Unaudited Interim Condensed Consolidated Financial Statements of

HUNTER OIL CORP.

Six Months Ended June 30, 2018 and 2017

HUNTER OIL CORP.

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

	As of June 30, 2018	As of December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 66	$ 75
Receivables	167	110
Pepaid expenses and other deposits	185	138
Total current assets	418	323
Non-current assets		
Exploration and evaluation assets	175	180
Property and equipment, net	31,521	33,493
Restricted cash	2,342	2,342
Total non-current assets	34,038	36,015
Total Assets	$ 34,456	$ 36,338
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 714	$ 1,125
Asset retirement obligations	482	349
Total current liabilities	1,196	1,474
Asset retirement obligations	12,037	12,751
Total liabilities	13,233	14,225
Shareholders' equity		
Equity instruments	128,166	126,626
Contributed surplus	9,287	9,256
Accumulated deficit	(116,230)	(113,769)
Total shareholders' equity	21,223	22,113
Total Liabilities and Shareholders' Equity	$ 34,456	$ 36,338

See accompanying notes to unaudited interim condensed consolidated financial statements.

Approved by the Board of Directors:

/s/ Al H. Denson	/s/ Andrew Hromyk
Al H. Denson	Andrew Hromyk
Director	Director

HUNTER OIL CORP.

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

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Revenues				
Oil and gas sales	$ 544	$ 347	$ 1,032	$ 804
Less: Royalties	(113)	(72)	(217)	(168)
Revenues, net of royalties	431	275	815	636
Expenses				
Operating and production costs	267	241	525	560
Workover expenses	2	8	96	49
General and administrative	598	443	1,127	1,043
Loss on disposition of assets	-	-	-	22
Depreciation and depletion	181	144	318	324
Accretion	89	110	174	221
Other, net	7	(9)	(4)	24
Stock-based compensation	31	-	31	-
Foreign currency translation (gain) loss	(2)	1	(2)	1
Impairment loss	1,011	-	1,011	-
Total expenses	2,184	938	3,276	2,244
Net comprehensive loss for the period	$ (1,753)	$ (663)	$ (2,461)	$ (1,608)
Loss per share - basic and diluted	$ (0.13)	$ (0.08)	$ (0.22)	$ (0.20)

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 June 30,		June 30,	
	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	126,626	126,628
Issued stock, no par value	5,000,000	-	1,540	-
Offering costs	-	-	-	(2)
Balance, June 30	13,070,871	8,070,871	128,166	126,626
Contributed Surplus				
Balance, January 1			9,256	9,256
Fair value of stock option grants			31	-
Balance, June 30			9,287	9,256
Accumulated Deficit				
Balance, January 1			(113,769)	(110,583)
Net loss			(2,461)	(1,608)
Balance, June 30			(116,230)	(112,191)
Total Shareholders' Equity, ending balances			$ 21,223	$ 23,691

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)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Cash provided by (used in):		
Operating activities		
Net loss for the year	$ (2,461)	$ (1,608)
Add (deduct) non-cash items:		
Depreciation and depletion	318	324
Accretion of asset retirement costs	174	221
Loss on disposition of assets	-	22
Foreign currency translation (gain) loss	(2)	1
Stock-based compensation	31	-
Impairment loss	1,011	-
Non-cash other expense	(3)	32
Total non-cash items	(932)	(1,008)
Asset retirement expenditures	(98)	(58)
Changes in working capital	(515)	266
Cash used in operations	(1,545)	(800)
Investing activities		
Exploration and evaluation expenditures	-	(101)
Property and equipment expenditures	(4)	(388)
Cash provided by (used in) investing activities	(4)	(489)
Financing activities		
Proceeds from private placement funding	1,540	453
Offering costs on private placement funding	-	(2)
Cash provided by (used in) financing activities	1,540	451
Change in cash and cash equivalents	(9)	(838)
Cash and cash equivalents, beginning of the period	75	1,050
Cash and cash equivalents, end of period	$ 66	$ 212

See accompanying notes to unaudited interim condensed consolidated financial statements.

