

### **Notice to Reader**

The attached consolidated financial statements of Hunter Oil Corp. for the years ended December 31, 2019 and 2018 are being refiled to correct formatting errors in the title headers on the Statement of Changes in Shareholders Equity and Statements of Cash Flows (Pages 3 & 4). No other changes have been made to this document.



**Consolidated Financial Statements of**

**HUNTER OIL CORP.**

**Years Ended December 31, 2019 and 2018**

(Expressed in US Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hunter Oil Corp.

### Opinion

We have audited the consolidated financial statements of Hunter Oil Corp. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

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

### Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the financial statements, which describes events or conditions that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

February 21, 2020

# HUNTER OIL CORP.

Consolidated Balance Sheets

(all amounts expressed in thousands of US dollars)

	Notes	As of December 31, 2019	As of December 31, 2018
Assets			
Current assets			
Cash		\$ 1,112	\$ 1,717
Sales tax receivable		4	27
Prepaid expenses and other deposits		4	33
Total current assets		<u>1,120</u>	<u>1,777</u>
Non-current assets			
Other long-term assets	7	130	130
Restricted cash	6	25	25
Total non-current assets		<u>155</u>	<u>155</u>
Total Assets		\$ 1,275	\$ 1,932
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable		\$ 70	\$ 103
Accrued liabilities	8	49	59
Total current liabilities		<u>119</u>	<u>162</u>
Total liabilities		<u>119</u>	<u>162</u>
Shareholders' equity			
Share capital	10	111,816	111,816
Contributed surplus		9,507	9,507
Accumulated deficit		(120,167)	(119,553)
Total shareholders' equity		<u>1,156</u>	<u>1,770</u>
Total Liabilities and Shareholders' Equity		\$ 1,275	\$ 1,932

Going Concern (See Note 2)

Approved by the Board of Directors:

/s/ Srinivas Polishetty  
Srinivas Polishetty  
Director

/s/ Andrew Hromyk  
Andrew Hromyk  
Director

See accompanying notes to the consolidated financial statements

# HUNTER OIL CORP.

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

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	Notes	Year Ended	
		December 31,	
		2019	2018
Expenses			
General and administrative	17	\$ 210	\$ 381
Management fees and consulting	12	378	360
Other, net		-	54
Stock-based compensation		-	200
Foreign currency gain		(44)	60
Total expenses		<u>544</u>	<u>1,055</u>
Net loss from continuing operations		<u>(544)</u>	<u>(1,055)</u>
Discontinued Operations	13	(70)	(4,661)
Net loss and comprehensive loss for the year		<u>\$ (614)</u>	<u>\$ (5,716)</u>
Loss per share continuing operations - basic and diluted		(0.04)	(0.09)
Loss per share discontinued operations - basic and diluted		(0.01)	(0.38)
Total		<u>\$ (0.05)</u>	<u>\$ (0.47)</u>
Weighted average number of shares outstanding		<u>13,260,871</u>	<u>12,144,515</u>

See accompanying notes to the consolidated financial statements

# HUNTER OIL CORP.

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

	Number of Common Shares		December 31,	
	2019	2018	2019	2018
<b>Total Shareholders' Equity, beginning balances</b>			\$ 1,770	\$ 22,113
<b>Equity Instruments (Common Shares)</b>				
Balance, January 1	13,260,871	8,070,871	111,816	126,626
Issued stock, no par value	-	5,000,000	-	1,540
Issued stock from exercise of options, no par value	-	190,000	-	226
Return of capital	-	-	-	(16,576)
Balance, December 31	13,260,871	13,260,871	111,816	111,816
<b>Contributed Surplus</b>				
Balance, January 1			9,507	9,256
Fair value of stock option grants			-	732
Issued stock from exercise of options			-	(110)
Fair value of stock options settled for cash			-	(371)
Balance, December 31			9,507	9,507
<b>Accumulated Deficit</b>				
Balance, January 1			(119,553)	(113,769)
Repurchase of stock options			-	(68)
Net loss			(614)	(5,716)
Balance, December 31			(120,167)	(119,553)
<b>Total Shareholders' Equity, ending balances</b>			\$ 1,156	\$ 1,770

