UNITED HUNTER OIL & GAS CORP.

Financial Statements

Years Ended December 31, 2014 and 2013

(Expressed in Canadian dollars)

SATURNA GROUP
CHARTERED ACCOUNTANTS LLP
1066 West Hastings Street, Suite 1250
Vancouver, BC Canada V6E 3X1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of United Hunter Oil & Gas Corp.

We have audited the accompanying financial statements of United Hunter Oil & Gas Corp. which comprise the statements of financial position as at December 31, 2014, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the year then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also involves evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of United Hunter Oil & Gas Corp. as at December 31, 2014 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of United Hunter Oil & Gas Corp. to continue as a going concern.

Other Matters

The financial statements of United Hunter Oil & Gas Corp. for the year ended December 31, 2013 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 28, 2014.

Saturna Group LLP
.Chartered Accountants

Vancouver, Canada

April 29, 2015

UNITED HUNTER OIL & GAS CORP.
Statements of financial position
(Expressed in Canadian dollars)

	December 31, 2014 $	December 31, 2013 $ (Refer to Note 12)
Assets		
Current assets		
Cash	385,409	23,919
Amounts receivable	3,341	11,219
Prepaid expenses	12,791	21,962
Total current assets	401,541	57,100
Non-current assets		
Investment in Alamo Creek (Note 3)	–	28,989
Investment in Excelaron (Note 3)	–	4,670,765
Total non-current assets	–	4,699,754
Total assets	401,541	4,756,854
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 4)	65,076	123,836
Loans payable (Note 5)	–	181,721
Total current liabilities	65,076	305,557
Non-current liabilities		
Consideration payable (Note 3)	–	850,880
Total liabilities	65,076	1,156,437
Shareholders' equity		
Share capital	8,875,490	7,858,590
Share-based payment reserve	2,373,747	2,368,434
Deficit	(10,912,772)	(6,626,607)
Total shareholders' equity	336,465	3,600,417
Total liabilities and shareholders' equity	401,541	4,756,854

Nature of operations and continuance of business (Note 1)

Approved and authorized for issuance on behalf of the Board on April 29, 2015:

/s/ "Tim Turner" — Tim Turner, President and Director

/s/ "Jeff Ratcliffe" — Jeff Ratcliffe, CFO and Director

(The accompanying notes are an integral part of these financial statements)

UNITED HUNTER OIL & GAS CORP.

Statements of operations and comprehensive loss
(Expressed in Canadian dollars)

	Year ended December 31, 2014 $	Year ended December 31, 2013 $ (Refer to Note 12)
Oil and gas revenue	–	95,878
Production costs and royalties (Note 6)	–	(1,918)
Gross margin	–	93,960
Expenses		
Consulting fees (Note 6)	75,923	48,000
Depletion and depreciation	–	43,827
Equity loss on Alamo Creek (Note 3)	21,906	27,492
Equity loss on Excelaron (Note 3)	12,602	40,842
Foreign exchange loss	71,196	43,382
General and administrative	26,084	28,321
Impairment of investment in Alamo Creek and Excelaron (Note 3)	3,770,591	–
Operating and transportation	7,448	42,856
Professional fees (Note 6)	70,625	54,089
Public company costs	45,395	18,223
Salaries and benefits (Note 6)	146,249	98,720
Stock-based compensation (Note 8)	5,313	46,560
Travel	20,343	4,350
Total expenses	4,273,675	496,662
Loss before other expenses	(4,273,675)	(402,702)
Other expenses		
Interest expense	(12,490)	(6,721)
Loss on sale of property, plant, and equipment	–	(32,724)
Total other expenses	(12,490)	(39,445)
Net loss and comprehensive loss for the year	(4,286,165)	(442,147)
Loss per share, basic and diluted	(0.23)	(0.04)
Weighted average shares outstanding	18,623,143	12,030,267

(The accompanying notes are an integral part of these financial statements)

UNITED HUNTER OIL & GAS CORP.
Statements of changes in equity
(Expressed in Canadian dollars)

