



Unaudited Interim Condensed Consolidated Financial Statements of

HUNTER OIL CORP.

Three Months Ended March 31, 2018 and 2017

HUNTER OIL CORP.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated condensed financial statements of the Company have been prepared by management and approved by the Board of Directors of the Company.

The Company's independent auditor has not performed a review of these unaudited interim condensed consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

May 17, 2018

HUNTER OIL CORP.

Condensed Consolidated Balance Sheets (Unaudited)
(all amounts expressed in thousands of US dollars)

| | As of March 31, 2018 | As of December 31, 2017 |
|---|-------------------------|----------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 498 | \$ 75 |
| Receivables | 154 | 110 |
| Pepaid expenses and other deposits | 141 | 138 |
| Total current assets | <u>793</u> | <u>323</u> |
| Non-current assets | | |
| Exploration and evaluation assets | 180 | 180 |
| Property and equipment, net | 32,846 | 33,493 |
| Restricted cash | 2,342 | 2,342 |
| Total non-current assets | <u>35,368</u> | <u>36,015</u> |
| Total Assets | <u>\$ 36,161</u> | <u>\$ 36,338</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 643 | \$ 1,125 |
| Asset retirement obligations | 376 | 349 |
| Total current liabilities | 1,019 | 1,474 |
| Asset retirement obligations | 12,197 | 12,751 |
| Total liabilities | <u>13,216</u> | <u>14,225</u> |
| Shareholders' equity | | |
| Equity instruments | 128,177 | 126,626 |
| Contributed surplus | 9,256 | 9,256 |
| Accumulated deficit | (114,488) | (113,769) |
| Total shareholders' equity | <u>22,945</u> | <u>22,113</u> |
| Total Liabilities and Shareholders' Equity | <u>\$ 36,161</u> | <u>\$ 36,338</u> |

See accompanying notes to unaudited interim condensed consolidated financial statements.

Approved by the Board of Directors:

/s/ Al H. Denson
Al H. Denson
Director

/s/ Andrew Hromyk
Andrew Hromyk
Director

HUNTER OIL CORP.

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

| | Three Months Ended | |
|---------------------------------------|--------------------|--------------|
| | March 31, | |
| | 2018 | 2017 |
| Revenues | | |
| Oil and gas sales | \$ 488 | \$ 457 |
| Less: Royalties | (104) | (96) |
| Revenues, net of royalties | <u>384</u> | <u>361</u> |
| Expenses | | |
| Operating and production costs | 258 | 319 |
| Workover expenses | 94 | 41 |
| General and administrative | 529 | 600 |
| Loss on disposition of assets | - | 22 |
| Depreciation and depletion | 137 | 180 |
| Accretion | 85 | 111 |
| Other, net | (11) | 33 |
| Foreign currency translation loss | <u>11</u> | <u>-</u> |
| Total expenses | <u>1,103</u> | <u>1,306</u> |
| Net comprehensive loss for the period | \$ (719) | \$ (945) |
| Loss per share - basic and diluted | \$ (0.08) | \$ (0.12) |

See accompanying notes to unaudited interim condensed consolidated financial statements.

HUNTER OIL CORP.

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

| | Three Months Ended | |
|--|--------------------|----------|
| | March 31, | |
| | 2018 | 2017 |
| Cash provided by (used in): | | |
| Operating activities | | |
| Net loss for the year | \$ (719) | \$ (945) |
| Add (deduct) non-cash items: | | |
| Depreciation and depletion | 137 | 180 |
| Accretion of asset retirement costs | 85 | 111 |
| Loss on disposition of assets | - | 22 |
| Foreign currency translation loss | 11 | - |
| Non-cash other expense | (13) | 36 |
| Total non-cash items | (499) | (596) |
| Asset retirement expenditures | (89) | (8) |
| Changes in working capital | (529) | 120 |
| Cash used in operations | (1,117) | (484) |
| Investing activities | | |
| Exploration and evaluation expenditures | - | (101) |
| Property and equipment expenditures | - | (371) |
| Cash provided by (used in) investing activities | - | (472) |
| Financing activities | | |
| Proceeds from private placement funding | 1,540 | - |
| Cash provided by (used in) financing activities | 1,540 | - |
| Change in cash and cash equivalents | 423 | (956) |
| Cash and cash equivalents, beginning of the period | 75 | 1,050 |
| Cash and cash equivalents, end of period | \$ 498 | \$ 94 |

See accompanying notes to unaudited interim condensed consolidated financial statements.