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 six months ended June 30, 2018, the Company had negative cash flows from operations of approximately $1.5 million and, at June 30, 2018, an accumulated deficit of approximately $116.2 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.

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

The accounting policies applied in these unaudited interim consolidated financial statements are based on IFRS issued and outstanding as of August 16, 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.

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%

Changes to Significant Accounting Policies

IFRS 9: Financial Instruments

The complete version of *IFRS 9* was issued in July 2014. It replaced guidance in *International Accounting Standard* ("*IAS*") *39, Financial Instruments: Recognition and Measurement,* 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 six months ended June 30, 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 six months ended June 30, 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.

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

IFRS 16: Leases

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

	June 30, 2018	December 31, 2017
Bank deposits pledged to secure asset retirement obligations	$ 2,342	$ 2,342

6. Receivables

The Company's receivables were comprised of amounts due from crude oil purchasers of $0.2 million and $0.1 million at June 30, 2018 and December 31, 2017, respectively. 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 $0.2 million and $0.1 million at June 30, 2018, and December 31, 2017, respectively.

8. Exploration and Evaluation Assets

Exploration and evaluation asset activity for the six months ended June 30, 2018, was as follows:

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

		Oil and Gas Properties
Balance, December 31, 2017	**$**	**180**
Additions		-
Impairment loss		(5)
Balance, June 30, 2018	**$**	**175**
Net book value:		
December 31, 2017	$	180
June 30, 2018	$	175

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 six months ended June 30, 2018, was as follows:

		Oil and Gas Properties		Other (1)		Total
Balance, December 31, 2017	**$**	**37,817**	**$**	**134**	**$**	**37,951**
Additions		29		-		29
Dispositions		(20)		-		(20)
Change in discount rates of asset retirement obligations		(656)		-		(656)
Balance, June 30, 2018	**$**	**37,170**	**$**	**134**	**$**	**37,304**
Accumulated depreciation and depletion:						
Balance, December 31, 2017	**$**	**(4,395)**	**$**	**(63)**	**$**	**(4,458)**
Depreciation and depletion		(302)		(16)		(318)
Dispositions		(1)		-		(1)
Impairment loss		(1,003)		(3)		(1,006)
Balance, June 30, 2018	**$**	**(5,701)**	**$**	**(82)**	**$**	**(5,783)**
Net book value:						
December 31, 2017	$	33,422	$	71	$	33,493
June 30, 2018	$	31,469	$	52	$	31,521

(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.

Future development costs of $235.3 million and $236.2 million for the periods ended June 30, 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. Impairment Loss

IAS 36, Impairment of Assets, requires an entity to assess at the end of each reporting period, or sooner if economic factors and circumstances dictate it, whether or not there is any indication that a cash generating unit (an "asset") may be impaired. During the assessment, an entity is required to consider both internal and external factors. An asset is impaired if, and only if, its carrying amount is greater than its recoverable amount. If so, an entity is required to reduce the asset to its recoverable amount. That reduction is an impairment loss and an entity is required to recognize that loss immediately in profit and loss.

An asset's recoverable amount is the higher of its fair value less cost to sell and its value in use. An asset's value in use is the present value of future cash flows expected to be derived from it. *IAS 36* requires an entity to determine an asset's value in use unless there is no reason to believe that it materially exceeds its fair value less cost to sell. The best evidence of an asset's fair value less cost to sell is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

On August 1, 2018, the Company entered a Purchase and Sale Agreement (the "PSA") with Pacific Energy Development Corp. to sell substantially all of its oil and gas operations and related assets and asset retirement obligations (the "Assets") for an aggregated purchase price of $21.316 million (see Note 19 – Subsequent Events). The PSA not only established fair market value for the Assets, but it also indicated that an impairment may exist due to the fact that the Assets' aggregated net book value less related liabilities was greater than the selling price.