	Share capital		Share-based Payment Reserve	Deficit	Total shareholders' equity
	Number of shares	Amount $	$	$	$
Balance, December 31, 2012	12,030,267	7,858,590	2,321,874	(6,184,460)	3,996,004
Stock-based compensation	–	–	46,560	–	46,560
Net loss for the year	–	–	–	(442,147)	(442,147)
Balance, December 31, 2013	12,030,267	7,858,590	2,368,434	(6,626,607)	3,600,417
Shares issued for cash	20,000,000	1,000,000	–	–	1,000,000
Shares issuance costs	–	(7,100)	–	–	(7,100)
Shares issued for the settlement of related party debt	400,000	24,000	–	–	24,000
Stock-based compensation	–	–	5,313	–	5,313
Net loss for the year	–	–	–	(4,286,165)	(4,286,165)
Balance, December 31, 2014	32,430,267	8,875,490	2,373,747	(10,912,772)	336,465

(The accompanying notes are an integral part of these financial statements)

UNITED HUNTER OIL & GAS CORP.
Statements of cash flows
(Expressed in Canadian dollars)

	Year ended December 31, 2014 $	Year ended December 31, 2013 $
		(Refer to Note12)
Operating activities		
Net loss for the year	(4,286,165)	(442,147)
Items not involving cash:		
Depletion and depreciation	–	43,827
Effects of foreign exchange loss	77,200	43,382
Equity loss on Alamo Creek (Note 3)	21,906	27,492
Equity loss on Excelaron (Note 3)	12,602	40,842
Impairment of investment in Alamo Creek and Excelaron	3,770,591	–
Loss on sale of property, plant, and equipment	–	32,724
Stock-based compensation	5,313	46,560
Changes in non-cash operating working capital:		
Accounts receivable	7,878	19,361
Prepaid expenses	9,171	22,006
Accounts payable and accrued liabilities	(34,760)	33,533
Accrued interest payable	(6,721)	6,721
Net cash used in operating activities	(422,985)	(125,699)
Investing activities		
Acquisition of property, plant, and equipment	–	(74,277)
Investment in Alamo Creek	(20,592)	(18,342)
Investment in Excelaron	(12,833)	(36,418)
Net cash used in investing activities	(33,425)	(129,037)
Financing activities		
Proceeds from issuance of common shares	1,000,000	–
Share issuance costs	(7,100)	–
Proceeds from loans payable	135,000	175,000
Repayment of loans payable	(310,000)	–
Net cash provided by financing activities	817,900	175,000
Change in cash	361,490	(79,736)
Cash, beginning of year	23,919	103,655
Cash, end of year	385,409	23,919
Non-cash financing and investing activities:		
Accounts payable assumed and paid by purchaser of property, plant, and equipment	–	171,939
Shares issued for settlement of related party debt	24,000	–
Supplemental disclosures:		
Interest paid	19,211	–
Income taxes paid	–	–

(The accompanying notes are an integral part of these financial statements)

1. Nature of Operations and Continuance of Business

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") and a 25% joint venture interest in Alamo Creek Oil LLC ("Alamo Creek"), both exploration stage companies based in San Luis Obispo, California.

The Company was incorporated under the Business Corporations Act of Ontario on February 22, 2008 and its registered office is located at Suite 615, 700 West Pender Street, Vancouver, British Columbia, V6C 1G8.

These financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2014, the Company currently has no assets or operations that generate revenue and has an accumulated deficit of $10,912,772. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. Significant Accounting Policies

(a) Basic of Presentation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars, which is the Company's functional currency. Previously, these financial statements were presented in United States dollars. On December 31, 2014, the Company changed its reporting currency to Canadian dollars. Refer to Note 12.

(b) Use of Estimates and Judgments

The preparation of the 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 reported amounts of assets, liabilities, revenues 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 period in which the estimate is revised and in any future periods affected.

Significant areas requiring the use of estimates include the recoverability of amounts receivable, impairment of investment in joint ventures, measurement of share-based payments, and deferred income tax asset valuation allowances.

The Company applies the use of judgment in determining the factors relating to its investments in joint ventures, including whether it is likely that future economic benefits would exceed net carrying values. The Company also applies judgment in the inputs used in the calculation of stock-based payments.

(c) Reclassifications

Certain figures presented for comparative purposes have been reclassified to conform to the presentation in the current period.

2. Significant Accounting Policies (continued)

(d) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

(e) Joint Arrangements

Substantially all of the Company's exploration activities are conducted jointly with others. 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 have the 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, under which, the Company recognizes its share of the income or loss against the carrying amount if its investment.