HUNTER OIL CORP.

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

| | Number of Common Shares | | | |
|---|-------------------------|-----------|-----------|-----------|
| | March 31, | | March 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| Total Shareholders' Equity, beginning balances | | | \$ 22,113 | \$ 25,301 |
| Equity Instruments (Common Shares) | | | | |
| Balance, January 1 | 8,070,871 | 8,070,871 | 128,177 | 126,628 |
| Issued stock, no par value | 5,000,000 | - | - | - |
| Balance, March 31 | 13,070,871 | 8,070,871 | 128,177 | 126,628 |
| Contributed Surplus | | | | |
| Balance, January 1 | | | 9,256 | 9,256 |
| Balance, March 31 | | | 9,256 | 9,256 |
| Accumulated Deficit | | | | |
| Balance, January 1 | | | (113,769) | (110,583) |
| Net loss | | | (719) | (945) |
| Balance, March 31 | | | (114,488) | (111,528) |
| Total Shareholders' Equity, ending balances | | | \$ 22,945 | \$ 24,356 |

See accompanying notes to unaudited interim condensed consolidated financial statements.

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Notes to Unaudited Interim Condensed Consolidated Financial Statements
(All amounts in thousands of US dollars unless otherwise indicated)

Three Months Ended March 31, 2018 and 2017

1. Reporting Entity and Description of Business

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

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

2. Liquidity and Going Concern

While these unaudited interim condensed consolidated financial statements are prepared on the basis that the Company will continue to operate as a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the twelve-month period following the date of these consolidated financial statements, certain conditions and events cast significant doubt on the validity of this assumption. For the three months ended March 31, 2018, the Company had negative cash flows from operations of approximately \$1.1 million and, at March 31, 2018, an accumulated deficit of approximately \$114.5 million. The Company also expects to incur further losses during the future development of its business. The Company’s ability to continue as a going concern is dependent upon its ability to generate profitable production and to obtain additional funding from loans or equity financings or through other arrangements. Although the Company has been successful in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company.

These unaudited interim condensed 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 Summary of Significant Accounting Policies

Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim condensed financial statements, including International Accounting Standard 34, “Interim Financial Reporting.” Except for the two standards it adopted on January 1, 2018 (see “Changes to Significant Accounting Policies” below), the Company has consistently applied the same accounting policies as those set out in the audited consolidated financial statements for the year ended December 31, 2017, which are available on the Company’s website at www.hunteroil.com. Certain disclosures included in the notes to the annual consolidated financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

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Notes to Unaudited Interim Condensed Consolidated Financial Statements
(All amounts in thousands of US dollars unless otherwise indicated)

Three Months Ended March 31, 2018 and 2017

The accounting policies applied in these unaudited interim consolidated financial statements are based on IFRS issued and outstanding as of May 17, 2018, the date the Company's Board of Directors approved the statements.

The accompanying unaudited interim condensed consolidated financial statements include all adjustments, composed of normal recurring adjustments, considered necessary by management to fairly state the Company's results of operations, financial position and cash flows. The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. Accordingly, actual results may differ from these estimates.

Basis of Presentation

Functional Currency – These unaudited interim condensed consolidated financial statements are presented in United States dollars, unless otherwise indicated. All references to \$ are to United States dollars and references to C\$ are to Canadian dollars.

Reclassifications – Certain reclassifications have been made to the March 31, 2017, unaudited interim condensed consolidated financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

Basis of Measurement and Estimation Uncertainty – The unaudited interim condensed consolidated financial statements are prepared on a historical cost basis except as detailed in the Company's accounting policies disclosed in this note. The timely preparation of the unaudited interim condensed 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 unaudited interim condensed consolidated financial statements, and the amount of revenues and expenses. Accordingly, actual results may differ from these estimates.

