

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

## **Management's Discussion and Analysis**

The following Management's Discussion and Analysis ("MD&A") of the financial position of United Hunter Oil & Gas Corp. (the "Company") should be read in conjunction with the Company's unaudited financial statements for the 9 months ended September 30, 2014. The information provided is as of November 10, 2014. These documents and additional information about the Company are available at [www.sedar.com](http://www.sedar.com). Unless otherwise noted, dollar amounts are expressed in US dollars. References to C\$ means Canadian dollars.

### **Description of Business**

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

### **Overall Performance**

#### ***Huasna Property***

The Company holds an indirect 65% indirect interest in Excelaron, which holds a 100% interest in an oil and natural gas property consisting of more than 250 acres on the western edge of the Huasna Basin, an existing California Department of Oil, Gas and Geothermal Resources designated oilfield within the Meridian Anticline located in Arroyo Grande, California ("Huasna"). The Company will pursue the exploration and development of these oil and gas properties held by Excelaron pursuant to the terms of a joint operating agreement. Its joint venture partner in Excelaron is Australia Oil Company.

#### ***Geology Description***

The onshore portion of the Santa Maria Basin is a triangular shaped structural basin located north of Los Angeles in the state of California and bounded by the Santa Ynez Mountains to the south and the San Rafael Mountains to the north.

The basin contains Cenozoic Miocene to Quaternary strata that pinch out against the older strata of the mountain ranges to the south and north. An unconformity at the top of the Mesozoic strata indicates a period of widespread emergence and erosion during the middle Tertiary period. Sedimentation commenced again when Lower Miocene strata were deposited during a period of regional crustal extension. During much of the ensuing Miocene time the Monterey Formation was deposited, the major reservoir zone and only source rock in the basin. The Monterey Formation ranges in thickness from 1,000 to 4,000 feet and consists primarily of organic rich clastic poor strata, more calcareous in the lower section and increasingly cherty and siliceous in the upper section. These are deeper water deposits as sea level was high at this time.

Much of the oil in the Santa Maria Basin is trapped in west-northwest trending faulted anticlines. In the Monterey Formation, the reservoirs are very thick fractured sections of chert, siliceous shale and dolomite. The oil is usually heavy and typically ranges from 10° to 20° API. Matrix porosity is typically about 10% to 35% but the permeability within the matrix is negligible. The recoverable oil is predominantly located in the fracture system for which the porosity ranges from 1% to 2% or less, but permeability can be very large.

The Huasna Field is located in the northern portion of the Santa Maria Basin and is a mapped surface anticlinal feature with tar sealed Monterey Formation as the outcropping formation. Structural closure is 450 acres and the first well drilled into the structure, Scherer-Dickes #1, was perforated from 900 to 2,200 feet in the Monterey Formation.

#### ***Resource Estimates***

The following information is contained in Evaluation of Contingent Resources for the Huasna Field, San Luis Obispo County, California, USA dated October 27, 2010 that was prepared by Gaffney Cline & Associates Inc. ("GCA Report"). The GCA Report was prepared in accordance with National Instrument 51-101 and is available at [www.sedar.com](http://www.sedar.com)

The oil gravity in the Monterey shale accumulation is presumed to be 13° API and its exploitation will be facilitated by application of an enhanced recovery program utilizing a hot water injection design. Under Excelaron's design, the program would have hot water injected into these subsurface zones to raise the reservoir temperature thereby increasing the oil's mobility and providing a displacement mechanism for the oil to flow to the surface.

GCA made volumetric estimates of the Discovered Petroleum Initially-In-Place "PIIP" using the existing well information and references appropriate field analogs. GCA gives expected recoveries at Huasna of 4-6% of the Discovered PIIP for the hot water stimulation process that the Company plans to test and implement at Huasna. According to GCA's estimates, the P50 Discovered PIIP is 96 MMBbl with net recoverable to the Company of 2.7 MMBbl; the P90 Discovered

PIIP is 44.6 MMBbl with net UHO recoverable of 1.2 MMBbl, and the P10 Discovered PIIP is 174 MMBbl with net recoverable to the Company of 5.1MMBbl. The Discovered PIIP estimates are for the entire field area. Net UHO recoverable volumes are based on the assumption that UHO's 65% interest in the 160 acre project area will apply to the remainder of the Huasna field. The volumes have been reduced for royalties. Recoverable volumes are classified by GCA as Contingent Resources as of July 31, 2010 and estimated in accordance with the reserve and resource definitions set out in the Canadian Oil and Gas Evaluation Handbook COGEH, which also forms part of Canadian National Instrument 51-101. Total Petroleum Initially-In-Place (PIIP) is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered (equivalent to "total resources"). Discovered Petroleum Initially-In-Place (equivalent to discovered resources) is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production.