When conducting the impairment assessment, there was no reason to believe that the assets' value in use materially exceeded the assets' fair value less costs to sell. As such, the Company used the purchase price stipulated in the PSA, a Level 1 fair value measurement, as the Assets' recoverable amount in the assessment. At the conclusion of the assessment, the Company determined that the Assets were in fact impaired and that recognition and disclosure of the impairment in the financial statements were required in accordance with *IAS 10, Events After the Reporting Period*.

During the second quarter of 2018, the Company recognized $1.011 million in asset impairments relating to the future sale of its exploration and evaluation assets and property and equipment. When allocating an impairment loss to a cash generating unit (CGU), *IAS 36* requires an entity to first reduce the carrying amount of any goodwill allocated to the CGU then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the unit. As such, the Company allocated $0.005 million of the impairment to the exploration and evaluation assets included in the sale (see Note 8 – Exploration and Evaluation Assets) and $1.003 million and $0.003 million to the oil and gas properties and other assets, respectively, included in the sale (see Note 9 – Property and Equipment).

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

11. Asset Retirement Obligations

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

Balance, December 31, 2017	**$**	**13,100**
Decrease in provision due to change in discount rates		(656)
Increase in provision due to passage of time (accretion)		174
Decrease in provision due to asset disposition		(1)
Asset retirement costs incurred		(98)
Balance, June 30, 2018	**$**	**12,519**

The total undiscounted amount of estimated future cash flows required to settle the obligations as of June 30, 2018, is $19.0 million, which has been discounted using risk free rates from 2.11% to 2.93% 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 June 30, 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 $6.5 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 $1.2 million. The following table summarizes the Company's total estimated asset retirement obligation by field at June 30, 2017 and 2018.

	Active Leases		Expired Leases			Total
	BLM	**OCD**	**BLM**	**OCD**	**Facilities**	**Liability**
Milnesand Field	$ 2,049	$ 909	$ -	$ -	$ 772	$ 3,730
Chaveroo Field	1,594	8,963	1,138	1,034	1,947	14,676
Balance, June 30, 2017	**$ 3,643**	**$ 9,872**	**$ 1,138**	**$ 1,034**	**$ 2,719**	**$ 18,406**

	Active Leases		Expired Leases			Total
	BLM	**OCD**	**BLM**	**OCD**	**Facilities**	**Liability**
Milnesand Field	$ 1,464	$ 652	$ -	$ -	$ 285	$ 2,401
Chaveroo Field	1,298	6,528	558	681	1,053	10,118
Balance, June 30, 2018	**$ 2,762**	**$ 7,180**	**$ 558**	**$ 681**	**$ 1,338**	**$ 12,519**

The $0.5 million recorded as current asset retirement obligations at June 30, 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.

12. Accounts Payable and Accrued Liabilities

The Company's trade payables at June 30, 2018, and December 31, 2017, were $0.5 million and $0.9 million respectively. The Company's accrued liabilities at both June 30, 2018, and December 31, 2017, were $0.2 million.

13. 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 six months of 2018, the Company issued 5,000,000 common shares in connection with a private placement. The Company had 13,070,871 and 8,070,871 common shares outstanding at June 30, 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. On May 17, 2028, the Company granted 1,250,000 stock options to key personnel and consultants for services provided to the Company. These options have been granted with a one-year vesting period and a five-year expiry. The option prices for all outstanding options are denominated in Canadian dollars (C$), the trading currency of the Company's common shares.

The Company's option activity during the first six months of 2018 was as follows (number of options in thousands):

	Number of Options	Weighted-Average Exercise Price (C$)
Oustanding, December 31, 2017	-	
Granted	1,250	$ 0.80
Outstanding, June 30, 2018	1,250	$ 0.80

The following table summarizes information about the Company's outstanding stock options as of June 30, 2018 (number of options in thousands).