Principles of Consolidation and Presentation – The unaudited interim condensed 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 of their voting securities as of the date of this report:

| Subsidiary Name | Jurisdiction | Company Ownership |
|-----------------------------|---------------|-------------------|
| Hunter Oil Management Corp. | Florida, USA | 100% |
| Hunter Ventures Corp. | Deleware, USA | 100% |
| Hunter Oil Resources Corp. | Deleware, USA | 100% |
| Hunter Oil Production Corp. | Florida, USA | 100% |
| Ridgeway Arizona Oil Corp. | Arizona, USA | 100% |
| EOR Operating Company | Texas, USA | 100% |
| Milnesand Minerals Inc. | Deleware, USA | 100% |
| Chaveroo Minerals Inc. | Deleware, USA | 100% |
| Hunter Ranch Corp. | Deleware, USA | 100% |

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Three Months Ended March 31, 2018 and 2017

Changes to Significant Accounting Policies

IFRS 9: Financial Instruments

The complete version of *IFRS 9* was issued in July 2014. It replaced guidance in *IAS 39* that relates to the classification and measurement of financial instruments. *IFRS 9* retains, but simplifies, the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit and loss (P&L). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in *IAS 39*. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. *IFRS 9* relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under *IAS 39*. Hunter Oil retrospectively adopted *IFRS 9* on January 1, 2018. Due to the short-term and/or liquid nature of its financial assets and financial liabilities, the adoption had no impact on the amounts recognized in the Company's unaudited interim condensed consolidated financial statements for the year ended March 31, 2018.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. In accordance with *IFRS 15*, the Company recognizes revenue when it satisfies a performance obligation (when control of the commodities is transferred to the purchaser). The standard replaces *IAS 18 Revenue* and *IAS 11 Construction Contracts* and related interpretations. On January 1, 2018, Hunter Oil adopted *IFRS 15* using the modified retrospective approach with a practical expedient that allows the Company to avoid re-considering the accounting for any sales contracts that were completed prior to the adoption date and were previously accounted for under *IAS 18*. The adoption had no impact on the Company's unaudited interim condensed consolidated financial statements for the year ended March 31, 2018.

4. Future Accounting Pronouncements

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

IFRS 16: Leases

This new standard replaces *IAS 17 Leases* and the related interpretative guidance. *IFRS 16* applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, *IFRS 16*

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introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted *IFRS 15*. The Company has not fully assessed the impact of *IFRS 16* on the financial statements but does not expect the impact to be significant.

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

5. Restricted Cash

Restricted cash is comprised of cash escrowed amounts 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.

The following table summarizes restricted cash balances:

| | <u>March 31,</u> <u>2018</u> | <u>March 31,</u> <u>2017</u> |
|--|---------------------------------|---------------------------------|
| Bank deposits pledged to secure asset retirement obligations | \$ 2,342 | \$ 2,340 |
| Short -term | \$ - | \$ - |
| Long-term | \$ 2,342 | \$ 2,340 |

6. Receivables

The Company's receivables were comprised of amounts due from crude oil purchasers of \$0.1 million at both March 31, 2018 and December 31, 2017, and other receivables of \$0.1 million at March 31, 2018. Management does not consider any of the receivable balances to be impaired.

7. Prepaid Expenses and Other Deposits

The Company's prepaid expenses were comprised of plugging bonds, insurance, and other short-term assets of \$0.1 million and \$0.1 million at March 31, 2018, and December 31, 2017, respectively.

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8. Exploration and Evaluation Assets

Exploration and evaluation asset activity for the three months ended March 31, 2018, was as follows:

| | Oil and Gas Properties | |
|-----------------------------------|------------------------|------------|
| Balance, December 31, 2017 | \$ | 180 |
| Additions | | - |
| Balance, March 31, 2018 | \$ | 180 |
| Net book value: | | |
| December 31, 2017 | \$ | 180 |
| March 31, 2018 | \$ | 180 |

Exploration and evaluation assets include lands and assets that management has not fully evaluated for technical feasibility and commercial viability. Transfers to property and equipment are made when technical feasibility and commercial viability are determined to exist.

