



**Consolidated Financial Statements of**

**HUNTER OIL CORP.**

**Years Ended December 31, 2018 and 2017**

(Expressed in US Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hunter Oil Corp.

### Opinion

We have audited the consolidated financial statements of Hunter Oil Corp. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Goertz.



**DALE MATHESON CARR-HILTON LABONTE LLP**  
**CHARTERED PROFESSIONAL ACCOUNTANTS**  
Vancouver, BC

April 8, 2019

# HUNTER OIL CORP.

## Consolidated Balance Sheets

(all amounts expressed in thousands of US dollars)

	Notes	As of December 31, 2018	As of December 31, 2017
<b>Assets</b>			
Current assets			
Cash		\$ 1,717	\$ 75
Receivables	7	27	110
Prepaid expenses and other deposits		33	138
Total current assets		<u>1,777</u>	<u>323</u>
Non-current assets			
Exploration and evaluation assets	9	-	180
Property and equipment, net	10	-	33,493
Other long-term assets	8	130	-
Restricted cash	6	25	2,342
Total non-current assets		<u>155</u>	<u>36,015</u>
Total Assets		\$ 1,932	\$ 36,338
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable		\$ 103	\$ 1,025
Accrued liabilities	11	59	100
Asset retirement obligations	12	-	349
Total current liabilities		<u>162</u>	<u>1,474</u>
Asset retirement obligations	12	-	12,751
Total liabilities		<u>162</u>	<u>14,225</u>
Shareholders' equity			
Share capital	14	111,816	126,626
Contributed surplus		9,507	9,256
Accumulated deficit		(119,553)	(113,769)
Total shareholders' equity		<u>1,770</u>	<u>22,113</u>
Total Liabilities and Shareholders' Equity		\$ 1,932	\$ 36,338

Going Concern (See Note 2)

Approved by the Board of Directors:

/s/ Srinivas Polishetty  
Srinivas Polishetty  
Director

/s/ Andrew Hromyk  
Andrew Hromyk  
Director

See accompanying notes to the consolidated financial statements

# HUNTER OIL CORP.

Consolidated Statements of Operations and Comprehensive Loss  
(all amounts expressed in thousands of US dollars)

	Notes	Year Ended December 31,	
		2018	2017
Expenses			
General and administrative	21	\$ 381	\$ 337
Management fees and consulting		360	573
Interest expense		54	-
Stock-based compensation		200	-
Foreign currency translation loss		60	6
Total expenses		<u>1,055</u>	<u>916</u>
Net loss from continuing operations		<u>(1,055)</u>	<u>(916)</u>
Discontinued Operations	17	(4,661)	(2,270)
Net loss and comprehensive loss for the year		<u>\$ (5,716)</u>	<u>\$ (3,186)</u>
Loss per share continuing operations - basic and diluted		\$ (0.09)	\$ (0.11)
Loss per share discontinued operations - basic and diluted		<u>(0.38)</u>	<u>(0.28)</u>
Total		<u>\$ (0.47)</u>	<u>\$ (0.39)</u>
Weighted average number of shares outstanding		12,144,515	8,070,871

See accompanying notes to the consolidated financial statements

# HUNTER OIL CORP.

Consolidated Statements of Shareholders' Equity  
(all amounts expressed in thousands of US dollars)

	Number of Common Shares		December 31,	
	December 31, 2018	2017	2018	2017
<b>Total Shareholders' Equity, beginning balances</b>			<b>\$ 22,113</b>	<b>\$ 25,301</b>
<b>Equity Instruments (Common Shares)</b>				
Balance, January 1	8,070,871	8,070,871	126,626	126,628
Issued stock, no par value	5,000,000	-	1,540	-
Issued stock from exercise of options, no par value	190,000	-	226	-
Offering costs	-	-	-	(2)
Return of capital	-	-	(16,576)	-
Balance, December 31	<u>13,260,871</u>	<u>8,070,871</u>	<u>111,816</u>	<u>126,626</u>
<b>Contributed Surplus</b>				
Balance, January 1			9,256	9,256
Fair value of stock option grants			732	-
Issued stock from exercise of options			(110)	-
Fair value of stock options settled for cash			(371)	-
Balance, December 31			<u>9,507</u>	<u>9,256</u>
<b>Accumulated Deficit</b>				
Balance, January 1			(113,769)	(110,583)
Repurchase of stock options (Note 15)			(68)	-
Net loss			(5,716)	(3,186)
Balance, December 31			<u>(119,553)</u>	<u>(113,769)</u>
<b>Total Shareholders' Equity, ending balances</b>			<b>\$ 1,770</b>	<b>\$ 22,113</b>

See accompanying notes to the consolidated financial statements

# HUNTER OIL CORP.

Consolidated Statements of Cash Flows  
(all amounts expressed in thousands of US dollars)

