



**Consolidated Financial Statements of**

**HUNTER OIL CORP.**

**(formerly known as Enhanced Oil Resources Inc.)**

**Years Ended December 31, 2016 and 2015**



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hunter Oil Corp.

We have audited the accompanying consolidated financial statements of Hunter Oil Corp., which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 includes evaluating the appropriateness of 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 audit is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hunter Oil Corp. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about Hunter Oil Corp.'s ability to continue as a going concern.

### Other Matter

The consolidated financial statements of Hunter Oil Corp. for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on April 29, 2016.

A handwritten signature in black ink that reads "DMCL".

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada  
August 16, 2017

# HUNTER OIL CORP.

## Consolidated Balance Sheets

(all amounts expressed in thousands of US dollars)

	Notes	As of December 31, 2016	As of December 31, 2015
<b>Assets</b>			
Current assets			
Cash		\$ 1,050	\$ 1,257
Restricted cash	6	-	1,248
Receivables	7	166	293
Subscription receivable	12	453	-
Prepaid expenses and other deposits	8	522	251
Total current assets		<u>2,191</u>	<u>3,049</u>
Non-current assets			
Exploration and evaluation assets	9	64	-
Property and equipment, net	10	38,947	40,424
Restricted cash	6	2,340	3,025
Other		-	74
Total Assets		<u>\$ 43,542</u>	<u>\$ 46,572</u>
<b>Liabilities And Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities	12	\$ 474	\$ 701
Asset retirement obligations	11	527	84
Total current liabilities		<u>1,001</u>	<u>785</u>
Asset retirement obligations	11	17,240	18,977
Total liabilities		<u>18,241</u>	<u>19,762</u>
Shareholders' equity			
Equity instruments	12, 14	126,628	124,166
Contributed surplus		9,256	9,256
Accumulated deficit		(110,583)	(106,612)
Total shareholders' equity		<u>25,301</u>	<u>26,810</u>
Total Liabilities and Shareholders' Equity		<u>\$ 43,542</u>	<u>\$ 46,572</u>

Commitments 17

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors:

/s/ Al H. Denson

Al H. Denson  
Director

/s/ Andrew Hromyk

Andrew Hromyk  
Director

# HUNTER OIL CORP.

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

	Notes	Years Ended	
		December 31,	
		2016	2015
<b>Revenues</b>			
Oil and gas sales		\$ 1,415	\$ 1,358
Less: Royalties		(310)	(293)
Revenues, net of royalties		<u>1,105</u>	<u>1,065</u>
<b>Expenses</b>			
Operating and production costs		942	1,393
Workover expenses		353	809
General and administrative		2,648	2,613
(Gain) loss on disposition of assets		31	(42)
Depreciation and depletion	10	758	959
Accretion	11	372	427
Other, net		(36)	9
Loss on derivative financial instruments, net	18	-	75
Foreign currency translation loss		<u>8</u>	<u>-</u>
		<u>5,076</u>	<u>6,243</u>
Net comprehensive loss for the year		(3,971)	(5,178)
Loss per share - basic and diluted	14	\$ (0.70)	\$ (3.23)

See accompanying notes to consolidated financial statements.

# HUNTER OIL CORP.

Consolidated Statements of Shareholders' Equity  
(all amounts, except common shares, expressed in thousands of US dollars)

	Notes	Number of Common Shares		December 31,	
		December 31, 2016	2015	2016	2015
<b>Total Shareholders' Equity, beginning balances</b>				\$ 26,810	\$ 31,988
<b>Equity Instruments (Common Shares)</b>					
Balance, January 1		1,600,871	1,601,849	124,166	124,166
Retired stock, no par value	14	-	(978)	-	-
Issued stock, no par value	14, 21	6,470,000	-	2,500	-
Offering costs	12	-	-	(38)	-
Balance, December 31		<u>8,070,871</u>	<u>1,600,871</u>	<u>126,628</u>	<u>124,166</u>
<b>Contributed Surplus</b>					
Balance, January 1				9,256	9,256
Balance, December 31				<u>9,256</u>	<u>9,256</u>
<b>Accumulated Deficit</b>					
Balance, January 1				(106,612)	(101,434)
Net loss				(3,971)	(5,178)
Balance, December 31				<u>(110,583)</u>	<u>(106,612)</u>
<b>Total Shareholders' Equity, ending balances</b>				\$ 25,301	\$ 26,810

See accompanying notes to consolidated financial statements.

