

UNITED HUNTER OIL & GAS CORP.

Consolidated Financial Statements
Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of United Hunter Oil & Gas Corp.

We have audited the accompanying consolidated financial statements of United Hunter Oil & Gas Corp. which comprise the statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and 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 consolidated 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 consolidated financial statements based on our audits. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of United Hunter Oil & Gas Corp. as at December 31, 2016 and 2015 and the results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of the consolidated 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.



Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

April 28, 2017

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

	December 31, 2016 \$	December 31, 2015 \$
Assets		
Current assets		
Cash	83	37,383
Amounts receivable	627	171
Prepaid expenses	5,667	11,263
Total assets	6,377	48,817
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	75,628	11,653
Loans payable (Note 6)	282,729	–
Total liabilities	358,357	11,653
Shareholders' equity (deficit)		
Share capital	8,883,214	8,883,214
Share-based payment reserve	2,375,883	2,375,841
Accumulated other comprehensive loss	(1,363)	–
Deficit	(11,609,714)	(11,221,891)
Total shareholders' equity (deficit)	(351,980)	37,164
Total liabilities and shareholders' equity (deficit)	6,377	48,817

Nature of operations and continuance of business (Note 1)
Subsequent event (Note 13)

Approved and authorized for issuance on behalf of the Board on April 28, 2017:

/s/ "Tim Turner"

Tim Turner, Director

/s/ "Edward Banaszek"

Edward Banaszek, Director

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

UNITED HUNTER OIL & GAS CORP.Consolidated statements of operations and comprehensive loss
(Expressed in Canadian dollars)

	Year ended December 31, 2016 \$	Year ended December 31, 2015 \$
Expenses		
Consulting fees	69,022	49,965
Equity loss on Alamo Creek (Note 3)	–	2,684
Equity loss on Excelaron (Note 3)	–	3,076
Exploration and evaluation expenditures	102,808	–
Foreign exchange loss (gain)	171	(16,801)
General and administrative	22,655	22,760
Impairment of investments in Alamo Creek and Excelaron (Note 3)	–	3,485
Professional fees	30,836	59,238
Public company costs	20,825	18,240
Salaries and benefits (Note 7)	131,638	166,616
Stock-based compensation (Notes 7)	42	2,094
Travel	1,969	6,038
Total expenses	379,966	317,395
Loss before other income (expense)	(379,966)	(317,395)
Other income (expense)		
Gain on settlement of related party debt (Note 8)	–	8,276
Interest expense	(7,857)	–
Total other income (expense)	(7,857)	8,276
Net loss for the year	(387,823)	(309,119)
Other comprehensive loss		
Foreign currency translation loss	(1,363)	–
Comprehensive loss for the year	(389,186)	(309,119)
Loss per share, basic and diluted	(0.01)	(0.01)
Weighted average shares outstanding	32,650,957	32,444,778

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

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

	Share capital		Share-based payment reserve \$	Accumulated other comprehensive loss \$	Deficit \$	Total shareholders' equity (deficit) \$
	Number of shares	Amount \$				
Balance, December 31, 2014	32,430,267	8,875,490	2,373,747	–	(10,912,772)	336,465
Shares issued for the settlement of related party debt	220,690	7,724	–	–	–	7,724
Stock-based compensation	–	–	2,094	–	–	2,094
Net loss for the year	–	–	–	–	(309,119)	(309,119)
Balance, December 31, 2015	32,650,957	8,883,214	2,375,841	–	(11,221,891)	37,164
Stock-based compensation	–	–	42	–	–	42
Foreign exchange translation loss	–	–	–	(1,363)	–	(1,363)
Net loss for the year	–	–	–	–	(387,823)	(387,823)
Balance, December 31, 2016	32,650,957	8,883,214	2,375,883	(1,363)	(11,609,714)	(351,980)

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

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

	Year ended December 31, 2016 \$	Year ended December 31, 2015 \$
Operating activities		
Net loss	(387,823)	(309,119)
Items not involving cash:		
Equity loss on Alamo Creek	–	2,684
Equity loss on Excelaron	–	3,076
Gain on settlement of debt	–	(8,276)
Impairment of investments in Alamo Creek and Excelaron	–	3,485
Stock-based compensation	42	2,094
Changes in non-cash operating working capital:		
Amounts receivable	(456)	3,170
Prepaid expenses	5,596	1,528
Accounts payable and accrued liabilities	63,975	(37,423)
Net cash used in operating activities	(318,666)	(338,781)
Investing activities		
Investment in Alamo Creek	–	(5,674)
Investment in Excelaron	–	(3,571)
Net cash used in investing activities	–	(9,245)
Financing activities		
Proceeds from loans payable	282,729	–
Net cash provided by financing activities	282,729	–
Effect of foreign exchange rate changes on cash	(1,363)	–
Change in cash	(37,300)	(348,026)
Cash, beginning of year	37,383	385,409
Cash, end of year	83	37,383
Non-cash financing and investing activities:		
Shares issued for settlement of related party debt	–	7,724
Supplemental disclosures:		
Interest paid	–	–
Income taxes paid	–	–

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

UNITED HUNTER OIL & GAS CORP.