	Year Ended	
	December 31,	
	2018	2017
Cash provided by (used in):		
Operating activities		
Net loss for the period from continuing operations	\$ (1,055)	\$ (916)
Add (deduct) non-cash items:		
Foreign currency translation loss	60	6
Stock-based compensation	200	-
Total non-cash items	(795)	(910)
Asset retirement expenditures	-	-
Changes in working capital (Note 20)	(385)	634
Cash used in operations - continuing operations	(1,180)	(276)
Cash used in operations - discontinued operations	(3,266)	(1,002)
	(4,446)	(1,278)
Investing activities		
Investing in other long-term assets	(130)	-
Proceeds on sale of discontinued operations	21,547	-
Cash provided by (used in) investing activities - continuing operations	21,417	-
Cash provided by (used in) investing activities - discontinued operations	-	(148)
	21,417	(148)
Financing activities		
Proceeds from private placement funding	1,540	-
Proceeds of stock options	116	-
Capital distribution	(16,546)	-
Offering costs on private placement funding	-	(2)
Cash used in financing activities - continuing operations	(14,890)	(2)
Cash provided by financing activities - discontinued operations	(439)	453
	(15,329)	451
Change in cash and cash equivalents	1,642	(975)
Cash and cash equivalents, beginning	75	1,050
Cash and cash equivalents, ending	\$ 1,717	\$ 75

See accompanying notes to the consolidated financial statements

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements  
(All amounts in thousands of US dollars unless otherwise indicated)  
For the Years ended December 31, 2018 and 2017

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## 1. Reporting Entity and Description of Business

Hunter Oil Corp. (the “Company”) is incorporated in British Columbia, Canada and is engaged in the business of acquiring and developing crude oil and natural gas properties. On August 31, 2018, the Company disposed all of its operations in oil and gas production (Note 17). The Company is currently evaluating potential interests in oil and gas properties and other business opportunities in the oil and gas industry.

Common shares of the Company are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “HOC” and quoted on the OTC Markets Group (“OTCQX”) under the symbol “HOILF”. The Company’s head office and registered and records office is located at Suite 940, 1040 West Georgia Street, Vancouver, British Columbia, V6E 4H1 Canada.

## 2. Liquidity and Going Concern

These consolidated financial statements are prepared on the basis that the Company will continue to operate as a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the twelve-month period following the date of these consolidated financial statements. The Company has working capital of \$1.6 million as at December 31, 2018.

Although the Company has no current operations nor operating remaining assets, other than cash, the board of directors is actively seeking a transaction(s) whereby it will continue as a going concern. The proposed business of the Company involves a high degree of risk and there is no assurance that the Company will identify an appropriate business for acquisition or investment, and even if so identified, it may not be able to finance such an acquisition or investment within the requisite period. Additional funds will be required to enable the Company to pursue such an initiative and the Company may be unable to obtain such financing on terms which are satisfactory to it. Furthermore, there is no assurance that the business will be profitable. These factors indicate the existence of a material uncertainty that may cast doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

## 3. Basis of Presentation and Significant Accounting Policies

- a) **Statement of Compliance** - These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The consolidated financial statements have been prepared under the historical cost convention, except for financial assets and liabilities classified as fair value through profit or loss or fair value through other comprehensive loss. The accounting policies set out in this note have been applied in preparing the consolidated financial statements for the years ended December 31, 2018 and 2017. These financial statements were approved and authorized for issuance by the Board of Directors on April 8, 2019.



# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

(All amounts in thousands of US dollars unless otherwise indicated)

For the Years ended December 31, 2018 and 2017

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## 3. Basis of Presentation and Significant Accounting Policies (cont'd)

### b) Basis of Presentation

- i. **Functional and Presentation Currency** – These consolidated financial statements are presented in United States dollars, unless otherwise indicated. Items included in the consolidated financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency the United States dollar.
  - ii. **Reclassifications** – Certain reclassifications have been made to the December 31, 2017, consolidated financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported accumulated deficit.
- c) **Basis of Measurement and Estimation Uncertainty** - The timely preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the consolidated financial statements, and the amount of revenues and expenses (Note 4). Accordingly, actual results may differ from these estimates.
- d) **Principles of Consolidation and Presentation** - The consolidated financial statements of the Company include the financial information of Hunter Oil Corp. (the "Parent Company") and its wholly-owned subsidiaries. The following table lists the Company's principal operating subsidiaries, their jurisdiction of incorporation and its percentage ownership as of the date of this report:

Subsidiary Name	Jurisdiction	Ownership 2018	Ownership 2017
Hunter Oil Management Corp.	Florida, USA	100%	100%
Hunter Ventures Corp.	Delaware, USA	100%	100%
Hunter Oil Resources Corp.	Delaware, USA	100%	100%
Hunter Oil Production Corp.	Florida, USA	100%	100%
Ridgeway Arizona Oil Corp. (1)	Arizona, USA	0%	100%
EOR Operating Company (1)	Texas, USA	0%	100%
Milnesand Minerals Inc. (2)	Delaware, USA	100%	100%
Chaveroo Minerals Inc. (2)	Delaware, USA	100%	100%
Hunter Ranch Corp.	Delaware, USA	100%	100%

- (1) Results of discontinued operations included to August 31, 2018 (See Note 17). Subsidiaries sold as disposal of discontinued operations.
- (2) Results of discontinued operations. Assets and liabilities of each subsidiary sold as part of discontinued operations (See Note 17).

Intercompany balances and transactions are eliminated upon consolidation.

