           | (43,470)                                    | –                |
| Gain on reduction in joint venture interest | (29,721)         | –   | (29,721)         |
| Equity loss in Excelaron                    | –                | 66,123                                      | 66,123           |
| Equity loss in Alamo                        | –                | 5,878                                       | 5,878            |
|   | 337,535          | (8)   | 337,535          |
| <b>Net loss and comprehensive loss</b>      | <b>(171,836)</b> | <b>–</b>                                    | <b>(171,836)</b> |