# HUNTER OIL CORP.

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

	Notes	Years Ended December 31,	
		2016	2015
Cash provided by (used in):			
Operating activities			
Net loss for the year		\$ (3,971)	\$ (5,178)
Add (deduct) non-cash and other items:			
Depreciation and depletion	10	758	959
Accretion of asset retirement costs	11	372	427
(Gain) loss on disposition of assets		31	(42)
Foreign currency translation loss		8	-
Non-cash other expense		(89)	31
		(2,891)	(3,803)
Asset retirement expenditures	11	(335)	(345)
Changes in non-cash working capital	22	(450)	(140)
Cash used in operations		(3,676)	(4,288)
Investing activities			
Exploration and evaluation expenditures	9	(64)	-
Property and equipment expenditures	10, 22	(562)	(87)
Decreases in restricted cash	6	1,933	1,229
Proceeds from sale of assets		-	24
Cash provided by investing activities		1,307	1,166
Financing activities			
Proceeds from private placement funding	12, 21	2,200	300
Offering costs on private placement funding	12	(38)	-
Cash provided by financing activities		2,162	300
Change in cash and cash equivalents		(207)	(2,822)
Cash and cash equivalents, beginning of the year		1,257	4,079
Cash and cash equivalents, end of year		\$ 1,050	\$ 1,257

See accompanying notes to consolidated financial statements.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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## 1. Reporting Entity and Description of Business

Hunter Oil Corp., formerly known as Enhanced Oil Resources Inc., is a company incorporated in British Columbia, Canada and is engaged, through its wholly-owned U.S. subsidiaries (collectively referred to as the “Company”) in the acquisition, development, operation and exploitation of crude oil and natural gas properties in the Permian Basin in eastern New Mexico, United States.

Common shares of the Company are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “HOC” and quoted on the OTCQX (“Over the Counter” marketplace) under the symbol “HOILF”. The address of the registered office of the Company is Suite 940, 1040 West Georgia Street, Vancouver, British Columbia, V6E 4H1, Canada.

## 2. Going Concern

While 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, certain conditions and events exist that indicate the existence of a material uncertainty that may cast significant doubt on the validity of this assumption. The Company expects to incur further losses during the future development of its business. The Company’s oil and gas assets will require significant further investment before these assets can sustain profitable production. The Company’s ability to continue as a going concern is dependent upon its ability to generate profitable production and to obtain additional funding from loans or equity financings or through other arrangements. Although the Company has been successful in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company.

These annual 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

### Statement of Compliance

These consolidated financial statements represent the consolidated financial statements of the Company prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss. The accounting policies set out in this note have been applied in preparing the consolidated financial statements for the years ended December 31, 2016 and 2015. These financial statements were approved and authorized for issuance by the Board of Directors on August 16, 2017.

### Basis of Presentation

**Functional Currency** – These consolidated financial statements are presented in United States dollars, unless otherwise indicated, which management has determined to be the Company’s functional currency. All references to US\$ or to \$ are to United States dollars and references to C\$ are to Canadian dollars.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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**Reclassifications** – Certain reclassifications have been made to the December 31, 2015 consolidated financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

**Basis of Measurement and Estimation Uncertainty** – The consolidated financial statements are prepared on a historical cost basis except as detailed in the Company’s accounting policies disclosed in this note. 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. Accordingly, actual results may differ from these estimates.

**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 subsidiary, Hunter Oil Management Corp. (“HOMC”) (formerly Ridgeway Petroleum (Florida), Inc.). HOMC includes the results of its wholly-owned subsidiaries, Hunter Oil Resources Corp. (formerly Enhanced Oil Resources USA Inc.), Milnesand Minerals Inc., Chaveroo Minerals Inc., and Hunter Oil Production Corp. (“HOPC”) (formerly Arizona Resources Industries, Inc.). HOPC includes the results of its wholly-owned subsidiaries, Ridgeway Arizona Oil Corp. and EOR Operating Company. All intercompany amounts have been eliminated upon consolidation.

**Foreign Currency Translation** – 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”). 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.

**Revenue Recognition** – Revenue is measured at the fair value of consideration received or receivable, and represents the amounts receivable for commodities supplied when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the Company. This generally occurs at the time the product transfers to the purchaser.

**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.

**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

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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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.