- e) **Foreign Currency Translation** - Foreign currency transactions are translated into the functional currency using the exchange rates that are prevailing at the dates of the transaction. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year end exchange rates for monetary assets and liabilities denominated in currencies other than the entities functional currency are recognized in the statement of operations. Revenues and expenses are translated at average exchange rates prevailing during the period.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

(All amounts in thousands of US dollars unless otherwise indicated)

For the Years ended December 31, 2018 and 2017

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### 3. Basis of Presentation and Significant Accounting Policies (cont'd)

- f) **Revenue from Contracts with Customers** - The Company has adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15") effective January 1, 2018 under the modified retrospective approach with a practical expedient that allows the Company to avoid re-considering the accounting for any sales contracts that were completed prior to the adoption date and were previously accounted for under IAS 18. IFRS 15 outlines the principles that must be applied to measure and recognize revenue and the related cash flows. Revenue is recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 are applied using the following five steps:
- a. Identify the contract(s) with a customer.
  - b. Identify the performance obligation in the contract.
  - c. Determine the transaction price.
  - d. Allocate the transaction price to the performance obligations in the contract.
  - e. Recognize revenue when (or as) the entity satisfies a performance obligation. The Company has concluded that the recognition and measurement of the sale of products in all contracts is consistent with the current revenue recognition practice and therefore does not expect any transitional adjustment.

The adoption of IFRS 15 had no impact on the Company's consolidated financial statements for the year ended December 31, 2018.

- g) **Restricted Cash** – Restricted cash is comprised of cash escrowed and certificates of deposit at banks which are pledged either to secure plugging and abandonment obligations for properties operated by the Company's subsidiaries or to secure a well site reclamation project in Canada.
- h) **Exploration and Evaluation Assets** – Pre-license expenditures are expensed in the period in which they are incurred. The costs for oil and gas properties acquisitions, leases to explore, exploratory well expenditures, asset retirement obligations (estimated), delay rentals, lease bonus payments, and evaluating the commercial potential of underlying resources are all initially capitalized as exploration and evaluation assets. In addition, the costs to maintain and evaluate major development costs are capitalized as exploration and evaluation assets.

Exploration and evaluation assets are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. If an area or exploration well is not considered commercially viable, the related capitalized costs are charged to profit or loss. When management determines with reasonable certainty that an exploration and evaluation asset is technically feasible and commercially viable as evidenced by the existence of proved or probable reserves, and the appropriate internal and external approvals have been met, the asset is transferred to property and equipment.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development oil and gas assets within property and equipment. No depletion is charged during the exploration and evaluation phase, with the exception of assets that are held by production.

- i) **Property and Equipment** – Property and equipment includes costs directly attributable to oil and natural gas development and production and office furniture and equipment. Property and equipment is recorded at cost less accumulated depletion, depreciation, and impairment losses net of recoveries.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

(All amounts in thousands of US dollars unless otherwise indicated)

For the Years ended December 31, 2018 and 2017

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## 3. Basis of Presentation and Significant Accounting Policies (cont'd)

### i) Property and Equipment (cont'd)

The costs to acquire developed or producing oil and gas properties and to develop oil and gas properties, including land acquisitions, the acquisition of producing petroleum and natural gas assets, drilling of productive and nonproductive wells, the completion of geological and geophysical surveys, costs to construct and install dedicated infrastructure such as wellhead and production equipment, water handling facilities and equipment, and supporting assets, are capitalized as oil and gas properties within property and equipment.

The costs to construct, install and commission, or acquire, oil and gas production equipment, pipeline and transport facilities, and costs related to asset retirement obligations, are capitalized as property and equipment. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized.

- j) **Depreciation and Depletion** – Exploration and evaluation assets are not subject to depreciation and depletion. Once transferred to property and equipment, these costs along with estimated future capital expenditures to be incurred in order to develop proved reserves are depleted on a unit-of-production basis on the cash generating unit (CGU or Component) level using estimated proved oil and natural gas reserves as evaluated by independent engineers.

Office equipment and vehicles are depreciated using the straight-line method over five years, office furniture and leasehold improvements are depreciated using the straight-line method over the shorter of the lease term or seven years, and computer software is depreciated using the straight-line method over three years.

### k) Impairment of Non-Financial Assets

#### *Exploration and Evaluation Assets*

Exploration and evaluation assets are tested for impairment when reclassified to development oil and gas assets as part of property and equipment or whenever the facts and circumstances indicate impairment. An impairment loss is recognized for the amount by which the exploration and evaluation asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use. For the purpose of assessing impairment, the exploration and evaluation assets subject to testing are grouped within existing CGUs of producing fields that are located in the same geographical region.

#### *Oil and Gas Properties*

Oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. In evaluating for possible impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (CGU level) that are largely independent of the cash inflows of other assets or CGUs. An impairment loss is recognized for the amount by which the carrying amount of the individual asset or CGU exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal or the value-in-use. In determining the fair value less costs of disposal, recent market transactions are taken into account, if available. In the absence of such transactions, an appropriate valuation model is used. Value-in-use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the CGU in

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

(All amounts in thousands of US dollars unless otherwise indicated)

For the Years ended December 31, 2018 and 2017

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## 3. Basis of Presentation and Significant Accounting Policies (cont'd)

### k) Impairment of Non-Financial Assets (cont'd)

its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

- l) **Asset Retirement Obligations** – Provisions are recognized for asset retirement obligations associated with tangible long-lived assets, such as well sites and facilities. Provisions for asset retirement obligations are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a risk-free rate. The increase in the provision due to the passage of time is recognized as accretion and included in the statement of operations.