Joint Operations

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

The Company's investments in Excelaron and Alamo Creek are joint ventures which are accounted for using the equity method.

(f) Impairment of Non-Current Assets

At each reporting date, the Company reviews the carrying amount of its tangible assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount through an impairment charge to the statement of operations.

2. Significant Accounting Policies (continued)

(f) Impairment of Non-Current Assets (continued)

Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. When an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation, depletion and amortization) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in the statement of operations.

(g) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The increase in the obligation due to the passage of time is recognized as finance expense. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

(h) Income Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in the statement of operations. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2. Significant Accounting Policies (continued)

(i) Financial Instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss when the financial asset is held for trading or it is designated as fair value through profit or loss. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling in the near future; (ii) it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as fair value through profit or loss are stated at fair value with any gain or loss recognized in the statement of operations. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. The Company's cash is classified as fair value through profit or loss.

Held-to-maturity investments

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as held-to-maturity investments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the statement of operations. The Company does not have any assets classified as available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables are comprised of amounts receivable.

2. Significant Accounting Policies (continued)

(i) Financial Instruments (continued)

(i) Non-derivative financial assets (continued)

Impairment of financial assets

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income or loss are reclassified to the statement of operations in the period. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted. For marketable securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

• significant financial difficulty of the issuer or counterparty; or
• default or delinquency in interest or principal payments; or
• it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized through the statement of operations are not reversed through the statement of operations. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2. Significant Accounting Policies (continued)

(i) Financial Instruments (continued)

(ii) Non-derivative financial liabilities (continued)

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities, loans payable, and consideration payable.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

(j) Revenue Recognition

Revenue from the sale of oil and gas is recognized when the significant risks and rewards of ownership of the product is transferred to the purchaser, the Company does not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the oil and gas sold, the amount of revenue can be measured reliably, the costs incurred or to be incurred in respect to the sale can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Company.

Expenses associated with the delivery, transportation, and production-based royalties, are recognized in the period that the related revenue is recognized.

(k) Foreign Currency Translation

The functional and reporting currency is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses are included in the statement of operations.

(l) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the relevant period. The treasury stock method is used for the calculation of diluted loss per share, whereby all “in the money” stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at December 31, 2014, the Company has 116,666 (2013 – 455,833) potential dilutive shares outstanding.

(m) Comprehensive Income (Loss)

Comprehensive income (loss) is the change in the Company’s net assets that results from transactions, events and circumstances from sources other than the Company’s shareholders and includes items that are not included in the statement of operations. The Company does not have any items representing comprehensive income or loss.

2. Significant Accounting Policies (continued)

(n) Share-based Payments

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

The fair value of the options is measured at the grant date using the Black-Scholes option pricing model. The fair value is recognized as an expense over the vesting period, which is the period over which all of the specified vesting conditions are satisfied with a corresponding increase in equity. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. Non-market vesting conditions are considered in making assumptions about the number of awards that are expected to vest. When the options are exercised, any proceeds received are credited to share capital along with the amount reflected in share-based payment reserve.

(o) Accounting Standards Issued But Not Yet Effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2014, and have not been applied in preparing these financial statements.

IFRS 9, *Financial Instruments* (New)
IFRS 10, *Consolidated Financial Statements* (Amended)
IFRS 11, *Joint Arrangements* (Amended)
IFRS 12, *Disclosure of Interests in Other Entities* (Amended)
IAS 16, *Property, Plant, and Equipment* (Amended)
IAS 27, *Separate Financial Statements* (Amended)
IAS 28, *Investments in Associates and Joint Ventures* (Amended)
IAS 32, *Financial Instruments: Presentation* (Amended)

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

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

(Expressed in Canadian dollars)

3. Investment in Joint Ventures

	Alamo $	Excelaron $	Total $
Balance, December 31, 2012	38,139	4,675,189	4,713,328
Cash investments	18,342	36,418	54,760
Equity loss for the year	(27,492)	(40,842)	(68,334)
Balance, December 31, 2013	28,989	4,670,765	4,699,754
Cash investments	20,592	12,833	33,425
Reversal of consideration payable	–	(928,080)	(928,080)
Impairment	(27,675)	(3,742,916)	(3,770,591)
Equity loss for the year	(21,906)	(12,602)	(34,508)
Balance, December 31, 2014	–	–	–

Alamo Creek

The Company owns a 25% joint venture interest in Alamo Creek 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 Creek was reduced from 45% to 25%.