9. Property and Equipment

Property and equipment activity for the three months ended March 31, 2018, was as follows:

| | Oil and Gas | | | |
|--|-------------|----------------------|----|----------------|
| | Properties | Other ⁽¹⁾ | | Total |
| Balance, December 31, 2017 | \$ 37,817 | \$ 134 | \$ | 37,951 |
| Additions | 25 | - | | 25 |
| Dispositions | (11) | - | | (11) |
| Change in discount rates of asset retirement obligations | (524) | - | | (524) |
| Balance, March 31, 2018 | \$ 37,307 | \$ 134 | \$ | 37,441 |
| Accumulated depreciation and depletion: | | | | |
| Balance, December 31, 2017 | \$ (4,395) | \$ (63) | \$ | (4,458) |
| Depreciation and depletion | (128) | (9) | | (137) |
| Balance, March 31, 2018 | \$ (4,523) | \$ (72) | \$ | (4,595) |
| Net book value: | | | | |
| December 31, 2017 | \$ 33,422 | \$ 71 | \$ | 33,493 |
| March 31, 2018 | \$ 32,784 | \$ 62 | \$ | 32,846 |

- (1) The "Other" column aggregates long-term, depreciable assets (e.g., Property, Plant, and Equipment, Furnitures and Fixtures) not included in the aggregated amounts listed either in Note 8 - Exploration and Evaluation Assets or in the "Oil and Gas Properties" column listed above.

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Future development costs of \$235.3 million and \$236.2 million for the periods ended March 31, 2018 and 2017, respectively, have been included in the computation of depletion expense. No general and administrative costs have been capitalized with regard to property and equipment.

10. Asset Retirement Obligations

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

| | |
|--|------------------|
| Balance, December 31, 2017 | \$ 13,100 |
| Increase in provision due to change in discount rates | (524) |
| Increase in provision due to passage of time (accretion) | 85 |
| Decrease in provision due to asset disposition | 1 |
| Asset retirement costs incurred | (89) |
| Balance, March 31, 2018 | \$ 12,573 |

The total undiscounted amount of estimated future cash flows required to settle the obligations as of March 31, 2018, is \$19.0 million, which has been discounted using risk free rates from 2.01% to 2.88% and an assumed inflation rate of 1.50%. These obligations are expected to be settled over the next twenty-three years and will be funded from general Company resources at the time of retirement.

At March 31, 2018, the Company estimated asset retirement obligations of \$1.5 million and \$0.7 million for active leases administered by the Bureau of Land Management (BLM) and for active leases administered by the New Mexico Oil Conservation Division (OCD), respectively, in its Milnesand field. In addition, the Company estimated plugging obligations of \$1.3 million and \$6.4 million for active BLM leases and for active OCD leases, respectively, in its Chaveroo field. Total estimated asset retirement obligations for expired leases (all in the Chaveroo field) was \$1.4 million. The following table summarizes the Company's total estimated asset retirement obligation by field at March 31, 2017 and 2018.

| | Active Leases | | Expired Leases | | Facilities | Total Liability |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| | BLM | OCD | BLM | OCD | | |
| Milnesand Field | \$ 2,020 | \$ 900 | \$ - | \$ - | \$ 756 | \$ 3,676 |
| Chaveroo Field | 1,534 | 8,713 | 1,173 | 1,022 | 1,872 | 14,314 |
| Balance, March 31, 2017 | \$ 3,554 | \$ 9,613 | \$ 1,173 | \$ 1,022 | \$ 2,628 | \$ 17,990 |

| | Active Leases | | Expired Leases | | Facilities | Total Liability |
|--------------------------------|-----------------|-----------------|----------------|---------------|-----------------|------------------|
| | BLM | OCD | BLM | OCD | | |
| Milnesand Field | \$ 1,469 | \$ 655 | \$ - | \$ - | \$ 286 | \$ 2,410 |
| Chaveroo Field | 1,304 | 6,442 | 566 | 794 | 1,057 | 10,163 |
| Balance, March 31, 2018 | \$ 2,773 | \$ 7,097 | \$ 566 | \$ 794 | \$ 1,343 | \$ 12,573 |

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The \$0.4 million recorded as current asset retirement obligations at March 31, 2018, represents the amount that the Company anticipates spending over the proceeding twelve calendar months on surface reclamation activities associated with recent asset retirement activities coupled with the estimated cost of asset retirement activities for the next ten wells in its BLM-compliant abandonment program.

11. Accounts Payable and Accrued Liabilities

The Company's trade payables at March 31, 2018, and December 31, 2017, were \$0.5 million and \$0.9 million respectively. The Company's accrued liabilities at March 31, 2018, and December 31, 2017, were \$0.1 million and \$0.2 million, respectively.