**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.

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, tertiary recovery facilities, 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.

**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.

Depreciation of 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.

## **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*

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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

Impairments can be reversed for all CGUs and individual assets, other than goodwill, to the extent that events or circumstances give rise to changes in the estimate of the recoverable amount since the period the impairment was recorded. The Company recognized no impairments during each of the years ended December 31, 2016 and 2015.

**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.

**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.

When a contingency, substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the consolidated financial statements as the best estimate required to settle the obligation. 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.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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**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, using the liability method, 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.

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.

**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 equity 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 option grants is determined using the Black-Scholes option pricing model.

The total expense is recognized over the vesting period of each separate tranche of options granted. At the end of each reporting period, the Company revises 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 the statement of operations, with a corresponding adjustment to equity.

When options are exercised, the Company issues new common shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital. The Company did not grant any stock options during the years ended December 31, 2016 and 2015.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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## Financial Instruments

### *Financial Assets – Non-Derivative*

The Company classifies its financial assets into the following categories: “fair value through profit or loss or “loans and receivables”. Financial assets are recognized on the date that the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the instrument have expired or substantially all the risk and rewards of ownership have been transferred.

Financial assets classified at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated statements of operations. They are subsequently carried at fair value. Gains and losses arising from changes in the fair value are presented in the consolidated statements of operations in the period in which they arise. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. In addition, the Company’s cash and cash equivalents and restricted cash are classified at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company’s loans and receivables comprise ‘receivables’ in the consolidated balance sheet.

### *Financial Liabilities – Non-Derivative*

The Company classifies its financial liabilities as “Other financial liabilities”. Other financial liabilities include accounts payable and accrued liabilities. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

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

**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 stock method. The treasury stock 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 Judgments and Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis and involve significant estimation uncertainty. Significant judgments, estimates and assumptions made by management in these consolidated financial statements are outlined as follows:

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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**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. Refer to note 13 for further details.

**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 are 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. Refer to note 18 for further details.

**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. Oil and natural gas reserves have been evaluated at December 31, 2016 and December 31, 2015 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.

**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.

The recoverable amounts of CGUs and individual assets have been determined based on the higher of fair value less costs of disposal model and value in-use model. The key assumptions the Company uses in estimating future cash flows for recoverable amounts are: anticipated future commodity prices, expected production volumes, future operating and development costs, estimates of inflation on costs and expenditures, expected income taxes and discount rates. In addition, the Company considers the current environmental, social and governance issues affecting its property interests and operations, including the current legislative and regulatory activity affecting the permitting and approval of its projects and operations. Changes to these assumptions will affect the estimated recoverable amounts attributed to a CGU or individual assets and may then require a material adjustment to their related carrying value.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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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.

Judgements are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

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 so as to assess if technical feasibility and commercial viability has been achieved.

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.

**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.

## 5. Future Accounting Pronouncements

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018, and have not been applied in preparing these consolidated financial statements.

### *IFRS 9: Financial Instruments*

The complete version of *IFRS 9* was issued in July 2014. It replaced guidance in *IAS 39* that relates to the classification and measurement of financial instruments. *IFRS 9* retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit and loss (P&L). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in *IAS 39*. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. *IFRS 9* relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually uses for risk management purposes.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company has not fully assessed the impact of IFRS 9, but does not expect the impact to be significant

## *IFRS 15: Revenue from Contracts with Customers*

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company has not fully assessed the impact of IFRS 15, but does not expect the impact to be significant.

## *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 has not fully assessed the impact of IFRS 16, but does not expect the impact 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.

The following table summarizes restricted cash balances:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Escrow deposit for contingent obligations	\$ -	\$ 1,248
Bank deposits pledged to secure asset retirement obligations	2,340	3,025
Balance, end of year	\$ 2,340	\$ 4,273
Short -term	\$ -	\$ 1,248
Long-term	\$ 2,340	\$ 3,025

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

In January of 2016, approximately \$1.25 million of the Company's restricted cash was released from escrow (see Note 17 – Commitments). In May of 2016 in connection with the deposits to secure asset retirement obligations noted above, approximately \$0.7 million of certain bond funds was released to the Company as it had fulfilled the requirements of those obligations.

## 7. Receivables

The Company's receivables were comprised of amounts due from crude oil purchasers of \$0.1 million at both December 31, 2016 and December 31, 2015, and other receivables of \$0.1 million and \$0.2 million for the same periods, respectively.

