



**United Hunter Oil and Gas Corp.**

Form 51-102F1  
Management's Discussion and Analysis  
For the Six Months Ended June 30, 2015

(Presented in Canadian Dollars)

August 20, 2015



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## ***United Hunter Oil & Gas Corp. Management's Discussion and Analysis***

Management's Discussion and Analysis ("MD&A") of the financial position of United Hunter Oil & Gas Corp. (the "Company", "United Hunter" or "UHO") should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2014. Unless otherwise specified herein, the information provided is as at August 20, 2015. These documents and additional information about the Company are available at [www.sedar.com](http://www.sedar.com). Unless otherwise noted, dollar amounts are expressed in Canadian dollars. References to US\$ means America dollars.

### **Description of Business**

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

### **Forward-looking Statements**

The MD&A contains forward-looking statements intended to provide readers with a reasonable basis of assessing the performance of the Company. The use of any of the words "believe", "expect", "estimate", "will", "should", "intend", and similar expressions are intended to identify forward looking statements. Forward looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Stakeholders reading this report are cautioned that any forward-looking statements, including those regarding us or our management's current beliefs, expectations, anticipations, estimations, projections, strategies, proposals, plans, or intentions, are not guarantees of future performance or results of events and involve risks and uncertainties. Such risks and uncertainties include but are not limited to; the Company's goals to acquire, sustain or grow production and reserves through prudent management and acquisitions; the impact of any potential acquisitions and the timing for achieving such impact; sufficiency of our capital resources to meet our on-going short, medium and long-term commitments; expectations regarding our the ability to raise sufficient capital resources to achieve these goals; statements with respect to: the focus of capital expenditures; the sale, farming in, farming out or development of certain exploration properties; the implied assessment pursuant to interest in our joint ventures resources in place based on certain estimates and assumptions that described resources exist in the quantities predicted or estimated, and can be profitably produced in the future; the impact of changes in petroleum and natural gas prices on cash flow; drilling plans, processing capacity; operating and other costs; treatment under governmental regulatory regimes and tax laws; liquidity and financial capital markets; The Company undertakes no obligation to update such forward-looking statements or information if circumstances or management's estimates or opinions should change, unless required by law.

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



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

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

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

The following table outlines certain forward-looking statements contained in this MD&A and provides material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

| Page No. | Forward looking statements                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Assumptions                                                                                                                                                                                          | Risk factors                                                                                                                                           |
|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6        | Other Activities<br>"The Company will continue to source and review potential oil and gas prospects for possible participation in the coming months"                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | The Company will review potential oil and gas prospects and find suitable prospects in which to participate.                                                                                         | The Company may not find any appropriate oil and gas opportunities in which it can participate due to inadequate financial resources or other factors. |
| 8        | Liquidity and Capital Resources – Liquidity<br>"Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. After careful consideration, the Board has reasonable expectation that the Company has adequate resources to meet its working capital requirements through 2015." | We currently have adequate financial resources to pay liabilities as they come due through 2015. Financing will be sought during the interim to continue as a going concern beyond the eight months. | The Company is unable to obtain future financing to meet liabilities as they come due.                                                                 |



## **Overall Performance**

### ***Huasna Property***

The Company holds an indirect 65% interest in Excelaron, which holds a 100% interest in an oil and natural gas property consisting of approximately 200 acres, including an undivided mineral ownership of 60.24 net acres out of 160.64 gross acres, on the western edge of the Huasna Basin, an existing California Department of Oil, Gas and Geothermal Resources designated oilfield within the Meridian Anticline located in Arroyo Grande, California ("Huasna"). The Company's objective is to pursue the exploration and development of these oil and gas properties held by Excelaron pursuant to the terms of a joint operating agreement. Its joint venture partner in Excelaron is Australia Oil Company Investments Pty Limited.

During the year ended December 31, 2014, after several years of Excelaron being denied the required permits and after unsuccessful legal actions to reverse these denials, the Company has decided to write-down its investment in Excelaron resulting in the Company recognizing an impairment of \$3,742,916 (2013 - \$nil) which consists of the carrying value of the investment of \$4,670,996 offset by a reversal of the consideration payable of \$928,080 that will not be required to be paid out as the required permits have not been obtained. However, the Company will continue to manage the assets of Excelaron in this area and review each alternative available so as to develop this project in a reasonable prudent manner.