Costs associated with the provision for asset retirement obligations are recognized as part of the cost of the related asset. Changes in the measurement of existing retirement obligations are added to or deducted from the cost of the related asset.

- m) **Provisions and Contingencies** – Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value when the effect is material.

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

- n) **Current and Deferred Taxes** – The tax expense for the period comprises current and deferred tax. Tax expense is recognized in the statement of operations, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

(All amounts in thousands of US dollars unless otherwise indicated)

For the Years ended December 31, 2018 and 2017

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## 3. Basis of Presentation and Significant Accounting Policies (cont'd)

### n) Current and Deferred Taxes (cont'd)

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxing authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

- o) **Stock-Based Compensation** – The Company has a stock-based compensation plan, under which the Company receives services from directors, employees, and consultants as consideration for stock instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of options is recognized as an expense. The fair value of stock options are determined using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted.

The total expense is recognized over the vesting period. At the end of each reporting period, the Company reassess its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to the original estimate, if any, in profit or loss, with a corresponding adjustment to equity.

When options are exercised, the Company issues new common shares. The proceeds received for the shares on exercise of stock options, net of any directly attributable transaction costs, are credited to share capital.

### p) Financial Instruments

Financial instruments are accounted for in accordance with IFRS 9, “Financial Instruments: Classification and Measurement”. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### *Financial assets*

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income (“FVOCI”); or (iii) fair value through profit or loss (“FVTPL”). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements  
(All amounts in thousands of US dollars unless otherwise indicated)  
For the Years ended December 31, 2018 and 2017

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## 3. Basis of Presentation and Significant Accounting Policies (cont'd)

### p) Financial Instruments (cont'd)

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash and restricted cash are measured at FVTPL. Receivables are measured at amortized cost.

#### *Impairment of financial assets*

IFRS 9 uses the expected credit loss (“ECL”) model. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The ECL model applies to the Company’s receivables.

An ‘expected credit loss’ impairment model applies, which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset’s original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss 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.

#### *Financial liabilities*

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable are classified under other financial liabilities and carried on the statement of financial position at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

# HUNTER OIL CORP.

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## 3. Basis of Presentation and Significant Accounting Policies (cont'd)

### p) Financial Instruments (cont'd)

The Company retrospectively adopted IFRS 9 on January 1, 2018. Due to the short-term and/or liquid nature of its financial assets and financial liabilities, the adoption had no impact on the amounts recognized in the Company's consolidated financial statements for the year ended December 31, 2018.

q) **Share Capital** – Common shares are classified as equity. Incremental costs directly attributable to the issue of new common shares are shown in equity as a deduction, net of tax, from the proceeds.

r) **Earnings Per Share** – Earnings per share is calculated by dividing net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period. Diluted per share information is calculated using the treasury method. The treasury method assumes the notional exercise of all in-the-money stock options, warrants and agency options and that all notional proceeds to the Company are used to repurchase the Company's common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive.

## 4. Significant Judgements and Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis and involve significant estimation uncertainty which has significant risk of causing adjustments to the carrying amounts of assets and liabilities. Accounting estimates are reviewed on an annual basis for relevance and reliability. Any revisions to the accounting estimates are recognized prospectively in the current year and in any future years affected. Significant judgments, estimates and assumptions made by management in these consolidated financial statements are outlined as follows:

a) **Deferred Income Tax Assets** – Assessing the recoverability of deferred income tax assets requires significant estimates related to expectations of future taxable income based on forecasted cash flows from operations as well as interpretations and judgements on uncertain tax positions of applicable tax laws. Such judgements include determining the likelihood of tax positions being successfully challenged by tax authorities based on information from relevant tax interpretations and tax laws. To the extent such interpretations are challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability to realize deferred tax assets recorded at the balance sheet date may be compromised. Judgements are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

b) **Financial Instruments** – The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Company may use derivative instruments to manage oil and gas commodity prices. The fair value of these derivatives is determined using valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data, including quoted commodity prices and volatility. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and, as such, are subject to measurement uncertainty.

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## 4. Significant Judgements and Estimates (cont'd)

- c) **Oil and Natural Gas Reserves** – Certain depletion, depreciation, impairment, and asset retirement obligation charges are measured based on the Company's estimate of proved and probable oil and gas reserves and resources. The estimation of proved and probable reserves and resources is an inherently complex process and involves the exercise of professional judgement. As at December 31, 2018, the Company sold all of its oil and natural gas reserves. As at December 31, 2017, the Company's oil and natural gas reserves were reviewed by independent petroleum engineers in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*.

Oil and natural gas reserve estimates are based on a range of geological, technical and economic factors, including projected future rates of production, estimated commodity prices, engineering data, and the timing and amount of future expenditures, all of which are subject to uncertainty. Assumptions reflect market and regulatory conditions existing at the reporting date, which could differ significantly from other points in time throughout the year, or future periods. Changes in market and regulatory conditions and assumptions can materially impact the estimation of net reserves and resources.