## 8. Prepaid Expenses and Other Deposits

The Company's prepaid expenses were comprised of plugging bonds, insurance, and other short-term assets of \$0.2 million and \$0.3 million at December 31, 2016 and December 31, 2015, respectively. During 2016, the Company also recorded \$0.3 million in deferred financing costs directly related to a proposed credit facility. Upon completion of the credit facility, the deferred financing costs will be recorded as a reduction of the related liability and amortized using the effective interest method.

## 9. Exploration and Evaluation Assets

Exploration and evaluation asset activity for the years ended December 31, 2016 and 2015 was as follows:

	Notes	Oil and Gas Properties
<b>Balance, December 31, 2014</b>		<b>\$ 10,889</b>
Transfers to property and equipment	10	(10,889)
<b>Balance, December 31, 2015</b>		<b>\$ -</b>
Additions		64
<b>Balance, December 31, 2016</b>		<b>\$ 64</b>
<b>Net book value:</b>		
December 31, 2015		\$ -
December 31, 2016		\$ 64

Exploration and evaluation assets include lands and assets that management has not fully evaluated for technical feasibility and commercial viability. Transfers to property and equipment are made when technical feasibility and commercial viability are determined to exist. During 2016, the Company acquired new acreage in Roosevelt County, New Mexico. The acquisition represents unproved properties with unevaluated potential for primary oil recovery projects that are excluded from the costs subject to depletion and depreciation until proved reserves are attributed to the property.

In 2015, the Company transferred \$10.9 million of recorded exploration and evaluation asset costs to property and equipment and allocated \$0.6 million and \$10.3 million to the Chaveroo and the Milnesand fields, respectively. These property interests were tested for impairment prior to the transfer of these costs to property and equipment in 2015 in accordance with IAS 36, *Impairment of Assets*. These tests estimated on a fair value less cost of disposal basis of the

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

recoverable amounts of the future net cash flows of proved and probable reserves using discount rates of 10% for both the Chaveroo and the Milnesand fields.

## 10. Property and Equipment

Property and equipment activity for the years ended December 31, 2016 and 2015 was as follows:

	Notes	Oil and Gas		Total
		Properties	Other <sup>(1)</sup>	
<b>Balance, December 31, 2014</b>		\$ 38,973	\$ 1,409	\$ 40,382
Additions		165	87	252
Dispositions		-	(673)	(673)
Transfer from exploration and evaluation assets	9	10,889	-	10,889
Change in discount rate of asset retirement obligations	11	(409)	-	(409)
Change in estimated cost of asset retirement obligations	11	(6,387)	-	(6,387)
<b>Balance, December 31, 2015</b>		\$ 43,231	\$ 823	\$ 44,054
Additions		1,018	123	1,141
Dispositions		(132)	(604)	(736)
Change in discount rate of asset retirement obligations	11	(1,529)	-	(1,529)
Change in estimated cost of asset retirement obligations	11	35	-	35
<b>Balance, December 31, 2016</b>		\$ 42,623	\$ 342	\$ 42,965
<b>Accumulated depreciation and depletion:</b>				
<b>Balance, December 31, 2014</b>		\$ (2,148)	\$ (1,144)	\$ (3,292)
Depreciation and depletion		(814)	(145)	(959)
Dispositions		-	621	621
<b>Balance, December 31, 2015</b>		\$ (2,962)	\$ (668)	\$ (3,630)
Depreciation and depletion		(685)	(73)	(758)
Dispositions		(179)	549	370
<b>Balance, December 31, 2016</b>		\$ (3,826)	\$ (192)	\$ (4,018)
<b>Net book value:</b>				
December 31, 2015		\$ 40,269	\$ 155	\$ 40,424
December 31, 2016		\$ 38,797	\$ 150	\$ 38,947

<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.

Future development costs of \$236.2 million and \$95.6 million as of December 31, 2016 and 2015, respectively, have been included in the computation of depletion expense. No general and administrative costs have been capitalized with regard to property and equipment.

For the year ended December 31, 2016, the Company conducted an assessment of the impairment indicators for the Company's CGUs. Fair value less costs of disposal was calculated using a discounted cash flow analysis. These calculations require the use of estimates. The present value of future cash flows was computed by applying forecast prices of reserves to estimated future production, less the future estimated expenditures to be incurred in developing

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

and producing proved reserves. The present value of future cash flows was computed by the Company's independent reserves evaluators using a discount rate of 10% for both the Milnesand field and Chaveroo field CGUs. The selection of discount rate reflects estimates of the specific risks related to the underlying CGU. There were no impairment losses recorded at December 31, 2016 and 2015.