As at December 31, 2014, the Company reviewed the investment for indication of impairment and noted continuing equity losses in operations, the decline in market prices for oil and gas, and the market capitalization of Alamo was higher than their net assets. Based on these factors, the Company recorded an impairment loss of $27,675 (2013 - $nil) on their investment in Alamo Creek.

Statements of loss for Alamo:

	Year ended December 31, 2014 $	Year ended December 31, 2013 $
General and administrative	2,106	2,077
Leases	71,018	89,757
Professional fees	14,499	18,136
Net loss	87,623	109,970
Company's interest in the joint venture	25%	25%
Equity loss	21,906	27,492

Excelaron

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.

(Expressed in Canadian dollars)

3. Investment in Joint Ventures (continued)

Excelaron (continued)

The planned exploration and development of Huasna requires Excelaron to secure necessary permits from regulatory authorities. As at December 31, 2014, the Company had accrued $928,080 (US$800,000) as consideration payable for amounts that the Company will be required to payout to Excelaron for future exploration and development cost related to the investment once the required permits have been secured.

During the year ended December 31, 2014, after several years of Excelaron being denied the required permits and filing unsuccessful legal actions to overturn the denial, the Company has decided to write-down its investment in Excelaron resulting in the Company recognizing an impairment of $3,742,916 (2013 - $nil) which consists of the carrying value of the investment of $4,670,996 offset by a reversal of the consideration payable of $928,080 that will not be required to be paid out as the required permits have not been obtained.

Statements of loss for Excelaron:

	Year ended December 31, 2014 $	Year ended December 31, 2013 $
General and administrative	6,453	7,792
Permitting	580	8,380
Professional fees	12,355	46,662
Net loss and comprehensive loss	19,388	62,834
Company's interest in the joint venture	65%	65%
Equity loss	12,602	40,842

4. Accounts Payable and Accrued Liabilities

	2014 $	2013 $
Trade payables	14,744	22,159
Accrued professional fees	18,000	40,432
Accrued liabilities	32,332	61,245
	65,076	123,836

5. Loans Payable

(a) As at December 31, 2014, the Company owed $nil (2013 - $102,762) to a trust related to a shareholder of the Company. The amount is unsecured, bears interest at 6%, and is due on December 31, 2013.

(b) As at December 31, 2014, the Company owed $nil (2013 - $52,781) to a non-related party. The amount is unsecured, bears interest at 10%, and due on demand.

(c) As at December 31, 2014, the Company owed $nil (2013 - $26,178) to a non-related party. The amount is unsecured, bears interest at 10%, and due on demand.

(Expressed in Canadian dollars)

6. Related Party Transactions

(a) During the year ended December 31, 2014, the amount of $84,429 (2013 – $61,177) was incurred to a company controlled by the President of the Company for salaries and benefits.

(b) During the year ended December 31, 2014, the amount of $46,000 (2013 – $nil) was incurred to the Chief Financial Officer of the Company for salaries and benefits.

(c) During the year ended December 31, 2014, the amount of $5,986 (2013 - $85,618) was incurred to former directors and officers of the Company for consulting fees, salaries, and benefits.

(d) During the year ended December 31, 2014, the amount of $1,408 (2013 - $35,359) was recognized as stock-based compensation for the vesting of stock options granted to directors and officers of the Company.

(e) During the year ended December 31, 2014, the amount of $nil (2013 - $24,088) was incurred for legal fees to a firm where a former director is a partner.

(f) During the year ended December 31, 2014, the amount of $nil (2013 - $1,918) was incurred for royalties to two former directors.

7. Share Capital

Authorized: Unlimited number of common shares without par value

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

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

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

8. Stock Options

The Company has implemented a stock option plan pursuant to which stock options may be granted to directors, officers, employees and consultants of the Company to a maximum of 10% of the issued and outstanding common shares of the Company. The exercise price of each stock option will be equal to the market price at the date of grant but can be discounted as permissible by TSX Venture Exchange policy. Stock options are exercisable over periods up to five or ten years and vesting periods can be imposed at the discretion by the Board of Directors.