Notes to the consolidated financial statements

Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

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% undivided mineral interest ownership in 60 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, in San Luis Obispo County, 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 consolidated 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, 2016, the Company has no assets or operations that generate revenue, has a working capital deficit of \$351,980, and has an accumulated deficit of \$11,609,714. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management will seek additional financing through the sale of equity or from loans generated from private lenders to cover its operating expenditures when necessary. While there can be no certainty that these sources will provide the additional fund required for the next twelve months, management is of the opinion that sufficient working capital may still be obtained from external financing to meet the Company’s liabilities and commitments as they become due, although there is a significant risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors, current market conditions, and inability to secure new assets to date, however, indicate the existence of a material uncertainty that casts significant doubt on the ability of the Company to continue as a going concern or in its present form. These consolidated 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 consolidated 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 consolidated 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.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, United Hunter Texas, LLC, as of December 2, 2016 (date of incorporation). All significant intercompany balances and transactions have been eliminated on consolidation.

(b) Use of Estimates and Judgments

The preparation of the consolidated 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 exploration and evaluation assets, impairment of investment in joint ventures, measurement of share-based payments, and unrecognized deferred income tax assets.

UNITED HUNTER OIL & GAS CORP.

Notes to the consolidated financial statements

Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(b) Use of Estimates and Judgments (continued)

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 the fair value of share-based payments, and in the application of the going concern assumption which requires management to take into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period.

(c) 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.

(d) Oil and Gas Properties

Oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Depletion and depreciation

Oil and gas development and production assets are depreciated, by major component, on a unit-of-production basis over proved and probable reserve volumes, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually. Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of oil, natural gas, and gas liquids.

(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.

UNITED HUNTER OIL & GAS CORP.

Notes to the consolidated financial statements

Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(e) 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 consolidated statement of operations.

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 consolidated statement of operations.

(f) 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.

(g) 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 consolidated 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.

UNITED HUNTER OIL & GAS CORP.

Notes to the consolidated financial statements

Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(g) Income Taxes (continued)

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 income 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.

(h) 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 consolidated 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 consolidated 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.

UNITED HUNTER OIL & GAS CORP.

Notes to the consolidated financial statements

Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(h) Financial Instruments (continued)

(i) Non-derivative financial assets (continued)

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 consolidated 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.

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 consolidated 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 consolidated 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 consolidated 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 consolidated statement of operations are not reversed through the consolidated statement of operations. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

UNITED HUNTER OIL & GAS CORP.

Notes to the consolidated financial statements

Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(h) Financial Instruments (continued)

(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, cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the consolidated 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.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities and loans 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 issuance of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

(i) 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.

(j) 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 consolidated statement of operations.

(k) 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, 2016, the Company has 140,000 (2015 – 238,333) potentially dilutive shares outstanding.

UNITED HUNTER OIL & GAS CORP.

Notes to the consolidated financial statements

Years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(l) 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 consolidated statement of operations. For the years ended December 31, 2016 and 2015, comprehensive income (loss) consists of foreign currency translation gains and losses.

(m) 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.

(n) 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, 2016, and have not been applied in preparing these financial statements.

IFRS 2, *Share-based payment* (Amended)

IFRS 9, *Financial Instruments* (New)

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

3. Investment in Joint Ventures

	Alamo \$	Excelaron \$	Total \$
Balance, December 31, 2014	–	–	–
Cash investments	5,674	3,571	9,245
Impairment	(2,990)	(495)	(3,485)
Equity loss for the year	(2,684)	(3,076)	(5,760)
Balance, December 31, 2015 and 2016	–	–	–

UNITED HUNTER OIL & GAS CORP.

Notes to the consolidated financial statements

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(Expressed in Canadian dollars)

3. Investment in Joint Ventures (continued)

Alamo Creek

The Company owned a 25% joint venture interest in Alamo Creek which had 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 on their investment in Alamo Creek.

On December 22, 2015, Alamo Creek was dissolved.

Statement of loss for Alamo:

	Year ended December 31, 2015 \$
General and administrative	1,444
Leases	6,090
Professional fees	3,201
Net loss	10,735
Company's interest in the joint venture	25%
Equity loss	2,684

Excelaron

The Company had an indirect 65% joint venture interest in Excelaron, which held a 100% interest in an oil and natural gas leases consisting of 60 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.

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 impaired its investment in Excelaron resulting in the recognition of an impairment loss of \$3,742,916 which consisted of the carrying value of the investment of \$4,670,996 offset by a reversal of the consideration payable of \$928,080 that was not required to be paid out as the required permits have not been obtained.