The fair value less costs of disposal used to determine the recoverable amounts of property and equipment and exploration and evaluation assets are classified at Level 3 fair value measurements, as they are not based on observable market data.

## 11. Asset Retirement Obligations

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the estimated future obligations associated with the retirement of oil and gas properties:

<b>Balance, December 31, 2014</b>	<b>\$</b>	<b>25,610</b>
Decrease in provision due to change in discount rates		(409)
Increase in provision due to passage of time (accretion)		427
Decrease in provision due to change in estimate		(6,387)
Increase in provision due to asset disposition		165
Asset retirement costs incurred		(345)
<b>Balance, December 31, 2015</b>	<b>\$</b>	<b>19,061</b>
Decrease in provision due to change in discount rates		(1,529)
Increase in provision due to passage of time (accretion)		372
Increase in provision due to change in estimate		35
Increase in provision due to asset addition		456
Decrease in provision due to asset disposition		(293)
Asset retirement costs incurred		(335)
<b>Balance, December 31, 2016</b>	<b>\$</b>	<b>17,767</b>

The total undiscounted amount of estimated future cash flows required to settle the obligations as of December 31, 2016, is \$27.2 million (2015 - \$25.4 million), which has been discounted using risk free rates from 0.85% to 2.90% and an assumed inflation rate of 1.50%. These obligations are expected to be settled over the next twenty-four years and will be funded from general Company resources at the time of retirement.

At December 31, 2016, the Company estimated asset retirement obligations of \$2.0 million and \$0.9 million for active leases administered by the Bureau of Land Management (BLM) and for active leases administered by the New Mexico Oil Conservation Division (OCD), respectively, in its Milnesand field. In addition, the Company estimated plugging obligations of \$1.5 million and \$8.4 million for active BLM leases and for active OCD leases, respectively, in its Chaveroo field. Total estimated asset retirement obligations for expired leases (all in the Chaveroo field) was \$2.4 million. This is a reduction of \$2.0 million from \$4.4 million in asset retirement obligations on expired leases at January 1, 2016. The following table summarizes the Company's total estimated asset retirement obligation by field at December 31, 2016.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

	Active Leases		Expired Leases		Facilities	Total Liability
	BLM	OCD	BLM	OCD		
Milnesand Field	\$ 1,995	\$ 889	\$ -	\$ -	\$ 747	\$ 3,631
Chaveroo Field	1,511	8,413	1,178	1,194	1,840	14,136
<b>Balance, December 31, 2016</b>	<b>\$ 3,506</b>	<b>\$ 9,302</b>	<b>\$ 1,178</b>	<b>\$ 1,194</b>	<b>\$ 2,587</b>	<b>\$ 17,767</b>

	Active Leases		Expired Leases		Facilities	Total Liability
	BLM	OCD	BLM	OCD		
Milnesand Field	\$ 1,608	\$ 731	\$ -	\$ -	\$ 606	\$ 2,945
Chaveroo Field	1,712	7,767	1,612	2,787	2,238	16,116
<b>Balance, December 31, 2015</b>	<b>\$ 3,320</b>	<b>\$ 8,498</b>	<b>\$ 1,612</b>	<b>\$ 2,787</b>	<b>\$ 2,844</b>	<b>\$ 19,061</b>

The \$0.5 million recorded as current asset retirement obligations at December 31, 2016 represents the amount that the Company anticipates spending in 2017 on surface reclamation activities associated with recent asset retirement activities coupled with the estimated cost of asset retirement activities for the next nine wells in its BLM-compliant abandonment program.

## 12. Accounts Payable and Accrued Liabilities

The Company's trade payables at December 31, 2016 and 2015 were \$0.4 million and \$0.2 million respectively. The Company's accrued liabilities at December 31, 2016 and 2015 were \$0.1 million and \$0.5 million, respectively.

During 2015, the Company received \$0.3 million in connection with the private placement discussed in Note 21 – Private Placement which was recorded in accrued liabilities at December 31, 2015. During 2016, the Company received an additional \$1.75 million in private placement funds. Gross proceeds totaled \$2.5 million. The Company also incurred offering costs of \$0.038 million related to the private placement. The funds are recorded in equity instruments on the Company's consolidated balance sheet at December 31, 2016 (see Note 14 – Equity Instruments).