### ***Alamo Creek Oil, LLC - Porter Ranch Property***

The Company acquired a 45% joint venture interest in Alamo Creek Oil LLC ("Alamo") in the year 2010. Shortly after that, Alamo leased 4,068 acres adjacent to the Santa Maria Basin and south east of the Company's Huasna property ("Porter Ranch").

Effective March 31, 2012, the Company declined to pay its share of a cash call and its joint venture interest in Alamo was reduced from 45% to 25%.

The initially submitted proposed minor use permit for drilling and testing was for up to 4 exploratory oil/gas wells on two existing pads, approximately 1 acre in total area, to determine commercial viability of the targeted hydrocarbons. Subsequently, Alamo amended the permit application to be for just one test well. No permanent facilities are proposed with this application request. The entire work program on the single test well is expected to be completed within a 3 month period, where at such time the single test well would be shut in after the initial testing has been completed. No further oil related activities would be allowed on the site without subsequent discretionary permit approval.

As at December 31, 2014, the Company reviewed the investment for indication of impairment and noted continuing equity losses in operations, the decline in market prices for oil and gas, and the market capitalization of Alamo was higher than their net assets. In addition, the minor use permit has yet to be approved and there is no guaranty that this permit will be acquired due to continued opposition to oil and gas exploration and production in the Huasna valley. Based on these factors, the Company recorded an impairment loss of \$27,675 on their investment in Alamo Creek. However, the Company will continue to jointly manage the remaining assets of Alamo Creek in this area and review each alternative available so as to develop this project in a reasonable prudent manner. The Company's leases are due to expire at the end of December 2015. The Company and its partners are currently evaluating the benefit of any potential renewals in the area.

### ***Impairment losses***

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



As at December 31, 2014, the Company reviewed the investment in Alamo Creek for indication of impairment and noted continuing equity losses in operations, the decline in market prices for oil and gas, and the market capitalization of Alamo was higher than their net assets. In addition, the minor use permit has yet to be approved and there is no guaranty that this permit will be acquired due to continued opposition to oil and gas exploration and production in the Huasna valley. Based on these factors, the Company recorded an impairment loss of \$27,675 on their investment in Alamo Creek.

## Other Activities

In 2014 and 2015, the Company initiated three different consulting agreements with industry consultants to assist the Company in sourcing and performing technical and commercial reviews on certain identified, and newly sourced, oil and gas prospects in California and internationally. The Company has identified and is currently reviewing several prospective international projects that would be suitable assets to acquire a working interest in and we will continue with any due diligence necessary to secure any one or more of these prospective projects that would suit the Company's future objectives. Besides the current opportunities, the Company will continue to search and evaluate potential oil and gas prospects for possible participation in the coming months.

Also, during the past year, the Company has also worked to clean up the reporting and financial disclosures and will continue to build upon the cost-efficiencies already achieved. We are continuously working to reduce costs at all levels of our operations, including the activities within Alamo Creek and Excelaron.

## Result of Operations

### Selected Quarterly Information

For the six months ended June 30, 2015.