The following table summarizes the continuity of the Company's stock options:

	Number of options	Weighted average exercise price $
Outstanding, December 31, 2012	897,500	1.50
Granted	105,000	1.00
Cancelled	(465,000)	1.50
Outstanding, December 31, 2013	537,500	1.40
Granted	145,000	0.29
Cancelled	(432,500)	1.46
Outstanding, December 31, 2014	250,000	0.59

(Expressed in Canadian dollars)

8. Stock Options (continued)

Additional information regarding stock options outstanding and exercisable as at December 31, 2014 is as follows:

	Outstanding			Exercisable	
Exercise price $	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number of stock options	Weighted average exercise price $
0.07	110,000	4.7	0.07	–	–
1.00	140,000	3.7	1.00	116,666	1.00
	250,000	4.2	0.59	116,666	1.00

During the year ended December 31, 2014, the Company granted stock options with a fair value of $5,313 (2013 - $46,560) which was charged to operations and recorded as share-based payment reserve. The fair value of stock options granted was determined using the Black-Scholes option pricing model. The weighted average fair value of the options vested during the year ended December 31, 2014 was $0.04 (2013 - $0.35) per option. Weighted average assumptions used in calculating the fair value of stock-based compensation expense, assuming no expected dividends or forfeitures are as follows:

	2014	2013
Risk-free rate	1.59%	1.95%
Volatility	112%	100%
Weighted average expected life (years)	4.00	3.59

9. Financial Instruments

(a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at December 31, 2014 as follows:

	Fair Value Measurements Using			
	Quoted prices in active markets for identical instruments (Level 1) $	Significant other observable inputs (Level 2) $	Significant unobservable inputs (Level 3) $	Balance, December 31, 2014 $
Cash	385,409	–	–	385,409

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

(b) Credit Risk

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

9. Financial Instruments (continued)

(c) Foreign Exchange Rate Risk

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

The Company does not use derivative instruments to hedge exposure to foreign exchange rate risk. However, management of the Company believes there is no significant exposure to foreign currency fluctuations due to the limited number of transactions conducted in the United States dollar.

(d) Interest Rate Risk

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

(e) Liquidity Risk

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

(f) Price Risk

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

10. Capital Management

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2013.

(Expressed in Canadian dollars)

11. Income Taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

	2014 $	2013 $
Canadian statutory income tax rate	26.5%	26.5%
Income tax recovery at statutory rate	(1,135,834)	(117,169)
Tax effect of:		
Permanent differences and other	8,384	31,144
True up of prior year difference	–	51,354
Change in enacted tax rates	–	(56,556)
Change in valuation allowance	1,127,450	91,227
Income tax provision	–	–

The significant components of deferred income tax assets and liabilities are as follows:

	2014 $	2013 $
Deferred income tax assets		
Consideration payable	–	225,483
Equity investments	492,219	(755,189)
Non-capital losses carried forward	1,718,913	1,571,990
Share issuance costs	1,505	42,903
Total gross deferred income tax assets	2,212,637	1,085,187
Valuation allowance	(2,212,637)	(1,085,187)
Net deferred income tax assets	–	–

As at December 31, 2014, the Company has non-capital losses carried forward of $6,486,461 which are available to offset future years' taxable income. These losses expire as follows:

	$
2028	60,241
2029	514,569
2030	3,751,015
2031	1,085,499
2032	194,352
2033	326,362
2034	554,423
	6,486,461

The Company also has available oil and gas resource related expenditure pools totalling $1,857,432 which may be deducted against future taxable income on a discretionary basis.

12. Change in Reporting Currency

On December 31, 2014, the Company changed its reporting currency from United States dollars to Canadian dollars. In preparing the Company's prior year comparative balances in Canadian dollars, the Company has adjusted amounts previously reported in the financial statements in United States dollars. The changes made to the statement of financial position as at December 31, 2013 and the related statements of operations and comprehensive loss, and cash flows for the year ended December 31, 2013 are shown below.