As indicated above, the 12 Well Project contains contingent resources, the main contingencies are:

- establishing production in commercial quantities using primary or secondary methods;
- securing the necessary permits to develop the field;
- securing funds and services in order to drill and complete new wells;
- constructing processing and transportation facilities; and
- securing sales contracts for the oil that can be produced.

#### *Development Plan*

The Company has proposed to drill 12 new wells within the next 5 years. The initial Phase of the 12 well plan is a 4 well Pilot Program consisting of up to four vertical producers that will be drilled and operated with a rental boiler/treater generator for about six months to examine the potential for commercial production. After the completion of the well pilot program a full analysis of the field's commercial potential will be conducted. The Pilot Program will be used to obtain new subsurface information and to initiate production using intermittent hot water injection. In this approach, hot water will be injected in each well for intermittent periods followed by periods of production. These first 4 wells will be drilled and completed as vertical or near vertical, and will be logged using appropriate modern logs. Fresh cores and fluid samples will be taken and analyzed. The Company plans to use reservoir modeling that will involve construction of a geological model and reservoir simulation using thermal and dual permeability formulations to assess the recovery potential and to optimize vertical and horizontal spacing in conjunction with injection rates and schedule.

The next development phase consists of an additional 8 wells (plus a water disposal well) and a permanent facility. The Company will adopt a maximum recovery by the least possible surface impact principle. In practice, vertical and directional wells will be drilled from central locations that at subsurface will project an optimal spacing pattern. Hot water injection will be applied at about 2,400 bbl/day rates. The hot water will be injected in each well sequentially allowing wells to alternate through injection and production cycles. Recent fluid sampling has shown that increasing the temperature of the fluid by modest amounts reduces oil viscosity. Applied at intervals no thicker than 300-400 feet is typically accomplished by injecting at the deepest interval first and then plugging and later completing upwards at shallower depths.

The major obstacle in carrying out this development plan is securing the necessary permits from the regulatory authorities, which requires environmental impact compliance and approval. The Draft Environmental Impact Report ("DEIR") was released by the San Luis Obispo County ("County") Planning and Building Department on June 19, 2011 and was circulated for 45 days ending on August 5, 2011. Interested parties provided comments on the environmental document that would then be addressed by the County's consultant, Marine Research Specialists, in the Final Environment Impact Review ("FEIR"). The Planning Commission reviewed the DEIR on February 23, 2012 and March 8, 2012. The County's Planning Commission voted 4-1 to deny the Huasna project from proceeding in the Huasna Valley. The decision was appealed to the County's Board of Supervisors ("Board of Supervisors") for the final decision. The meeting for the Board of Supervisors hearing was held on May 15, 2012 and concluded with all public testimony, but due to the lateness of the hour, did not deliberate. Excelaron presented an alternative drilling plan and other data at the Board of Supervisors meeting to mitigate the Class 1 impacts and the Board of Supervisors requested time to have their questions answered by the County Technical Staff. At a hearing held on August 21, 2012, the Board of Supervisors denied Excelaron's application for conditional use permits ("Notice") for its planned exploration and development of Huasna.

On November 19, 2012, Excelaron filed a petition for writ of mandate, with the complaint of inverse condemnation and damages action against the County ("Complaint") 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. The bases of the suit are:

- The County, by and through its Planning Commission and Board of Supervisors, abused its discretion when it denied Huasna. Specifically, the County failed to proceed in the manner prescribed by its own laws and ordinances when it applied new and unwritten standards to Huasna, when it interpreted its laws and ordinances in a way that precluded approval of Huasna, and when it refused to consider any alternatives pursuant to the California Environmental Quality Act (“CEQA”).
- The County further abused its discretion because its decision was not supported by the findings it adopted, and the findings were not supported by substantial evidence in the record.
- The County’s actions have effected a regulatory taking of Excelaron’s property and the County has further failed to proceed in a manner prescribed by law because it has not paid just compensation to Excelaron for the taking.
- Accordingly, Excelaron has been prevented from accessing or utilizing its mineral estates, which, as separate and legally-distinct property interests under the law, have been deprived of all economic value.
- Excelaron’s mineral interests are part of a State of California Division of Oil, Gas & Geothermal Resources (“DOGGR”) designated oil field, which Excelaron estimates to encompass an area of approximately 720 acres in size and 208,000,000 barrels of oil. At a price of \$100 per barrel of oil, this amounts to a gross value of \$20.8 billion worth of oil in the reservoir. Approximately 30% of the reservoir is recoverable using the best available, practicable technology, which would value the recoverable oil at approximately \$6.24 billion. Huasna, if approved, would have produced up to 1,000 barrels of oil per day from this reservoir, or approximately \$100,000 worth of oil each day for a substantial portion of the life of the project.<sup>(1)</sup>

As required by County Code and Code of Civil Procedure, Excelaron filed the Complaint within 90 days of the Notice and served the Complaint in the County within 60 days of filing. On January 25, 2013, the County filed a general demurrer to all causes of action in the Complaint, claiming that it was barred by statute of limitations imposed by Government Code, which required the action to be filed and served within 90 days of the Notice.

On March 18, 2013, the Superior Court dismissed the Complaint and on April 8, 2013, the Company filed an Appeal of the dismissal. On November 7, 2013, Excelaron filed an Opening Brief setting out its arguments and on March 19, 2014, the County filed a response. The Court heard the case in San Luis Obispo County in late May, 2014. Subsequently, on July 25, 2014, the Second Appellate District, Court of Appeal of the State of California affirmed the Superior Court of California, County of San Luis Obispo’s ruling to dismiss the writ and takings lawsuit filed by Excelaron, LLC, in regard to the San Luis Obispo Board of Supervisors denial of the permit to drill the Mankin’s (Huasna) Oil Field. The Company is reviewing all of its current options related to the Huasna Prospect at this time including the filing of an immediate appeal to the Supreme Court of California.

The Company has reviewed the investment in Excelaron for potential indicators of impairment. Based on a review of the current facts, the Company believes that there is not sufficient indication that the asset is impaired at this time, given the several alternatives available to the Company. The main factor influencing any potential impairment will be the determination of the likelihood of success in the award of required permits.

(1) These figures relate to management estimates for the purposes of the Complaint only.

***Atlee Buffalo Property***

On April 26, 2013, the Company disposed of its interest in Atlee Buffalo 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.

***Porter Ranch Property***

The Company acquired a 45% joint venture interest in Alamo Creek Oil LLC (“Alamo”). At that time, Alamo leased 4,068 acres adjacent to the Santa Maria Basin and south east of the Company’s Huasna property (“Porter Ranch”). The property was briefly explored in the 1980’s by Phillips Petroleum Company (“PPCo”) who drilled one well and completed extensive roadwork and wells pads for two additional well locations prior to abandoning the project due to depressed oil prices. There has been no subsequent exploration since that time. The only well PPCo drilled in 1984 tested oil from 3 separate zones and then abandoned and plugged this well. Adjacent wells have tested oil ranging from light (30 API) to heavy (15 – 18 API), some with associated gas and numerous surface oil seeps. Within the leased area there are currently 2 anticlinal structures, which have been only tested at their extremities. The forward work program includes acquiring all historical well and seismic data prior to the possible acquisition of new seismic data over the anticlines. Based on this information, up to 3 exploration wells may be drilled. Alamo has paid a net \$53,000 for the license for the 91 miles of 2D seismic data which cover the Porter Ranch from ConocoPhillips. These seismic lines have been reprocessed and evaluated by Alamo’s geophysical team.

In the second quarter of 2011, Alamo leased an additional 4,983 acres increasing the acreage under lease to 9,051 acres. 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%.

In early July, 2014, the company learned that the San Luis Obispo County Planning Department has accepted as complete the minor use permit application on the Porter Ranch (DRC 2013-00062) proposed exploration plan. Subsequently, Alamo Creek LLC amended the permit application so as to limit the exploration to a single well on the southern Pad A (the previous application sought to drill up to 4 wells) to help alleviate local concerns for the drilling of 4 wells in the area. The County is currently evaluating that amended application.