- d) **Impairment of Assets** – The Company evaluates its assets for possible impairment at the CGU level. The determination of CGUs requires judgement in defining the smallest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs has been determined based on similar geological structure, shared infrastructure, geographical proximity, commodity type, the existence of active markets, similar exposure to market risks, and the way in which management monitors the operations. As at December 31, 2018, the Company had no operating assets other than cash.

The decision to transfer exploration and evaluation assets to property and equipment is based on management's determination of a property's technical feasibility and commercial viability based on proved and probable reserves as well as related future cash flows. As at December 31, 2018, the Company had no exploration or evaluation assets.

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgements as to future events and circumstances as to whether economic quantities of reserves will be found to assess if technical feasibility and commercial viability has been achieved.

- e) **Asset Retirement Obligations** – The Company estimates and recognizes liabilities for future asset retirement obligations and restoration of exploration and evaluation assets, and for oil and gas development and producing assets. These provisions are based on estimated costs, which take into account the anticipated method and extent of restoration, technological advances and the possible future use of the asset. Actual costs are uncertain, and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new restoration techniques, operating experience and prices. The expected timing of future retirement and restoration may change due to these factors, as well as affect the estimates of reserve life. Changes to assumptions related to future expected costs, discount rates and timing may have a material impact on the amounts presented. The Company has chosen to use a risk-free rate for discounting asset retirement obligations.



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## 5. Future Accounting Pronouncements

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2019 and have not been applied in preparing these consolidated financial statements.

### *IFRS 16: Leases*

This new standard replaces *IAS 17 Leases* and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15. The Company does not expect the adoption of IFRS 16 for periods beginning January 1, 2019 to be significant.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

## 6. Restricted Cash

Restricted cash is comprised of escrowed amounts or certificates of deposit at banks which are pledged to secure plugging and abandonment obligations for properties operated by the Company's subsidiaries or to secure a well site reclamation project in Canada (Note 11).

The following table summarizes restricted cash balances:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Bank deposits pledged to secure asset retirement obligations	\$ 25	\$ 2,342

## 7. Receivables

The Company's receivables were comprised primarily of Canadian Goods and Services Tax receivable as at December 31, 2018. For the comparative period ended December 31, 2017, the receivables related to crude oil sales from the Company's discontinued operations.

## 8. Other Long-Term Assets

During the year-ended December 31, 2018, the Company acquired for cash several internet domains for which the Company is seeking potential new business ventures. The balance as at December 31, 2018 was \$0.13 million which represents the historical cost of acquiring the assets. The assets represent intangible assets with an indefinite life and have not been amortized and management has determined these assets are not impaired as at December 31, 2018.

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## 9. Exploration and Evaluation Assets

Exploration and evaluation assets activity for the years ended December 31, 2018 and 2017 was as follows:

	Oil and Gas Properties	
<b>Balance, December 31, 2016</b>	<b>\$</b>	<b>64</b>
Additions		116
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>180</b>
Impairment loss		(5)
Dispositions		(175)
<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>-</b>
<b>Net book value:</b>		
December 31, 2017	\$	180
December 31, 2018	\$	-

On August 31, 2018, the Company sold all of its oil and gas properties (See Note 17).

## 10. Property and Equipment

Property and equipment activity for the years ended December 31, 2018 and 2017 was as follows:

	Oil and Gas Properties		Other <sup>(1)</sup>	Total
<b>Balance, December 31, 2016</b>	<b>\$</b>	<b>42,623</b>	<b>\$ 342</b>	<b>\$ 42,965</b>
Additions		234	-	234
Dispositions		(200)	(208)	(408)
Change in discount rate of asset retirement obligations		497	-	497
Change in estimated cost of asset retirement obligations		(5,337)	-	(5,337)
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>37,817</b>	<b>\$ 134</b>	<b>\$ 37,951</b>
Additions		29	-	29
Dispositions		(37,846)	(134)	(37,980)
<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>-</b>	<b>\$ -</b>	<b>\$ -</b>

### Accumulated depreciation and depletion:

<b>Balance, December 31, 2016</b>	<b>\$</b>	<b>(3,826)</b>	<b>\$ (192)</b>	<b>\$ (4,018)</b>
Depreciation and depletion		(515)	(43)	(558)
Dispositions		(54)	172	118
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>(4,395)</b>	<b>\$ (63)</b>	<b>\$ (4,458)</b>
Depreciation and depletion		(404)	(16)	(420)
Dispositions		5,810	82	5,892
Impairment loss		(1,011)	(3)	(1,014)
<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>-</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net book value:</b>				
December 31, 2017	\$	33,422	\$ 71	\$ 33,493
December 31, 2018	\$	-	\$ -	\$ -

<sup>(1)</sup> The "Other" column aggregates long-term, depreciable assets (e.g., Property, Plant, and Equipment, Furnitures and Fixtures) not included in the aggregated amounts listed either in Note 9 - Exploration and Evaluation Assets or in the "Oil and Gas Properties" column listed above.

# HUNTER OIL CORP.

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## 10. Property and Equipment (cont'd)

IAS 36, Impairment of Assets, requires an entity to assess at the end of each reporting period, or sooner if economic factors and circumstances dictate it, whether or not there is any indication that a cash generating unit (an "asset") may be impaired.