See accompanying notes to the consolidated financial statements

# HUNTER OIL CORP.

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

	Year Ended December 31,	
	2019	2018
Cash provided by (used in):		
Operating activities		
Net loss for the period from continuing operations	\$ (544)	\$ (1,055)
Add (deduct) non-cash items:		
Foreign currency translation (gain) loss	-	60
Stock-based compensation	-	200
Total non-cash items	(544)	(795)
Changes in working capital (Note 16)	9	(385)
Cash (used) in operations - continuing operations	(535)	(1,180)
Cash (used) in operations - discontinued operations	(70)	(3,266)
	(605)	(4,446)
Investing activities		
Investing in other long-term assets	-	(130)
Proceeds on sale of discontinued operations	-	21,547
Cash provided by investing activities - continuing operations	-	21,417
	-	21,417
Financing activities		
Proceeds from private placement funding	-	1,540
Proceeds of stock options	-	116
Capital distribution	-	(16,546)
Cash (used) in financing activities - continuing operations	-	(14,890)
Cash (used) in financing activities - discontinued operations	-	(439)
	-	(15,329)
Change in cash	(605)	1,642
Cash, beginning	1,717	75
Cash, ending	\$ 1,112	\$ 1,717

See accompanying notes to the consolidated financial statements



# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

For the Years ended December 31, 2019 and 2018

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## 1. Reporting Entity and Description of Business

Hunter Oil Corp. (the “Company”) is incorporated in British Columbia, Canada and is engaged in the business of acquiring and developing crude oil and natural gas properties. On August 31, 2018, the Company disposed all of its operations in oil and gas production (Note 13). The Company is currently evaluating potential interests in oil and gas properties and other business opportunities in the oil and gas industry.

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

## 2. Liquidity and Going Concern

These consolidated financial statements are prepared on the basis that the Company will continue to operate as a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the twelve-month period following the date of these consolidated financial statements. The Company has working capital of \$1.0 million as at December 31, 2019.

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

## 3. Basis of Presentation and Significant Accounting Policies

- a) **Statement of Compliance** - These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The consolidated financial statements have been prepared under the historical cost convention, except for financial assets and liabilities classified as fair value through profit or loss or fair value through other comprehensive loss. The accounting policies set out in this note have been applied in preparing the consolidated financial statements for the years ended December 31, 2019 and 2018. These financial statements were approved and authorized for issuance by the Board of Directors on February 21, 2020.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

For the Years ended December 31, 2019 and 2018

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

### b) Basis of Presentation

- i. **Functional and Presentation Currency** – These consolidated financial statements are presented in United States dollars, unless otherwise indicated. Items included in the consolidated financial statements of each of the Company’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency the United States dollar.
- c) **Basis of Measurement and Estimation Uncertainty** - The timely preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the consolidated financial statements, and the amount of revenues and expenses (Note 4). Accordingly, actual results may differ from these estimates.
- d) **Principles of Consolidation and Presentation** - The consolidated financial statements of the Company include the financial information of Hunter Oil Corp. (the “Parent Company”) and its wholly-owned subsidiaries. The following table lists the Company’s principal operating subsidiaries, their jurisdiction of incorporation and its percentage ownership as of the date of this report:

Subsidiary Name	Jurisdiction	Ownership 2019	Ownership 2018
Hunter Oil Management Corp.	Florida, USA	100%	100%
Hunter Ventures Corp. (3)	Delaware, USA	0%	100%
Hunter Oil Resources Corp.	Delaware, USA	100%	100%
Hunter Oil Production Corp.	Florida, USA	100%	100%
Ridgeway Arizona Oil Corp. (1)	Arizona, USA	0%	0%
EOR Operating Company (1)	Texas, USA	0%	0%
Milnesand Minerals Inc. (2) (3)	Delaware, USA	0%	100%
Chaveroo Minerals Inc. (2) (3)	Delaware, USA	0%	100%
Hunter Ranch Corp. (3)	Delaware, USA	0%	100%

- (1) Results of discontinued operations included to August 31, 2018 (See Note 13). Subsidiaries sold as disposal of discontinued operations.
- (2) Results of discontinued operations. Assets and liabilities of each subsidiary sold as part of discontinued operations (See Note 13).
- (3) Entities formally dissolved during the year ended December 31, 2019.

Intercompany balances and transactions are eliminated upon consolidation.

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

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

For the Years ended December 31, 2019 and 2018

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

- f) **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.

g) **Impairment of Non-Financial Assets**

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.

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

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

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

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

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

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

For the Years ended December 31, 2019 and 2018

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

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

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

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

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

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

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

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

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

#### *Financial assets*

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

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

For the Years ended December 31, 2019 and 2018

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

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

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

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

#### *Impairment of financial assets*

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

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

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

#### *Financial liabilities*

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

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

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

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

For the Years ended December 31, 2019 and 2018

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

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

### 4. Significant Judgements and Estimates

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

- a) **Deferred Income Tax Assets** – Assessing the recoverability of deferred income tax assets requires significant estimates related to expectations of future taxable income based on forecasted cash flows from operations as well as interpretations and judgements on uncertain tax positions of applicable tax laws. Such judgements include determining the likelihood of tax positions being successfully challenged by tax authorities based on information from relevant tax interpretations and tax laws. To the extent such interpretations are challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability to realize deferred tax assets recorded at the balance sheet date may be compromised. Judgements are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.
- b) **Financial Instruments** – The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Company may use derivative instruments to manage oil and gas commodity prices. The fair value of these derivatives is determined using valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data, including quoted commodity prices and volatility. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and, as such, are subject to measurement uncertainty.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

For the Years ended December 31, 2019 and 2018

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

- c) **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. As at December 31, 2019, the Company had no operating assets other than cash.