## 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, 2016, (25.0% - 2015) to loss before income taxes as a result of the following:

	December 31, 2016	December 31, 2015
Statutory tax rate	27.00%	25.00%
Loss before income taxes	\$ 3,971	\$ 5,178
Expected income tax recovery	(1,072)	(1,295)
Adjustments to reconcile expected income tax benefit to actual:		
Unrecognized benefit of losses	1,597	2,099
Differences between statutory and expected tax rate	(525)	(804)
<b>Actual income tax recovery</b>	<b>\$ -</b>	<b>\$ -</b>

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.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Tax loss carryforwards	\$ 35,099	\$ 33,413
Asset retirement obligation	6,981	7,489
Share issue costs	13	-
Tax assets not recognized	(42,093)	(40,902)
	\$ -	\$ -

The Company has net operating loss carryforwards available of approximately \$82.6 million, subject to applicable Section 382 limitations, in the United States, of which approximately \$78.3 million do not begin to expire until 2032.

## 14. Equity Instruments

**Share Consolidation** – Effective January 21, 2015, the Company implemented a share consolidation on the basis of one new common share for every ten pre-consolidation shares. Effective September 9, 2016, the Company implemented a further share consolidation on the basis of one new common share for every ten pre-consolidation shares as of September 9, 2016. Accordingly, all references to the outstanding common shares and the common share options of the Company in these financial statements have been restated to give effect to the two consolidations as if the number of shares or options were effective for all periods presented.

**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** – The Company had 1,600,871 common shares outstanding at December 31, 2015. During 2016, the Company issued 6,470,000 common shares (post share consolidation) in connection with a private placement (see Note 21 – Private Placement). The Company had 8,070,871 common shares outstanding at December 31, 2016.

**Stock option plan** – 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 stock options were granted with a five-year expiry term. The exercise prices for all outstanding options are denominated in Canadian dollars, the trading currency of the Company's common shares.

As of December 31, 2016, the Company does not have any stock options outstanding.

**Earnings Per Share** – The weighted average number of shares outstanding that was used for purposes of the computation of basic per share data was 5,713,316 and 1,600,871 at December 31, 2016 and 2015, respectively. Since the Company incurred a net loss for both periods, no common stock equivalents were included in the computation of diluted earnings per share as their inclusion would have been anti-dilutive.

**Stock-Based Compensation** – No stock-based compensation expense was recognized during the years ended December 31, 2016 and 2015, as no options were granted and all options were fully vested at January 1, 2015. Stock-based compensation previously recorded by the Company relating to options that have not been exercised is included in contributed surplus.

At December 31, 2016, there were no stock options outstanding.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

## 15. Related Party Transaction

During the years ended December 31, 2016 and 2015, the Company paid approximately \$0.36 million and \$0.34 million, respectively, for management fees, rent and office expenses to an entity controlled by the Company's Chief Executive Officer.

## 16. Key Management Compensation

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:

	December 31, 2016	December 31, 2015
Salaries, bonuses, benefits and fees	\$ 779	\$ 837
Severance related to settlement of employment agreements	-	310
Management Fees	360	340
Total compensation	\$ 1,139	\$ 1,487

## 17. Commitments and Contractual Obligations

The Company is committed to the following non-cancellable future minimum lease payments, related to two remaining office leases, at December 31, 2016:

2017	\$ 79
2018	42
Total	\$ 121

In February 2014, the Company amended its CO<sub>2</sub> Purchase Agreement with Kinder Morgan CO<sub>2</sub> Company, L.P. (Kinder Morgan), to extend the dates before which the Company was obligated to take or pay for CO<sub>2</sub> purchases and connect to Kinder Morgan's pipeline. The agreement provided the source of CO<sub>2</sub> for use in tertiary oil recovery projects in the Permian Basin. The contract, as amended, required the Company to take or pay for the purchase of 27.4 billion cubic feet of CO<sub>2</sub> over a five-year period commencing no later than January 1, 2018. The maximum daily purchase commitment required under the contract was 20 million cubic feet per day during year three with the cost of CO<sub>2</sub> fluctuating based on the price of crude oil and transportation tariffs at the time. The Company was required to construct a pipeline, currently estimated to be a distance of approximately 32 miles, to the pipeline operated by Kinder Morgan. Both the purchase commitment and the obligation to pay, as amended, were terminated as of December 31, 2016 and the Company has no further obligations under the agreement.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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In connection with the sale of certain assets to Kinder Morgan in 2012, the Company agreed to be contingently responsible for up to \$5.0 million of future appraisal drilling costs to evaluate helium in certain areas of the St. Johns Dome field. The obligation was secured in part by \$2.5 million placed into escrow at closing of the sale. On September 4, 2015, approximately \$1.25 million of the Company's restricted cash was released from escrow. On January 11, 2016, Kinder Morgan released from escrow the remaining balance of approximately \$1.25 million. The funds released in 2016 are included in cash provided by investing activities in the Company's consolidated statement of cash flows for the year ended December 31, 2016 (see Note 6 - Restricted Cash).

## 18. Financial Instruments - Commodity Contracts

The Company realized derivative losses net of contract settlements of \$0.1 million for the year ended December 31, 2015. The Company had no outstanding derivative agreements relating to its crude oil sales during the year ended December 31, 2016.

## 19. 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.

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.

## 20. Risk management

**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:

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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## 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 limits its exposure to credit risk with respect to cash equivalents by investing available cash in short-term deposits with Canadian and US banks, principally in overnight money market funds investing in government treasury instruments. The Company's receivables mainly consist of amounts due from sales of its crude oil and natural gas production.

With respect to its crude oil and natural gas production receivables, the Company is the operator of all its property interests and owns the significant majority of the working interest in producing properties.

Receivables related to the sale of crude oil production are with two major reputable marketers and proceeds are collected within approximately 25 days following the month of delivery. The Company produces a limited amount of natural gas which is sold to a reputable purchaser and collections occur within approximately 55 days of the end of any monthly period.

The Company's exposure to credit risk for these consolidated financial instruments was as follows:

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	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Cash	\$ 1,050	\$ 1,257
Receivables	619	293
Restricted cash	2,340	4,273
Maximum credit risk exposure	\$ 4,009	\$ 5,823

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## Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As described in Note 2 of these consolidated financial statements, management of the Company has assessed that there may be significant doubt regarding the Company's ability to continue as a going concern. 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, 2016, the Company had cash of \$1.5 million, excluding restricted cash of \$2.3 million. The Company is still 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. Management has delayed capital expenditures on certain projects until the oil commodity pricing environment improves, and has reduced operating costs during 2015 and 2016. 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.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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## 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 exposed to fluctuations in the world commodity prices for its products with a corresponding impact to cash flow. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow production while at the same time replacing continuous production declines from existing properties. When the Company forecasts increased debt levels due to capital expenditures exceeding cash flow, it may enter into oil and natural gas hedging contracts in order to provide stability of future cash flow. The Company engages in derivative financial instruments solely to manage its commodity price risk exposure relative to its actual commodity production and not for speculative purposes. The Company has no derivative contracts in place at December 31, 2016.

## 21. Private Placement

On May 13, 2016, the Company closed a private placement of US \$2.5 million. On closing, a total of 6,470,000 common shares was issued at a price of C\$0.50 per share. The intended use of proceeds is for operating expenses and general working capital. As at December 31, 2016, \$453,000 in gross proceeds were receivable.

During 2015, the Company received \$0.3 million in connection with the above mentioned private placement. The private placement proceeds are recorded in equity instruments on the Company's consolidated balance sheet at December 31, 2016.

## 22. Supplemental Cash Flow Information

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

	December 31, 2016	December 31, 2015
Receivables	\$ (326)	\$ 210
Prepaid expenses and deposits	(271)	168
Other non current assets	74	32
Accounts payable and accrued liabilities	73	(550)
Total	\$ (450)	\$ (140)

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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## 23. 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. To manage the capital structure, the Company may adjust capital spending, issue new shares, issue new debt or sell assets. 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, 2016 and 2015, total capitalization of the Company is as follows:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Accounts payable and accrued liabilities	\$ 474	\$ 701
Total Shareholders' Equity	25,301	26,810
<b>Total Capitalization</b>	<b>\$ 25,775</b>	<b>\$ 27,511</b>
Debt to Capitalization Ratio	2%	3%

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. There were no changes to the Company's capital management policies during the years ended December 31, 2016 and 2015.