On August 1, 2018, the Company entered a Purchase and Sale Agreement to sell substantially all of its oil and gas operations and related assets and asset retirement obligations (the "Assets") for an aggregated purchase price of \$21.5 million, subject to certain post-closing adjustments (see Note 17 – Discontinued Operations).

During the year ended December 31, 2018, the Company recognized \$1.01 million in asset impairments relating to the future sale of its exploration and evaluation assets and property and equipment. The impairment has been reclassified as part of Discontinued Operations.

## 11. Accrued Liabilities

The Company has an obligation to complete a well site reclamation for a historical lease arrangement in Alberta, Canada. The Company no longer leases or has any operations on the site. The reclamation is in the late stages of completion and subject to final regulatory approvals. As at December 31, 2018 the Company currently had \$0.06 million accrued for potential final reclamation costs and certifications (2017 - \$0.10 million). Upon final regulatory approval, the restricted cash (See Note 6) shall be returned to the Company.

## 12. Asset Retirement Obligations

The Company no longer has any asset retirement obligations. These obligations resulted from the ownership interests in oil and gas properties including well sites and gathering systems. These obligations were assumed by the purchaser with the sale of the respective oil and gas properties. The previously recognized asset retirement obligations have been reclassified as part of sale of assets in discontinued operations (See Note 17).

<b>Balance, December 31, 2016</b>	<b>\$</b>	<b>17,767</b>
Increase in provision due to change in discount rates		497
Increase in provision due to passage of time (accretion)		441
Decrease in provision due to changes in estimates		(5,337)
Increase in provision due to asset addition		25
Decrease in provision due to asset disposition		(80)
Asset retirement costs incurred		(213)
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>13,100</b>
Decrease in provision due to change in discount rates		(656)
Increase in provision due to passage of time (accretion)		277
Asset retirement costs incurred		(320)
Decrease in provision due to asset disposition		(12,401)
<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>-</b>

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## 13. Income Taxes

Total income tax expense differed from the amount computed by applying the Canadian combined federal and provincial statutory tax rate of 27.0% as of December 31, 2018 (27.0% - 2017) to loss before income taxes as a result of the following:

	December 31, 2018	December 31, 2017
Statutory tax rate	27.00%	27.00%
Loss before income taxes	\$ 5,716	\$ 3,186
Expected income tax benefit	(1,544)	(860)
Adjustments to reconcile expected income tax benefit to actual:		
Unrecognized benefit of losses	2,342	1,583
Stock-based compensation	98	-
Differences between statutory and expected tax rate	(896)	(723)
Actual income tax benefit	\$ -	\$ -

The Company did not recognize deferred tax assets with respect to the following temporary differences and tax losses as it is not probable that there would be sufficient future taxable profits for their utilization, since there is no assurance that a benefit will be realized.

	December 31, 2018	December 31, 2017
Tax loss carryforwards	\$ 36,119	\$ 36,144
Asset retirement obligation	-	5,113
Tax assets not recognized	(36,119)	(41,257)
	\$ -	\$ -

The Company has net operating loss carryforwards available of approximately \$21.8 million in Canada and \$79.7 million subject to United States tax laws. Approximately \$6.6 million is subject to applicable Section 382 limitations, in the United States while the remaining US losses may be carried forward indefinitely.

## 14. Share Capital

**Authorized Shares** – The Company is authorized to issue an unlimited number of common shares of no par value and up to 25 million preferred shares of no par value.

**Issued and Outstanding** – On March 13, 2018, the Company closed a non-brokered private placement of 5,000,000 common shares of the Company at a price of C\$0.40 per share to raise gross proceeds of C\$2.0 million (USD \$1.54 million). In addition, during the year, the Company issued 190,000 shares on the exercise of stock options for aggregate proceeds of \$0.12 million (See Note 15).

As at December 31, 2018 and 2017, the Company had 13,260,871 and 8,070,871 shares outstanding respectively.

**Capital Distribution** - During the year ended December 31, 2018, the Company declared and paid a capital distribution of \$16.58 million at a price of \$1.25 per share. As of December 31, 2018, \$0.03 million of payments remain outstanding due to uncashed or undeliverable payments. These amounts have been included in accrued liabilities as at December 31, 2018.

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## 15. Stock Options

The Company has a stock option plan under which up to 10% of the number of outstanding common shares may be reserved for issuance as of any particular stock option grant date.

The Company records stock-based compensation expense in the consolidated financial statements for stock options granted using the fair value method. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. Depending on the terms of vesting for each option, compensation expense is recognized over the vesting period, which ranges from vesting on the day of the grant to vesting after one year. On May 17, 2018, the Company granted 1,250,000 stock options to key personnel and consultants for services provided to the Company. With the sale of the Company's operations during the year, this triggered an accelerated vesting event with respect to the options. The Company recognized approximately \$0.7 million in stock-based compensation expense on the options that vested during the year ended December 31, 2018. The compensation expense was based on the estimated fair value of the options on the grant date in accordance with the fair value method of accounting for stock-based compensation.