12. Equity Instruments

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

Issued and Outstanding – The Company had 8,070,871 common shares outstanding at December 31, 2017. During the first three months of 2018, the Company issued 5,000,000 common shares in connection with a private placement (see Note 18 – Private Placement). The Company had 13,070,871 and 8,070,871 common shares outstanding at March 31, 2018 and 2017, respectively.

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

As of March 31, 2018, the Company had no stock options outstanding.

Earnings per share – The weighted average number of shares outstanding that was used for purposes of the computation of basic per share data were 9,070,871 and 8,070,871 at March 31, 2018 and 2017, respectively. Since the Company incurred a net loss for both periods, no common stock equivalents were included in the computation of diluted earnings per share as their inclusion would have been anti-dilutive.

Stock-Based Compensation – No stock-based compensation expense was recognized during the three months ended March 31, 2018 and 2017, as no options were granted. Stock-based compensation previously recorded by the Company relating to options that have not been exercised is included in contributed surplus.

At March 31, 2018, the Company had no stock options outstanding.

13. Related Party Transactions

Pursuant to a management services agreement (the "Agreement") with Century Capital Management Ltd. ("Century"), a company controlled by the Company's Chief Executive Officer, the Company incurred approximately \$0.06 million and \$0.06 million in management fees, office rent and office expenses during the three months ended March 31, 2018 and 2017, respectively. The services under the Agreement are provided at \$0.24 million per year, payable monthly.

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Century may terminate the Agreement at any time by providing no less than 30 days' notice to the Company. If the Agreement is terminated without cause, the Company is required to pay to Century a lump sum equal to the greater of (a) \$0.36 million plus \$0.03 million for each full year of service, and (b) \$0.72 million. Should the Company be subject to a change in control and the CEO terminated without cause or a reduction in position results within two years therefrom, the Company must pay to Century \$0.60 million, unless the termination follows a change in control which involves a sale of securities or assets of the Company with which Century or the CEO is involved as a purchaser.

14. Key Management Compensation

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

| | Three Months Ended March 31, | |
|--------------------------------------|------------------------------|--------|
| | 2018 | 2017 |
| Salaries, bonuses, benefits and fees | \$ 176 | \$ 193 |
| Management fees | 60 | 60 |
| Total compensation | \$ 236 | \$ 253 |

15. Commitments and Contractual Obligations

The Company is committed to the following non-cancellable future minimum lease payments, related to an office lease, at March 31, 2018:

| | | |
|------|----|----|
| 2018 | \$ | 34 |
|------|----|----|

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

17. 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's receivables mainly consist of amounts due from sales of its crude oil production. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

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

Receivables related to the sale of crude oil production are with a major reputable marketer and its proceeds are collected within approximately 25 days following the month of delivery.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As described in Note 2 of these unaudited interim condensed consolidated financial statements, management of the Company has assessed that there may be significant doubt regarding the Company's ability to continue as a going concern. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At March 31, 2018, the Company had cash of \$0.5 million,

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excluding restricted cash of \$2.3 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 exposed to fluctuations in the world commodity prices for its products with a corresponding impact to cash flow. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow production while at the same time replacing continuous production declines from existing properties. When the Company forecasts increased debt levels due to capital expenditures exceeding cash flow, it may enter into oil and natural gas hedging contracts in order to provide stability of future cash flow. The Company engages in derivative financial instruments solely to manage its commodity price risk exposure relative to its actual commodity production and not for speculative purposes. The Company has no derivative contracts in place at March 31, 2018.

18. Private Placement

On March 13, 2018, the Company closed a non-brokered private placement of 5,000,000 common shares of the Company at a price of C\$0.40 per share to raise gross proceeds of C\$2.0 million (USD \$1.54 million). The shares are subject to a trading hold period expiring on July 14, 2018. The intended use of the proceeds is for operating expenses and general working capital.

19. Supplemental Cash Flow Information

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

| | March 31, 2018 | March 31, 2017 |
|--|---------------------------|---------------------------|
| Receivables | \$ (44) | \$ 65 |
| Prepaid expenses and deposits | (3) | (85) |
| Accounts payable and accrued liabilities | (482) | 140 |
| Total | \$ (529) | \$ 120 |
| Relating to: | | |
| Operating activities | \$ (529) | \$ 120 |