On November 14, 2016, Excelaron was dissolved and the ownership in the undivided mineral estate was proportionately transferred to the Company (65% interest) and to Sacgasco, LLC, the other joint venture partner (35% interest).

Statement of loss for Excelaron:

	Year ended December 31, 2015 \$
General and administrative	2,327
Permitting	48
Professional fees	2,357
Net loss	4,732
Company's interest in the joint venture	65%
Equity loss	3,076

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Notes to the consolidated financial statements

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(Expressed in Canadian dollars)

4. Oil and Gas Property

On December 12, 2016, the Company entered into an option agreement for the 100% interest in oil and gas interests located in the Hull Silk Sikes Sand Unit (the "HSS Unit") in Archer County, Texas. The HSS Unit is located approximately 12 miles southwest of Wichita Falls, Texas and comprises approximately 2,300 acres in a single operating unit. The purchase price of the HSS Unit is \$13,000,000, subject to any closing cost adjustments, and is payable over a five-year period from the date of closing. The Company would receive 80.5% net revenue interest, which includes an enhanced oil recovery tax credit of 2.3% of the market value of the total operated basis from the State of Texas.

The Company paid an initial fee of \$99,338 (US\$75,000) for the exclusive right to purchase the interest by March 31, 2017, subject to due diligence procedures. On March 31, 2017, the exclusive right was extended to April 30, 2017. Due to the financial uncertainty of the Company's ability to exercise the option, the Company has expensed all costs incurred on the option agreement.

5. Accounts Payable and Accrued Liabilities

	2016	2015
	\$	\$
Trade payables	26,476	1,153
Accrued liabilities	7,500	10,500
Accrued interest	7,857	—
Accrued salaries	33,795	—
	<u>75,628</u>	<u>11,653</u>

6. Loans Payable

- (a) As at December 31, 2016, the Company owed \$92,000 to non-related parties. The amount owing is unsecured, bears interest at 12% per annum, and is due on demand.
- (b) As at December 31, 2016, the Company owed \$190,729 to non-related parties. The amount owing is unsecured, bears interest at 6% per annum, and is due on demand.

7. Related Party Transactions

- (a) During the year ended December 31, 2016, the amount of \$90,000 (2015 – \$90,000) was incurred to a company controlled by the President of the Company for salaries and benefits.
- (b) During the year ended December 31, 2016, the amount of \$42,000 (2015 – \$72,000) was incurred to the former Chief Financial Officer of the Company for salaries and benefits.
- (c) During the year ended December 31, 2016, the amount of \$42 (2015 - \$389) was recognized as stock-based compensation for the vesting of stock options granted to directors and officers of the Company.

8. Share Capital

Authorized: Unlimited number of common shares without par value

On December 7, 2015, the Company issued 220,690 common shares with a fair value of \$7,724 to settle debt of \$16,000 owed to a company controlled by the President of the Company, resulting in a gain on settlement of debt of \$8,276 which has been included in the consolidated statement of operations.

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9. 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, 2014 and 2015	250,000	0.59
Cancelled	(110,000)	0.07
Outstanding, December 31, 2016	140,000	1.00

Additional information regarding stock options outstanding and exercisable as at December 31, 2016 is as follows:

Exercise price \$	Outstanding and Exercisable		
	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price \$
1.00	140,000	1.7	1.00

10. Financial Instruments

(a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's consolidated statement of financial position as at December 31, 2016 as follows:

	Fair Value Measurements Using			Balance, December 31, 2016 \$
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$	
Cash	83	—	—	83

The fair values of other financial instruments, which include amounts receivable, accounts payable and accrued liabilities, and loans 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.

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10. 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.

11. 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, 2015.

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12. 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:

	2016 \$	2015 \$
Canadian statutory income tax rate	26.0%	26.0%
Income tax recovery at statutory rate	(100,834)	(80,371)
Tax effect of:		
Permanent differences and other	11	545
True up of prior year difference	–	(70,734)
Change in unrecognized deferred income tax assets	100,823	150,560
Income tax provision	–	–

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

	2016 \$	2015 \$
Deferred income tax assets		
Equity investments	619,079	592,349
Non-capital losses carried forward	1,844,203	1,769,740
Share issuance costs	738	1,108
Total gross deferred income tax assets	2,464,020	2,363,197
Unrecognized deferred income tax assets	(2,464,020)	(2,363,197)
Net deferred income tax asset	–	–

As at December 31, 2016, the Company has non-capital losses carried forward of \$7,093,087 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	347,395
2034	554,423
2035	299,200
2036	286,393
	7,093,087

The Company also has available oil and gas resource related expenditure pools totalling \$2,381,075 which may be deducted against future taxable income on a discretionary basis.

13. Subsequent Event

On March 1, 2017, the Company issued a promissory note for proceeds of \$40,038 (US\$30,000). The promissory note is unsecured, bears interest at 6% per annum, and is due on February 28, 2018.