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

## 5. Changes to Significant Accounting Policies

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2019 and have been applied in preparing these consolidated financial statements.

### *IFRS 16: Leases*

This is the first period for which the Company has applied IFRS 16. The Company has adopted *IFRS 16* on a modified retrospective approach. 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.

As a result of the sale of the Company's discontinued operations in 2018, the Company has no outstanding lease arrangements other than month to month office leases. As a result, there have been no adjustments to these consolidated financial statements as a result of the transition to IFRS 16 as of January 1, 2019. Comparative figures for 2018 have not been restated as a result of applying the modified retrospective approach.

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.

# HUNTER OIL CORP.

Notes to Consolidated Financial Statements

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

For the Years ended December 31, 2019 and 2018

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## 6. Restricted Cash

Restricted cash is comprised of escrowed amounts or certificates of deposit at banks which are pledged to secure plugging and abandonment obligations for properties operated by the Company's subsidiaries or to secure a well site reclamation project in Canada (Note 8).

The following table summarizes restricted cash balances:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
<u>Bank deposits pledged to secure asset retirement obligations</u>	<u>\$ 25</u>	<u>\$ 25</u>

## 7. Other Long-Term Assets

During the year-ended December 31, 2018, the Company acquired for cash several internet domains for which the Company is seeking potential new business ventures. The assets represent intangible assets with an indefinite life and have not been amortized and management has determined these assets are not impaired as at December 31, 2019.

## 8. Accrued Liabilities

The Company has an obligation to complete a well site reclamation for a historical lease arrangement in Alberta, Canada. The Company continues reclamation evaluation activities with its environmental consultants. As at December 31, 2019 the Company currently had \$0.05 million accrued for potential final reclamation costs and certifications (2018 - \$0.06 million). Upon final regulatory approval, the restricted cash (See Note 6) shall be returned to the Company.

## 9. Income Taxes

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Statutory tax rate	27.00%	27.00%
Loss before income taxes	\$ 614	\$ 5,716
Expected income tax benefit	(165)	(1,544)
Adjustments to reconcile expected income tax benefit to actual:		
Unrecognized benefit of losses	173	2,342
Stock-based compensation	-	98
Differences between statutory and expected tax rate	(8)	(896)
<u>Actual income tax benefit</u>	<u>\$ -</u>	<u>\$ -</u>



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## 9. Income Taxes (cont'd)

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

	December 31, 2019	December 31, 2018
Tax loss carryforwards	\$ 36,287	\$ 36,119
Tax assets not recognized	(36,287)	(36,119)
	\$ -	\$ -

The Company has net operating loss carryforwards available of approximately \$22.3 million in Canada and \$82.2 million subject to United States tax laws. Approximately \$6.1 million is subject to applicable Section 382 limitations, in the United States while the remaining US losses may be carried forward indefinitely. In addition, the Company has capital loss carryforwards available of approximately \$6.1 million in Canada.

## 10. Share Capital

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

**Issued and Outstanding** – As at December 31, 2019 the Company had 13,260,871 common shares outstanding (2018 – 13,260,871).

**Capital Distribution** - During the year ended December 31, 2018, the Company declared and paid a capital distribution of \$16.58 million at a price of \$1.25 per share. As of December 31, 2019 and 2018, \$0.03 million of payments remained outstanding due to uncashed or undeliverable payments. These amounts have been included in accrued liabilities as at December 31, 2019.

## 11. Stock Options

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

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

There were no stock options granted or outstanding for the year ended December 31, 2019.

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## 11. Stock Options (cont'd)

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

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

The Company's option activity during year ended December 31, 2019 and 2018 was as follows (number of options in thousands):

	Number of Options	Weighted-Average Exercise Price (C\$)
Outstanding, January 1, 2018	-	
Granted	1,250	\$ 0.80
Exercised	(190)	0.80
Cancelled	(1,060)	0.80
Outstanding, December 31, 2018	-	
Outstanding, January 1, 2019	-	
Granted/exercised/cancelled	-	-
Outstanding, December 31, 2019	-	

As at December 31, 2019 the Company has no stock options outstanding.