(a) Reconciliation of statement of financial position as at December 31, 2013:

	As previously reported US$	Effect of change in reporting currency $	Revised amount Cdn$
ASSETS			
Current assets			
Cash	22,488	1,431	23,919
Amounts receivable	10,548	671	11,219
Prepaid expenses	20,649	1,313	21,962
Total current assets	53,685	3,415	57,100
Non-current assets			
Investment in Alamo	29,765	(776)	28,989
Investment in Excelaron	4,628,193	42,572	4,670,765
Total non-current assets	4,657,958	41,796	4,699,754
Total assets	4,711,643	45,211	4,756,854
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	116,431	7,405	123,836
Loans payable	170,854	10,867	181,721
Total current liabilities	287,285	18,272	305,557
Non-current liabilities			
Consideration payable	800,000	50,880	850,880
Total liabilities	1,087,285	69,152	1,156,437
SHAREHOLDERS' EQUITY			
Share capital	7,923,357	(64,767)	7,858,590
Share-based payment reserve	2,182,315	186,119	2,368,434
Deficit	(6,481,314)	(145,293)	(6,626,607)
Total shareholders' equity	3,624,358	(23,941)	3,600,417
Total liabilities and shareholders' equity	4,711,643	45,211	4,756,854

(Expressed in Canadian dollars)

12. Change in Reporting Currency (continued)

(b) Reconciliation of statement of operations and comprehensive loss for the year ended December 31, 2013:

	As previously reported US$	Effect of change in reporting currency $	Revised amount Cdn$
Oil and gas revenue	94,377	1,501	95,878
Production costs and royalties	(1,888)	(30)	(1,918)
Gross margin	92,489	1,471	93,960
Expenses			
Consulting fees	46,453	1,547	48,000
Depletion and depreciation	44,400	(573)	43,827
Equity loss on Alamo Creek	26,698	794	27,492
Equity loss on Excelaron	39,662	1,180	40,842
Foreign exchange loss (gain)	(3,897)	47,279	43,382
General and administrative	27,504	817	28,321
Operating and transportation	42,185	671	42,856
Professional fees	52,527	1,562	54,089
Public company costs	17,697	526	18,223
Salaries and benefits	95,869	2,851	98,720
Stock-based compensation	45,857	703	46,560
Travel	4,224	126	4,350
Total expenses	439,179	57,483	496,662
Net loss before other expenses	(346,690)	(56,012)	(402,702)
Other expenses			
Interest expense	(6,527)	(194)	(6,721)
Loss on sale of property, plant, and equipment	(32,130)	(594)	(32,724)
Total other expenses	(38,657)	(788)	(39,445)
Net loss and comprehensive loss for the year	(385,347)	(56,800)	(442,147)
Loss per share, basic and diluted	(0.03)	(0.01)	(0.04)

(Expressed in Canadian dollars)

12. Change in Reporting Currency (continued)

(c) Reconciliation of statement of cash flows for the year ended December 31, 2013:

	As previously reported US$	Effect of change in reporting currency $	Revised amount Cdn$
Operating activities			
Net loss for the year	(385,347)	(56,800)	(442,147)
Items not involving cash:			
Depletion and depreciation	44,400	(573)	43,827
Effects of foreign exchange loss	–	43,382	43,382
Equity loss on Alamo	26,698	794	27,492
Equity loss on Excelaron	39,662	1,180	40,842
Loss on sale of property, plant, and equipment	32,130	594	32,724
Stock-based compensation	45,857	703	46,560
Changes in non-cash operating working capital:			
Amounts receivable	19,947	(586)	19,361
Prepaid expenses	23,196	(1,190)	22,006
Accounts payable and accrued liabilities	22,184	11,349	33,533
Accrued interest payable	6,527	194	6,721
Net cash used in operating activities	(124,746)	(953)	(125,699)
Investing activities			
Acquisition of property, plant, and equipment	(73,808)	(469)	(74,277)
Investment in Alamo	(17,812)	(530)	(18,342)
Investment in Excelaron	(35,366)	(1,052)	(36,418)
Net cash used in investing activities	(126,986)	(2,051)	(129,037)
Financing activities			
Proceeds from loans payable	170,854	4,146	175,000
Net cash provided by financing activities	170,854	4,146	175,000
Change in cash	(80,878)	1,142	(79,736)
Cash, beginning of year	103,366	289	103,655
Cash, end of year	22,488	1,431	23,919