|                                 | Three Months ended June 30, |           | Six Months ended June 30 |           |
|---------------------------------|-----------------------------|-----------|--------------------------|-----------|
|                                 | 2015                        | 2014      | 2015                     | 2014      |
|                                 | \$                          | \$        | \$                       | \$        |
| <b>Expenses</b>                 |                             |           |                          |           |
| Consulting fees                 | 23,912                      | 12,000    | 30,157                   | 20,000    |
| Exploration expense             | 9,245                       | -         | 9,245                    | -         |
| Equity loss on Alamo            | -                           | 21,260    | -                        | 21,906    |
| Equity loss on Excelaron        | -                           | 9,694     | -                        | 12,602    |
| Foreign exchange loss (gain)    | (69,093)                    | 7,898     | (76,763)                 | (7,103)   |
| General and administrative      | 5,867                       | 8,951     | 11,788                   | 14,611    |
| Professional fees               | 20,334                      | 12,082    | 54,386                   | 20,731    |
| Public company costs            | 5,671                       | 12,035    | 16,037                   | 23,681    |
| Salaries and benefits           | 54,544                      | 34,008    | 96,359                   | 58,345    |
| Share-based compensation        | 63                          | 702       | 2,692                    | 1,062     |
| Travel                          | 2,767                       | 2,624     | 5,175                    | 4,931     |
| Loss before other expenses      | (53,310)                    | (121,254) | (149,076)                | (170,766) |
| Other expense                   |                             |           |                          |           |
| Interest expense                | -                           | (5,296)   | -                        | (8,897)   |
| Net loss and comprehensive loss | (53,310)                    | (126,550) | (149,076)                | (179,663) |



#### Expenses for the Quarter:

The Company had a net and comprehensive loss for the three and six months ended June 30, 2015 of \$53,310 and \$149,076 a decrease of 58% and 17% correspondingly compared to the same three and six month periods in 2014 (2014: \$126,550, \$179,663 as the company reduces expenses to preserve capital. Significant increases and decreases over the three months ended June 30, 2015 compared to the prior comparative three months in 2014 results are as follows:

- Consulting fees increased by 51% in the six months ended June 30, 2015 to \$30,157 compared to the corresponding six month period in 2014 (2014: \$20,000) as the company continues to focus on evaluating new prospects for possible acquisition.
- Exploration and expense consists of ongoing costs associated with joint venture projects on a post impairment basis. While the legal right to drill and explore for hydrocarbons on the properties remains in doubt the Company still has ongoing commitments with respect the properties and possibly other future endeavours. Cost pertaining to Alamo Creek and Excelaron expensed during the quarter amounted to were \$9,245 (2014: \$nil).
- General and administrative costs were reduced 34% and 19% for the three and six month periods ended June 30, 2015 as the company has accelerated its cost cutting measures as the year progresses (2015: \$5,867, \$11,788 2014: \$8,951, \$14,611).
- Public company costs decreased to \$16,037 for the six month period ended June 30, 2015. This decrease from \$23,681 in the corresponding period ended 2014 is primarily due to preparations pertaining to the stock consolidation and financing in the prior period.
- Salaries and benefits increased six months ended June 30, 2015 to \$96,359 as the company continues to maintain two full time employees (2014: \$58,345).

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

|                                 | Q3     | Q4     | Q1     | Q2      | Q3      | Q4        | Q1     | Q2     |
|---------------------------------|--------|--------|--------|---------|---------|-----------|--------|--------|
|                                 | 2013   | 2013   | 2014   | 2014    | 2014    | 2014      | 2015   | 2015   |
|                                 | \$     | \$     | \$     | \$      | \$      | \$        | \$     | \$     |
| Net revenue                     | -      | -      | -      | -       | -       | -         | -      | -      |
| Net loss and comprehensive loss | 32,473 | 78,133 | 53,421 | 126,550 | 141,937 | 3,964,757 | 95,766 | 53,311 |
| Loss per share                  | (0.00) | (0.01) | (0.01) | (0.00)  | (0.00)  | (0.21)    | (0.04) | (0.00) |

The loss during the three months ended June 30, 2015 was \$53,311 a decrease of 46% from the loss incurred during the three months ended June 30, 2014. The decrease is attributable to the Company actively cutting costs to preserve capital while it evaluates possible additional prospects, and due to the steep decline in the price of oil and gas.

#### Liquidity & Capital Resources

The Company has financed its operations through the issue of equity. At June 30, 2015, the Company had working capital of \$146,382 (2014: deficit \$278,805). For the six months ended June 30, 2015, the Company incurred losses of \$149,046 (2014 - \$179,663) and negative cash flows from operations of \$168,220 (2014 - \$127,750). Limited working capital and losses limit the Company's ability to fund future operations and any exploration and development of oil and gas properties. The Company has expensed as impaired its two main projects due to unsuccessful and prolonged attempts to secure the necessary drilling permits for Alamo Creek and Excelaron.