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

	Options Outstanding			Options Exercisable	
Price (C$)	Number Outstanding	Weighted-Average Remaining Contractual Life (Yrs.)	Weighted-Average Exercise Price (C$)	Number Exercisable	Weighted-Average Exercise Price (C$)
$ 0.80	1,250	4.88	$ 0.80	313	$ 0.80

Earnings per share – The weighted average number of shares outstanding that was used for purposes of the computation of basic per share data for the six-month period and three-month period ended June 30, 2018, were 11,081,921 and 13,070,871, respectively. The weighted average number of shares outstanding that was used for purposes of the computation of basic per share data for the six-month period and three-month period ended June 30, 2017, were both 8,070,871. 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 – 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 date of grant to vesting after one year. On May 17, 2018, the Company granted 1,250,000 stock options to key personnel and consultants for services provided to the Company. The Company recognized approximately $0.03 million in stock-based compensation expense on the options that vested during the second quarter of 2018. The compensation expense was based on the estimated fair value of the options on the grant date in accordance with the fair value method of accounting for stock-based compensation.

The estimated fair value of share options issued and outstanding as at June 30, 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

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).

14. Related Party Transactions

During the six months ended June 30, 2018, the Company incurred expenses from transactions with the three related parties identified below.

Century Capital Management

Pursuant to a management services agreement (the "Agreement") with Century Capital Management Ltd. ("Century"), a company controlled by the Company's Executive Chairman, the Company incurred approximately $0.12 million and $0.12 million in management fees, office rent and office expenses during the six months ended June 30, 2018 and 2017, respectively. The services under the Agreement are provided at $0.24 million per year, payable monthly.

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 Executive Chairman 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 Executive Chairman is involved as a purchaser.

Al H. Denson

On June 15, 2018, the Company entered into a management services agreement (the "Denson Agreement") with its new Chief Executive Officer (the "CEO") to provide management consulting services for a period of two years after the effective date of the contract. Compensation for services under the Agreement are provided at $0.24 million per year, payable monthly. Pursuant to the Denson Agreement, the Company incurred approximately $0.01 million in management fees during the six months ended June 30, 2018.

The CEO may terminate the Denson Agreement at any time by providing no less than 60 days' notice to the Company. If the Denson Agreement is terminated without cause, the Company is required to pay to the CEO a lump sum equal to $0.36 million. In addition, all stock option grants previously made to the CEO will vest immediately and the CEO will be entitled to exercise the stock options on the terms granted. Should the Company be subject to a change in control and the CEO is subject to a triggering event (including, but not limited to, a reduction of position, a material reduction of compensation or a reduction of rights to stock ownership plan) within one year therefrom, the CEO may terminate the Denson Agreement and the Company must pay to the CEO a maximum of $0.36 million, unless the termination follows a change in control which involves a sale of securities or assets of the Company with which the CEO is involved as a purchaser. In addition, all stock option grants previously made to the CEO will vest immediately and the CEO will be entitled to exercise the stock options on the terms granted.

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

Mark Strawn

On June 15, 2018, the Company entered into a management services agreement (the "Strawn Agreement") with its Vice President (the "VP") to provide management consulting services for a period of two years after the effective date of the contract. Compensation for services under the Strawn Agreement are provided at $0.180 million per year, payable monthly. Pursuant to the Agreement, the Company incurred approximately $0.008 million in management fees during the six months ended June 30, 2018.

The VP may terminate the Strawn Agreement at any time by providing no less than 60 days' notice to the Company. If the Strawn Agreement is terminated without cause, the Company is required to pay to the VP a lump sum equal to $0.250 million. In addition, all stock option grants previously made to the VP will vest immediately and the VP will be entitled to exercise the stock options on the terms granted. Should the Company be subject to a change in control and the VP is subject to a triggering event (including, but not limited to, a reduction of position, a material reduction of compensation or a reduction of rights to stock ownership plan) within one year therefrom, the VP may terminate the Strawn Agreement and the Company must pay to the VP a maximum of $0.250 million, unless the termination follows a change in control which involves a sale of securities or assets of the Company with which the VP is involved as a purchaser. In addition, all stock option grants previously made to the VP will vest immediately and the VP will be entitled to exercise the stock options on the terms granted.