## 12. Related Party Transactions

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

### *Related Party Transactions Continuing Operations*

	Year Ended	
	2019	2018
Salaries, bonuses, benefits and fees	\$ 72	\$ 80
Stock-based compensation	-	53
Management fees	306	257
Total compensation	\$ 378	\$ 390

### *Related Party Transactions Discontinued Operations*

	Year Ended	
	2019	2018
Salaries, bonuses, benefits and fees	\$ -	\$ 581
Change of control payment	-	750
Payment for cancelled stock options	-	397
Total compensation	\$ -	\$ 1,728

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For the Years ended December 31, 2019 and 2018

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

Amounts due to related parties included in accounts payable at December 31, 2019 - \$Nil (2018 - \$0.02 million).

During the year ended December 31, 2019, the Company incurred expenses from transactions with the two related parties identified below.

The Company is party to a management services agreement with Century Capital Management Ltd., a company controlled by the Company's Executive Chairman. Pursuant to this management services agreement, the Company incurred approximately \$0.24 million and \$0.24 million in management fees and office expenses during the years ended December 31, 2019 and 2018, respectively. Additionally, in 2018 the Company incurred \$0.25 million as a change of control payment to Century Capital Management Ltd, in connection with the sale of assets of the Company. The Company currently operates under a monthly agreement for \$0.02 million per month.

The Company incurred management consulting fees paid to a company controlled by the CFO of approximately \$0.07 million during the year ended December 31, 2019 (2018 - \$0.02 million).

## 13. Discontinued Operations

On August 31, 2018, the Company closed a Purchase and Sale Agreement with Pacific Energy Development Corp. (the "Purchaser") in which certain subsidiaries of the Company sold (the "Transaction") substantially all of the Company's oil and gas operations and related assets (the "Assets") located in the Permian Basin, eastern New Mexico, for an aggregate final purchase price of \$21.5 million. The Purchaser also agreed to assume all retirement obligations associated with the Assets. As at December 31, 2019, all proceeds had been received by the Company.

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

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

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## 13. Discontinued Operations (cont'd)

The results of discontinued operations are as follows:

	Year Ended December 31,	
	<u>2019</u>	<u>2018</u>
<b>Revenues</b>		
Oil and gas sales	\$ -	\$ 1,348
Less: Royalties	-	(302)
<b>Revenues, net of royalties</b>	<u>-</u>	<u>1,046</u>
<b>Expenses</b>		
Operating and production costs	-	639
Workover expenses	-	225
General and administrative	70	2,484
Depreciation and depletion	-	415
Accretion	-	277
Other, net	-	50
Stock-based compensation	-	532
Impairment loss	-	1,011
<b>Total expenses</b>	<u>70</u>	<u>5,633</u>
<b>Net loss from Discontinued Operations</b>	<u>\$ (70)</u>	<u>\$ (4,587)</u>
<b>Loss from Discontinued Operations:</b>		
Results from discontinued operations	\$ (70)	\$ (4,587)
Loss on disposal of assets	-	(74)
<b>Loss from discontinued operations</b>	<u>\$ (70)</u>	<u>\$ (4,661)</u>

## 14. Fair Value Measurements

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

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

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

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

## 15. Risk management

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

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

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

**Liquidity Risk** - Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At December 31, 2019, the Company had cash of \$1.1 million, excluding restricted cash of \$0.03 million. The Company is dependent on raising funds by borrowings, equity issues, or asset sales to finance its ongoing operations, capital expenditures and acquisitions. The contractual maturity of the majority of accounts payable is within three months or less. The Company has historically financed its expenditures and working capital requirements through the sale of common stock or, on occasion, through the issuance of short-term debt.

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

**Commodity Price Risk** - The Company is no longer exposed to commodity price risk following the sale of its discontinued operations. The Company had no derivative contracts in place at December 31, 2019.

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## 16. Supplemental Cash Flow Information

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

	December 31, 2019	December 31, 2018
Receivables	\$ 23	\$ (15)
Prepaid expenses and deposits	29	(33)
Accounts payable and accrued liabilities	(43)	(337)
Total	\$ 9	\$ (385)

## 17. General and Administrative Expenses

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

	Year Ended	
	2019	2018
Accounting and tax	\$ 11	\$ 94
Insurance	9	37
Legal	91	77
Office & General	59	47
Public company reporting	31	67
Travel and accommodation	9	59
Total General and Administrative Expenses	\$ 210	\$ 381

## 18. Capital Management

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

At December 31, 2019 and 2018, total capitalization of the Company was as follows:

	December 31, 2019	December 31, 2018
Accounts payable and accrued liabilities	\$ 119	\$ 162
Total Shareholders' Equity	1,156	1,770
Total Capitalization	\$ 1,275	\$ 1,932
Debt to Capitalization Ratio	9%	8%

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

The Company monitors capital and its financing requirements through an annual budget process and updates to the budget forecast and working capital projections. Following the sale of primarily all of its oil and gas assets during the year ended December 31, 2019, the Company is actively seeking a transaction that may result in changes to its current capital structure.