As at June 30, 2015, the Company currently has no assets or operations that generate revenue, and has an accumulated deficit of \$11,601,847. Additionally, the Company is planning to maintain and possibly renew several of

the leases within the two projects in California, at additional costs. However, there is no guarantee that the legal rights or permits to operate the leased properties will be granted or that the leases will be able to be farmed out or sold to any other interested party in the future. The continued operations of the Company is dependent on its ability to generate future cash flows or obtain additional financing in its pursuit of such projects. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. After careful consideration, the Board has reasonable expectation that the Company has adequate resources to meet its working capital requirements through 2015. However, in order to acquire new projects with the potential to produce in commercial quantities or should the Company acquire the required permits for the Excelaron or Alamo Creek projects, additional equity financing will be required. The continuation of the Company as a going concern is dependent on raising the necessary financing and secure new projects, but the outcome of these efforts cannot be predicted at this time.

#### *Revenues*

The Company has generated no current revenues.

#### *Financing*

On July 21, 2014 the Company implemented a consolidation of the issued and outstanding common shares of the Company on the basis of one post-consolidation common share for 10 pre-consolidation common shares resulting in 12,030,272 in common shares outstanding.

On September 2, 2014, the Company completed a non-brokered private placement of 20,000,000 common shares at \$0.05 per common share for gross proceeds of to US\$920,600 (CAD\$1,000,000).

The net proceeds from the Offering have been and will be used for: continuing expenses associated with the minor use permit application currently being reviewed by San Luis Obispo County and the anticipated drilling of the Porter Ranch prospect near the Huasna Valley, in San Luis Obispo County, California; ongoing legal expenses associated with the Company's interest in the Huasna Valley; general working capital and the repayment of debt.

The following table shows expenses to date from proceeds raised:

| <b>Items</b>              | <b>Expenses</b> |
|---------------------------|-----------------|
| Repayment of debt         | CAD\$329,200    |
| Payment of accrued salary | 73,131          |
| Investment in Alamo Creek | 21,906          |
| Professional fees         | 131,010         |
| Consulting fees           | 106,080         |

As at June 30, 2015, the Company had repaid debt of C\$329,220 and paid \$73,131 of accrued salary to a director and manager of the Company. A further \$21,906 has been invested in Alamo Creek to continue with work to acquire permits, professional fees incurred to date of \$131,010 and consulting fees amounted to \$106,080.

At June30, 2015 the Company had a cash balance of \$217,189. The Company believes it currently has the funds on hand to meet its obligations and liabilities as they come due through 2015.

In order to continue its efforts to acquire and carry out additional operations on its 65% interest in Excelaron, its 25% interest in Alamo Creek or its interest in any other projects which managements believes the Company should undertake, further funds will be required either through further equity financing and/or loans.





## Impairment

At December 31, 2014 the Company wrote down the full cost of its capitalized assets as follows:

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

## Cash Flows from Operation Activities

Cash flows used for operating activities amounted to \$168,220 for the six months ended June 30, 2015 compared to \$127,750 for the six months ended June 30, 2014. Increases in salaries accounted for the increase.

## Cash Flows from Financing Activities

There were no cash flows from financing activities during the quarter ended June 30, 2015 compared to a \$143,892 inflow during the comparable six months ended June 30, 2014.

## Cash Flows on Investing Activities

The were no cash flows from investing activities for the current six month periods ended June 30, 2015 compared to an outflow of \$15,214 in or the corresponding comparable period in 2014.

## Commitments

On September 8, 2014 all principle and interest on loans previously received were repaid for a total expenditure of \$335,066. As at June 30, 2015 no loans were outstanding.



## **Legal Matters**

The Company may, from time to time, be involved in various claims, lawsuits or disputes with third parties, or breach of contract incidental to the operations of its business. The Company is not currently involved in any claims, disputes, litigation or other actions with third parties which it believes could have a material adverse effect on its financial condition or results of operations.

The Company did resolve a recent dispute with a former employee over past severance claims. The Company does not believe this will have a materially adverse effect on its financial conditions or results of operations.