### **Risks and Uncertainties**

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

### ***Liquidity***

The Company has financed its operations through the issue of equity and loans. At June 30, 2014, the Company had a working capital deficit of \$395,268 (December 31, 2013 - \$1,033,600) and for the nine months ended September 30, 2014, the Company incurred losses of \$280,678 (September 30, 2013 - \$353,501) and negative cash flows from operations of \$289,779 (September 30, 2013 - \$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.

### ***Permits***

The operations of the Company require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits, including conditional use permits that may be required to carry out exploration and development of its projects, in particular, Huasna. The Company will work to secure the conditional use permits, but the outcome of these efforts cannot be predicted at this time.

### ***Exploration***

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

### ***Commodity price***

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

## Results of Operations

	Notes	3 months ended September 30,		9 months ended September 30,	
		2014	2013	2014	2013
		\$	\$	\$	\$
<b>Revenues</b>					
Oil sales	13	-	-	-	94,377
Royalties		-	-	-	1,888
Net revenues		-	-	-	92,489
Foreign exchange gain		(9,184)	1,090	(5,974)	(2,202)
		(9,184)	1,090	(5,974)	90,287
<b>Expenses</b>					
Operating and transportation		-	-	-	42,185
Depletion	7	-	-	-	44,400
Impairment losses	7	-	-	-	-
Professional fees		35,470	12,502	54,431	52,860
Salaries and benefits		36,674	15,119	90,034	100,020
Consulting fees		10,931	11,558	29,223	35,021
Share-based compensation	10	1,174	1,982	2,216	45,690
General and administrative		1,053	498	7,540	7,163
Public company costs		15,163	631	35,564	15,994
Investor relations		204	(3)	1,461	379
Travel		8,976	124	13,485	2,369
Insurance		3,158	7,661	10,033	18,327
Interest		3,260	7,661	11,396	3,243
Equity loss on Excelaron	5	2,464	66,123	8,502	37,522
Equity loss on Alamo	6	4,710	5,878	10,820	6,486
Loss on sale of property, plant and equipment		-	-	-	32,130
		129,210	129,734	274,704	443,789
<b>Net loss and comprehensive loss</b>		(138,394)	(128,644)	(280,678)	(353,502)

## Revenues

The Company generated revenue from oil sales at two wells at Atlee Buffalo. The Company generated no revenues after April 26, 2013 as the Company disposed of its interest in Atlee Buffalo.

	9 months ended September 30,		9 months ended September 30,	
	2014	2013	2014	2013
Oil sales	-	-	-	74,377
Barrels	-	-	-	1,701
Average price per barrel	-	-	-	55.47

### Operating and transportation and depletion

	9 months ended September 30,		9 months ended September 30,	
	2014	2013	2014	2013
Operating and transportation	-	-	-	42,185
Depletion	-	-	-	44,400
Barrels	-	-	-	1,701
Operating and transportation per barrel	-	-	-	24.79
Depletion per barrel	-	-	-	28.10

## Expenses

Expenses have been reduced in the current period compared to last year as the Company incurred no oil and gas operating expenses after April 26, 2013 as the Company disposed of its interest in Atlee Buffalo. Salaries declined due voluntarily reduction in management salaries and the resignation of 2 officers. Other expenses were reduced in an effort to conserve cash.

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

	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	2012	2012	2013	2013	2013	2013	2014	2014	2014
	\$	\$	\$	\$	\$	\$	\$	\$	\$
					(note 1)				(note 2)
<b>Net revenue loss</b>	162,667	126,716	77,763	14,726	-	-	-	-	-
<b>Total</b>	171,836	249,839	108,866	213,100	31,535	31,846	48,803	71,233	138,394
<b>Per share</b>	-	-	-	-	-	-	-	-	-

Note 1: Reduction in loss reflects reduction in salaries due to voluntary reduction in management salaries and the resignation of 2 officers and a reduction in other expenses in an effort to conserve cash

Note 2: Increase in net loss reflects an increase in salaries for management as well as legal and public company pursuant to private placement completed during the period.