15. 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 Executive Chairmen, the Chief Executive Officer, the Vice President and the Chief Financial Officer:

	Six Months Ended	
	2018	**2017**
Salaries, bonuses, benefits and fees	$ 356	$ 377
Stock-based compensation	22	-
Management fees	120	120
Total compensation	$ 498	$ 497

The Company had $0.42 million and $0.33 million recorded in accounts payable at June 30, 2018 and 2017, respectively, in relation to transactions with key management. These amounts were incurred during the normal course of business, are included in general and administrative expenses and are non-interest bearing, unsecured and due on demand.

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.

The Company has determined that the carrying value of its short-term financial assets and liabilities (cash and cash equivalents, receivables, 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 of 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 June 30, 2018, the Company had cash of $0.1 million, 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 June 30, 2018.

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

18. Supplemental Cash Flow Information

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

	June 30, 2018	June 30, 2017
Receivables	$ (57)	$ 525
Prepaid expenses and deposits	(47)	5
Accounts payable and accrued liabilities	(411)	189
Total	$ (515)	$ 719
Relating to:		
Operating activities	$ (515)	$ 266
Financing activities - proceeds from private placement	$ -	$ 453

19. Subsequent Events

On August 1, 2018, the Company entered a Purchase and Sale Agreement with Pacific Energy Development Corp. (the "Purchaser") in which certain subsidiaries of the Company agreed to sell (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 purchase price of $21.3 million. The Purchaser also agreed to assume all retirement obligations associated with the Assets. The purchase price is subject to certain normal course adjustments. The Purchaser is a Nevada corporation and wholly-owned subsidiary of PEDEVCO Corp, an arm's length, NYSE American listed, California-based company. The purchase price represents approximate gross proceeds of USD $1.63 for each issued and outstanding common share of the Company based on the 13,070,871 common shares outstanding. Following the close of the transaction, the Company intends to distribute the available portion of the purchase price to the holders of the Company's common shares ("Shareholders") as a return of capital after payment of transaction costs, the payments of all liabilities and obligations of the Company and the retention of an amount to fund future capital needs (estimated at $2.5 million).

The Transaction is structured as a sale of assets of the Company's holding companies, Milnesand Minerals Inc. and Chaveroo Minerals Inc. (collectively referred to as "Holdcos"), and a sale of all of the issued and outstanding shares of the Company's operating companies, Ridgeway Arizona Oil Corp. and EOR Operating Company (collectively referred to as "Opcos"). All of Holdcos' oil and gas leases, wells and production units, operating pooling and unitization agreements, and all other right and tittle of Holdcos and Opcos in and to the oil, gas and other minerals owned by the companies are included in the PSA.

Closing of the Transaction is scheduled to occur on August 31, 2018, subject to the satisfaction of several conditions precedent, including the approval of the Shareholders by special resolution (being two-thirds of the votes cast at the meeting) and the acceptance of the sale by the TSX-V. The directors of the Company have unanimously determined that the Transaction is both in the best interest of the Company and fair to the Shareholders and are unanimously recommending that the Shareholders vote in favour of it. All of the directors and senior officers of the Company as well as certain Shareholders, who collectively own approximately 68% of the outstanding common shares of the Company, have entered into support agreements with the Purchaser pursuant to which they have agreed to vote in favour of the Transaction.

To ensure certain Shareholders entered into the support agreements, each of Century Capital Management Ltd., the CEO and the VP have agreed, subject to the Transaction closing, to amend their respective management services agreements to terminate these agreements effective September 30, 2018, to reduce the amount payable under the "Change of Control/Triggering Event" termination clauses due to them to $250,000 each, and to cancel and return certain stock options previously granted to them.

The purchase price in the agreement established fair market value for the Assets included in the Transaction. In doing so, the agreement effectively created a "triggering event" requiring the Company to assess the Assets to determine whether or not their book value exceeded their recoverable amount. At the conclusion of the assessment, the Company determined that the Assets' book value was greater than their recoverable amount and recorded a $1.0 million impairment expense on the Assets during the second quarter of 2018 to reflect the results of the assessment (See Note 10 – Impairment Loss).