## **Disclosure of Outstanding Share Data (As at August 20, 2015)**

### ***Shares***

#### *Authorized:*

Unlimited number of common shares, no par value.

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

#### *Outstanding*

32,430,272 common shares.

No preferred shares are outstanding.

On September 2, 2014, the Company closed a private placement of 20,000,000 common shares at a price of \$0.05 in for total proceeds of \$1,000,000.

On December 16, 2014, the Company announced the granting of 400,000 of the Company's common shares to an officer of the Company in lieu of unpaid salary

### ***Stock options***

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

#### *Outstanding*

Subject to regulatory approval, the Company granted 35,000 stock options to a director on July 30, 2014 at an exercise price of CAD\$1.00 and with an expiry date 5 years from the date of grant. The stock options will vest 1/3 on the date of grant and an additional 1/3 vesting each subsequent year until the options are fully vested on July 30, 2016. The Company also granted 110,000 stock options at September 1, 2014, to a consultant at an exercise price of \$0.07 for 5 years from the grant date. These options fully vested 3 months from the grant date.



| Exercise price<br>\$ | Number of<br>stock options | Outstanding                                                     |                                          | Number of stock<br>options | Weighted<br>average<br>exercise price<br>\$ |
|----------------------|----------------------------|-----------------------------------------------------------------|------------------------------------------|----------------------------|---------------------------------------------|
|                      |                            | Weighted<br>average<br>remaining<br>contractual life<br>(years) | Weighted average<br>exercise price<br>\$ |                            |                                             |
| 0.07                 | 110,000                    | 4.2                                                             | 0.07                                     | 110,000                    | 0.07                                        |
| 1.00                 | 140,000                    | 3.2                                                             | 1.00                                     | 93,333                     | 1.00                                        |
|                      | 250,000                    | 3.7                                                             | 0.59                                     | 203,333                    | 0.50                                        |

During the six months ended June 30, 2015, the Company granted stock options with a fair value of \$2,692 (2014 - \$ 1,062) which was charged to operations and recorded as share-based payment reserve. The fair value of stock options granted was determined using the Black-Scholes option pricing model. The weighted average fair value of the options vested during the year ended December 31, 2014 was \$0.04 (2013 - \$0.35) per option. Weighted average assumptions used in calculating the fair value of stock-based compensation expense, assuming no expected dividends or forfeitures are as follows: No stock options have been granted in the six month period ended June 30, 2015.

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

#### **Related Party Transactions**

- During the six months ended June 30, 2015, the amount of \$50,500 (2014 – \$76,500) was incurred to a company controlled by the President of the Company for salaries and benefits.
- During the six months ended June 30, 2015, the amount of \$36,000 (2014 – \$15,000) was incurred to the Chief Financial Officer of the Company for salaries and benefits.
- During the six months ended June 30, 2015, the amount of \$30,986 (2014 - \$5,986) was incurred to former directors and officers of the Company for consulting fees, salaries, and benefits.
- During the six months ended June 30, 2015, the amount of \$126 (2014 - \$396) was recognized as stock-based compensation for the vesting of stock options granted to directors and officers of **the Company**.

#### **Off Balance Sheet Arrangements and Proposed Transactions**

The Company does not have any off-balance sheet arrangements. The Company has no proposed transactions.



## **Financial Instruments and Other Instruments**

### (a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position As at June 30, 2015 as follows:

| Fair Value Measurements Using                                                      |                                                              |                                                          |  | Balance,<br>June 30,<br>2015<br>\$ |
|------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------|--|------------------------------------|
| Quoted prices in active<br>markets for identical<br>instruments<br>(Level 1)<br>\$ | Significant other<br>observable<br>inputs (Level<br>2)<br>\$ | Significant<br>unobservable<br>inputs<br>(Level 3)<br>\$ |  |                                    |
| 217,189                                                                            | –                                                            | –                                                        |  | 217,189                            |

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

### (b) Credit Risk

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

### (c) Foreign Exchange Rate Risk

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

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

### (d) Interest Rate Risk

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

### (e) Liquidity Risk

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



(f) Price Risk

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

*Property, plant and equipment*

The Company estimated the VIU to determine the recoverable amounts of the Company's CGUs for impairment testing based on consideration of the following:

- net present value of proved plus probable reserves using a pre-tax discount rate of 10% as determined by independent qualified reserves evaluators;
- management's estimate of the fair value of undeveloped land; and
- a review of the values indicated by the metrics of recent market transactions of similar assets within the oil and gas industry.