The estimated fair value of share options issued and outstanding as at December 31, 2018 was determined using the Black Scholes option-pricing model with the following weighted average assumptions:

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Risk-free interest rate	2.27%
Expected option life	5 years
Volatility in the price of the Company's shares	178%
Estimated forfeiture rate	nil
Dividend yield	nil

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In addition, the Company entered into agreements to cancel various stock options in connection with the sale of its discontinued operations. The cancellation constituted a share-based payment and as a result any cash payments made in excess of the fair value of the options, measured at the repurchase date, was expensed. As the settlement related to the sold operations, these amounts have been included in discontinued operations.

The Company's option activity during year ended December 31, 2018 was as follows (number of options in thousands):

	<b>Number of Options</b>	<b>Weighted-Average Exercise Price (C\$)</b>
Oustanding, December 31, 2017 & 2016	-	
Granted	1,250	\$ 0.80
Exercised	(190)	0.80
Cancelled	(1,060)	0.80
Oustanding, December 31, 2018	-	

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All issued stock options were either cancelled or exercised during the year. As at December 31, 2018 the Company has no stock options outstanding.

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## 16. Related Party Transactions

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The following table summarizes compensation paid or payable to officers and directors of the Company, including the Board of Directors, the Chief Executive Officer, and the Chief Financial Officer:

### *Related Party Transactions Continuing Operations*

	Year Ended	
	2018	2017
Salaries, bonuses, benefits and fees	\$ 80	\$ 76
Stock-based compensation	53	-
Management fees	257	240
Total compensation	\$ 390	\$ 316

### *Related Party Transactions Discontinued Operations*

	Year Ended	
	2018	2017
Salaries, bonuses, benefits and fees	\$ 581	\$ 627
Payment for cancellation of stock options	397	-
Change of control payment	750	-
Total compensation	\$ 1,728	\$ 627

Amounts due to related parties included in accounts payable at December 31, 2018 totalled \$0.02 million (2017 - \$nil).

During the year ended December 31, 2018, the Company incurred expenses from transactions with the three related parties identified below.

The Company is party to a management services agreement with Century Capital Management Ltd. ("Century"), (a company controlled by the Company's Executive Chairman). Pursuant to this management services agreement, the Company incurred approximately \$0.24 million and \$0.24 million in management fees, office rent and office expenses during the years ended December 31, 2018 and 2017, respectively. On July 27, 2018, in conjunction with the closing of the sale of the Company's discontinued operations, Century agreed to terminate the management services agreement effective September 30, 2018 and agreed to accept the sum of \$0.25 million in settlement of the change of control payment due under the agreement. In addition, the Executive Chairman agreed to surrender all 50,000 stock options previously granted to him. The Company currently operates under a monthly agreement for \$0.02 million per month.

On June 15, 2018, the Company entered into a management services agreement with its then Chief Executive Officer (Al H. Denson) to provide management consulting services for a period of two years. Compensation for services under the agreement were provided at \$0.24 million per year, payable monthly. Mr. Denson was also granted 500,000 stock options. Pursuant to the agreement, the Company incurred approximately \$0.06 million in management fees during the year ended December 31, 2018.

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## 16. Related Party Transactions (cont'd)

On July 27, 2018, in conjunction with the closing of the sale of the Company's discontinued operations, Mr. Denson agreed to terminate the management services agreement effective September 30, 2018, and to accept the sum of \$0.25 million in settlement of the certain change of control payments due under the agreement. In addition, Mr. Denson agreed to surrender 250,000 (50%) of his options. The Company subsequently entered into an agreement to purchase and cancel the remaining stock options (See Note 15) for an agreed upon amount of \$0.18 million.

On June 15, 2018, the Company entered into a management services agreement with its then Vice President (Mark Strawn) to provide management consulting services for a period of two years. Compensation for services under the agreement were provided at \$0.18 million per year, payable monthly. Mr. Strawn was also granted 250,000 stock options.

On July 27, 2018, in conjunction with the closing of the sale of the Company's discontinued operations, Mr. Strawn agreed to terminate the management service agreement effective September 30, 2018, and to accept the sum of \$0.25 million in settlement of the certain change of control payments due under the agreement. The Company subsequently entered into an agreement to purchase and cancel the remaining 250,000 stock options (See Note 15) for an agreed upon amount of \$0.18 million.

## 17. Discontinued Operations

On August 31, 2018, the Company closed a Purchase and Sale Agreement with Pacific Energy Development Corp. (the "Purchaser") in which certain subsidiaries of the Company sold (the "Transaction") substantially all of the Company's oil and gas operations and related assets (the "Assets") located in the Permian Basin, eastern New Mexico, for an aggregate final purchase price of \$21.5 million. The Purchaser also agreed to assume all retirement obligations associated with the Assets. As at December 31, 2018, all proceeds had been received by the Company.