## Liquidity & Capital Resources

The Company has financed its operations through the issue of equity. At September 30, 2014, the Company had a working capital deficit of \$395,268 (2013 - \$997,547) and for the 9 months ended September 30, 2014, the Company incurred losses of \$280,678 (2013 - \$353,501) and negative cash flows from operations of \$289,779 (2013 - \$105,718). Working capital deficiencies 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.

*Huasna capital expenditures*

It has been estimated that the initial pilot scheme for the development plan, consisting of four vertical hot water injector/producers, plus surface equipment, would cost \$1,875,000, of which, \$800,000 will be paid by the Company, with all costs for the development of the development plan thereafter being paid 65% by the Company and 35% by its joint venture partner. The Project will be subject to a 12.5% basic overriding royalty plus an additional 5% of net revenue after energy-related lifting costs.

For the expanded development plan it has been estimated that a vertical hot water injection well will cost \$300,000 to drill and the hot water boiler and associated facilities will cost upwards of \$1,000,000 or more.

Total capital expenditures for a fully exploited Project as described would be estimated at \$14,175,000 (\$9,870,000 net to the Company), comprised of the following:

- (a) the well pilot program, consisting of four vertical hot water injector/oil producers which would be drilled and operated with a rental boiler/treater generator for about six months to examine the potential for commercial production, potentially a water disposal well will also be drilled if there is a requirement to dispose of produced formation water; and
- (b) phase 2, consisting of 8 vertical or inclined wells and a disposal well (if not drilled during the pilot program), building of water boiler/treater facilities.

Total abandonment and restoration liabilities have been estimated at \$350,000 (\$227,500 net to the Company).

Of the first \$1,875,000 required for the development plan, the Company has already advanced \$1,075,000 and the remaining \$800,000 will be advanced at such time as Excelaron secures its conditional use permits for its planned operations on its oil and natural gas properties. In the event that Excelaron does not secure such permits or the Company does not pay the \$800,000, the 65% Membership Interest will be reduced to a 35% Membership Interest in Excelaron. The Company has also agreed to pay a shareholder of UHC a 5% assignable gross overriding royalty on all amounts received, directly or indirectly, by the Company that can be attributed to its 65% Membership Interest in Excelaron.

*Commitments*

Loans payable of \$325,618 include the following amount denominated in Canadian dollars: On September 8, 2014 all principle and interest was repaid for a total of \$329,200 denominated in Canadian dollars.

**Related Party Transactions**

	<b>9 months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Royalties</b>		
Payable to 2 former directors	-	1,888
<b>Legal fees</b>		
Payable to a firm, of which, a former director is a partner	-	23,541

## **Critical Accounting Estimates**

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

## **Judgments**

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

### *Identification of cash generating units*

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

## **Estimates**

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

### *Impairment of investment in joint ventures*

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

### *Estimates of oil and natural gas reserves*

Depletion and depreciation as well as the amounts used in impairment calculations are based on estimates of oil reserves. Reserves estimates are based on engineering data, estimated future prices, expected future rates of production and the timing of future capital expenditures, all of which are subject to many uncertainties and interpretations. At least once per year, a reserves estimate is prepared by independent qualified reserves evaluators. The Company expects that, over time, its reserves estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels, and may be affected by changes in commodity prices.

### *Recoverable amounts of CGUs*

The recoverable amount of a CGU used in the assessment of impairment of property, plant and equipment is the greater of its value in use ("VIU") and its fair value less costs to sell ("FVLCTS"). VIU is determined by estimating the present value of the future net cash flows from the continued use of the CGU, and is subject to the risks associated with estimating the value of reserves. FVLCTS refers to the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable, willing parties, less costs of disposal.

Recoverable amounts of the Company's CGUs were based on their estimated VIU. The key assumptions and estimates of the value of oil reserves are valid at the time of reserves estimation and market assessment and are subject to change as new information becomes available. Changes in international and regional factors including supply and demand of commodities, inventory levels, drilling activity, currency exchange rates, weather, geopolitical and general economic environment factors may result in significant changes to the estimated recoverable amounts of CGUs.

### *Decommissioning liabilities*

Decommissioning liabilities are estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years, based on current legal and constructive requirements and technology. The estimated liabilities and actual costs may change significantly due to changes in regulations, technology, timing of the expenditure, and the discount rates used to determine the net present value of the obligations.