The market value of other items of property, plant and equipment is based on the quoted market prices for similar items.

**Changes in Accounting Policies including Initial Adoption**

Accounting Standards Issued But Not Yet Effective

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

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

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

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

**Risks and Uncertainties**

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



### ***Liquidity***

The Company has financed its operations through the issue of equity. At June 30, 2015, the Company had working capital of \$146,382 (2014: deficit \$278,805). For the six months ended June 30, 2015, the Company incurred losses of \$149,046 (2014 - \$179,663) and negative cash flows from operations of \$168,220 (2014 - \$127,750). Limited working capital and losses limit the Company's ability to fund future operations and any exploration and development of oil and gas properties. The Company has expensed as impaired its two main projects due to unsuccessful and prolonged attempts to secure the necessary drilling permits for Alamo Creek and Excelaron.

As at June 30, 2015, the Company has no assets or operations that generate revenue, and has an accumulated deficit of \$11,601,847. Additionally, the Company is planning to maintain many of the leases within the two projects in California, at additional costs. However, there is no guarantee that the legal rights or permits to operate the leased properties will be granted or that the leases will be able to be farmed out or sold to any other interested party in the future. The continued operations of the Company is dependent on its ability to generate future cash flows or obtain additional financing in its pursuit of such projects. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. After careful consideration, the Board has reasonable expectation that the Company has adequate resources to meet its working capital requirements through 2015. However, in order to acquire new projects with the potential to produce in commercial quantities or should the Company acquire the required permits for the Excelaron or Alamo Creek projects, additional equity financing will be required. The continuation of the Company as a going concern is dependent on raising the necessary financing and secure new projects, but the outcome of these efforts cannot be predicted at this time.

### ***Permits***

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

### ***Exploration***

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

### ***Commodity price***

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

### ***Share-based payments***

Share-based payments are measured using a Black-Scholes option pricing model. Measurement inputs include share price on grant date, exercise price, expected volatility (based on historical volatility of securities of comparable companies), weighted average expected life and forfeiture rate (both based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds).



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

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

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

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

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

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

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

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

### ***Credit risk***

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash balances and receivables. The maximum exposure to credit risk is equal to the balances of cash and receivables.

The Company's limits its exposure to credit risk on its cash by holding its cash balances in deposits with a high credit quality Canadian chartered bank.

### ***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities that are settled in cash or other financial assets. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities as they come due. The amounts for accounts payable and accrued liabilities and consideration payable are due in less than one year.

### ***Market risk***

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates, and interest rates will affect the Company's income or the value of its financial instruments.

### ***Currency risk***

Currency risk arises from the Company's financial instruments and purchases that are denominated in a currency other than the Canadian dollar, the Company's functional currency.

### ***Interest rate risk***

The Company's exposure to interest rate risk is limited due to the short-term nature of its financial instruments.

### ***Capital management***

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



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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2014.

## **Other Information**

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

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

#### *General and administration costs*

|                           | June 30,<br>2015<br>\$ | June 30,<br>2014<br>\$ |
|---------------------------|------------------------|------------------------|
| Trade payables            | 4,389                  | 14,744                 |
| Accrued professional fees | 10,000                 | 18,227                 |
| Accrued liabilities       | 18,149                 | 32,105                 |
|                           | (32,539)               | (65,076)               |

## **Critical Accounting Estimates**

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

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

### ***Judgments***

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

#### *Identification of cash generating units*

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

### ***Estimates***

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

#### *Impairment of investment in joint ventures*

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



#### *Deferred income taxes*

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates at the reporting date in effect for the period in which the temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date. The recognition of deferred income tax assets is based on the assumption that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

#### *Share-based compensation*

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