The gain/loss on discontinued operations consists of the following:

	Year Ended December 31, 2018
Proceeds on sale	\$ 21,547
Net book value of assets sold & liabilities assumed	33,930
Provisions for asset retirement obligation	(12,309)
Net asset value	21,621
Loss on sale of assets	\$ (74)

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## 17. Discontinued Operations (cont'd)

The results of discontinued operations are as follows:

	Year Ended December 31,	
	2018	2017
<b>Revenues</b>		
Oil and gas sales	\$ 1,348	\$ 1,538
Less: Royalties	(302)	(321)
<b>Revenues, net of royalties</b>	<u>1,046</u>	<u>1,217</u>
<b>Expenses</b>		
Operating and production costs	639	1,027
Workover expenses	225	49
General and administrative	2,484	1,377
Loss on disposition of assets	-	35
Depreciation and depletion	415	558
Accretion	277	441
Other, net	50	-
Stock-based compensation	532	-
Impairment loss	1,011	-
<b>Total expenses</b>	<u>5,633</u>	<u>3,487</u>
<b>Net loss</b>	<u>\$ (4,587)</u>	<u>\$ (2,270)</u>
<b>Loss from Discontinued Operations:</b>		
Results from discontinued operations	\$ (4,587)	
Loss on disposal of assets	(74)	
<b>Loss from discontinued operations</b>	<u>\$ (4,661)</u>	

## 18. Fair Value Measurements

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Values are based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 – Values are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – Values are based on prices or valuation techniques that are not based on observable market data.



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## 18. Fair Value Measurements (cont'd)

The Company has determined that the carrying value of its short-term financial assets and liabilities (cash and cash equivalents, restricted cash, receivables, accounts payable and accrued liabilities) approximates fair value at the consolidated balance sheet dates due to the short-term maturity of these instruments.

## 19. Risk management

The resource industry is highly competitive and, in addition, exposes the Company to a number of risks. Resource exploration and development involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. It is also highly capital intensive and the ability to complete a development project may be dependent on the Company's ability to raise additional capital. In certain cases, this may be achieved only through joint ventures or other relationships, which would reduce the Company's ownership interest in the project. There is no assurance that development operations will prove successful.

**Risks Associated with Financial Assets and Liabilities** – The Company is exposed to financial risks arising from its financial assets and liabilities. Financial risks include market risks (such as commodity prices, foreign exchange and interest rates), credit risk and liquidity risk. The future cash flows of financial assets or liabilities may fluctuate due to movements in market prices and the exposure to credit and liquidity risks. Disclosures relating to exposure risk are provided in detail as follows:

**Credit Risk** - Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments exposed to concentrations of credit risk are primarily cash and cash equivalents, including restricted cash, and accounts receivable. The Company has little exposure to credit risk as all of its deposits and related receivable are with major financial institutions or government related receivables.

**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's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At December 31, 2018, the Company had cash of \$1.7 million, excluding restricted cash of \$0.03 million. The Company is dependent on raising funds by borrowings, equity issues, or asset sales to finance its ongoing operations, capital expenditures and acquisitions. The contractual maturity of the majority of accounts payable is within three months or less. The Company has historically financed its expenditures and working capital requirements through the sale of common stock or, on occasion, through the issuance of short-term debt.

**Foreign Exchange Risk** - Substantially all of the Company's assets and expenditures are either denominated in or made with US dollars. As a result, the Company has very limited exposure to foreign exchange risk in relation to existing commitments or assets denominated in a foreign currency. The Company has chosen not to enter into any foreign exchange contracts since its Canadian dollar working capital balances are not significant to the consolidated entity.

**Commodity Price Risk** - The Company is no longer exposed to commodity price risk following the sale of its discontinued operations. The Company had no derivative contracts in place at December 31, 2018.

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## 20. Supplemental Cash Flow Information

The (increase)/decrease in non-cash working capital is comprised of:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Receivables	\$ (15)	\$ 2
Prepaid expenses and deposits	(33)	373
Accounts payable and accrued liabilities	(337)	259
Total	<u>\$ (385)</u>	<u>\$ 634</u>

## 21. General and Administrative Expenses

The Company's general and administrative costs are as follows:

	<b>Year Ended</b>	
	<b>2018</b>	<b>2017</b>
Accounting and tax	\$ 94	\$ 56
Insurance	37	6
Legal	77	61
Office & General	47	6
Public company	67	35
Software & IT	-	21
Travel	59	152
Total General and Administrative Expenses	<u>\$ 381</u>	<u>\$ 337</u>

## 22. Capital Management

The Company attempts to manage its capital to complete its development projects, to adjust to changing market conditions, to maintain flexibility while pursuing objectives, and ultimately to provide returns to shareholders and benefits to other stakeholders. The Company's objectives in managing its capital structure are to maintain a flexible financial structure, to preserve the Company's access to capital markets, and to finance the Company's growth and continue to meet its financial obligations.

At December 31, 2018 and 2017, total capitalization of the Company was as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Accounts payable and accrued liabilities	\$ 162	\$ 1,125
Total Shareholders' Equity	1,770	22,113
Total Capitalization	<u>\$ 1,932</u>	<u>\$ 23,238</u>
Debt to Capitalization Ratio	8%	5%

The Company manages its capital structure and makes adjustments to it in light of market and economic conditions as well as the risk characteristics of the Company's underlying assets. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, the use of credit facilities, adjusting capital spending or by undertaking other strategies as deemed appropriate under the specific circumstances.

The Company monitors capital and its financing requirements through an annual budget process and updates to the budget forecast and working capital projections. Following the sale of primarily all of its oil and gas assets during the year ended December 31, 2018, the Company is actively seeking a transaction that may result in changes to its current capital structure.