### *Deferred income taxes*

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates at the reporting date in effect for the period in which the temporary differences are expected to be recovered or settled. The effect on



deferred income tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date. The recognition of deferred income tax assets is based on the assumption that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

#### *Share-based compensation*

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

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

#### ***Changes in accounting standards***

On January 1, 2013, the Company adopted the following new standards, amendments to standards and interpretations:

- 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 financial statements.

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

The effective date of the following amendment to standards and interpretations is to be determined:

#### *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.

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

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 September 30, 2014, December 31, 2013 and January 1, 2013, 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 behavior), expected dividends, and the risk-free interest rate (based on government bonds).

### *Classification of fair value of financial instruments*

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

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

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

### ***Financial risk management***

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

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

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

#### ***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, 2014, the Company had the following monetary assets and liabilities denominated in Canadian dollars:

	\$
<b>Assets</b>	
Cash	459,327
Accounts receivable	4,757
	464,084
<b>Liabilities</b>	
Accounts payable and accrued liabilities	72,896
	72,896

As at September 30, 2014, a 5% change in the exchange rate between the US dollar and Canadian dollar would have resulted in an impact on operations of \$19,559.

### *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.

## Other Information

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

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

#### *General and administration costs*

	<b>9 months ended September 30</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Bank charges	1,372	1,012
Office	5,607	4,315
Telephone	561	1,836
	<b>7,540</b>	<b>7,163</b>

### **Disclosure of Outstanding Share Data (as at November 14, 2014)**

#### **Shares**

##### *Authorized:*

Unlimited number of common shares, no par value.

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

##### *Outstanding*

32,030,272 common shares.

No preference shares are outstanding.

	<b>Share capital</b>	
	<b>Number of common shares</b>	<b>Amount</b>
		<b>\$</b>
Balance, January 1, 2013	12,030,272	7,519,574
Fair value of expired warrants	–	403,783
Shares issued pursuant to Private Placement	20,000,000	920,600
Balance, December 31, 2013 and September 30, 2014	<b>32,030,272</b>	<b>8,843,957</b>

(i) On September 4, 2014, the Company closed a private placement of 20,000,000 common shares at a price of \$0.05 in Canadian dollars for total proceeds of \$1,000,000 Canadian dollars. The US dollar equivalent is \$920,600.

## Stock options

### Authorized

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

### Outstanding

- Subject to regulatory approval, on June 30, 2014 the Company granted 35,000 stock options to a director entitling the holder to purchase one common share for \$1.00 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.
- In addition subject to regulatory approval, on September 1, 2014 the Company granted 110,000 stock options to a consultant. The options entitling the holder to purchase one common share for \$0.07 for a period of 5 years from the grant date. These options vest 6 months from the grant date.

<i>Exercise price</i>	<i>Expiry date</i>	<i>Options outstanding</i>	<i>Options exercisable</i>
C\$1.50	January 18, 2016	25,000	25,000
C\$1.00	September 4, 2017	35,000	23,333
C\$1.00	November 26, 2018	70,000	23,333
C\$1.00	June 30, 2019	35,000	11,667
C\$0.07	September 1, 2019	110,000	-
		275,000	83,333

## Forward-looking Statements

Forward-looking statements include, but are not limited to, statements with respect to: the focus of capital expenditures; the sale, farming in, farming out or development of certain exploration properties using third party resources; the impact of changes in petroleum and natural gas prices on cash flow; drilling plans; processing capacity; operating and other costs; the existence, operation and strategy of the commodity price risk management program; the approximate and maximum amount of forward sales; the Company's acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived therefrom; the Company's goal to sustain or grow production and reserves through prudent management and acquisitions; the emergence of accretive growth opportunities; the Company's ability to benefit from the combination of growth opportunities and the ability to grow through the capital markets; development costs and the source of funding thereof; the quantity of petroleum and natural gas resources or reserves; treatment under governmental regulatory regimes and tax laws; liquidity and financial capital; the impact of potential acquisitions and the timing for achieving such impact; expectations regarding the ability to raise capital and continually add to reserves through acquisition and development; the performance characteristics of the Company's petroleum and natural gas properties; and realization of the anticipated benefits of acquisitions and dispositions. The Company undertakes no obligation to update such forward-looking statements or information if circumstances or management's estimates or opinions should change, unless required by law.

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

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

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

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