

Unaudited Interim Condensed Consolidated Financial Statements of

# **HUNTER OIL CORP.**

(formerly known as Enhanced Oil Resources Inc.)

Nine Months Ended September 30, 2016 and 2015

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 Audit Committee and Board of Directors of the Company.

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

November 15, 2016

# HUNTER OIL CORP.

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

	<u>As of September 30,</u> <u>2016</u>	<u>As of December 31,</u> <u>2015</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,454	\$ 1,257
Restricted cash	-	1,248
Receivables	162	293
Prepaid expenses and other deposits	524	251
	<u>3,140</u>	<u>3,049</u>
Non-current assets		
Property and equipment, net	40,922	40,424
Restricted cash	2,340	3,025
Other	-	74
	<u>43,262</u>	<u>43,523</u>
Total Assets	<u>\$ 46,402</u>	<u>\$ 46,572</u>
Liabilities And Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 367	\$ 701
Asset retirement obligations	414	84
	<u>781</u>	<u>785</u>
Asset retirement obligations	19,181	18,977
Shareholders' equity		
Equity instruments	126,666	124,166
Contributed surplus	9,256	9,256
Accumulated deficit	(109,482)	(106,612)
	<u>26,440</u>	<u>26,810</u>
Total Liabilities and Shareholders' Equity	<u>\$ 46,402</u>	<u>\$ 46,572</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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
<b>Revenues</b>				
Oil and gas gross sales	\$ 407	\$ 372	\$ 960	\$ 1,033
Less: Royalties	(95)	(79)	(212)	(218)
	<u>312</u>	<u>293</u>	<u>748</u>	<u>815</u>
<b>Expenses</b>				
Operating costs, production costs and taxes	282	336	630	1,232
Workover expenses	198	303	239	560
General and administrative	704	483	1,871	1,825
(Gain) loss on disposition of assets	-	(30)	45	64
Depreciation, depletion, and amortization	194	158	557	419
Accretion	83	89	274	334
Other, net	(8)	9	(4)	9
Loss on derivative financial instruments, net	-	14	-	103
Foreign currency translation loss	6	30	6	23
	<u>1,459</u>	<u>1,392</u>	<u>3,618</u>	<u>4,569</u>
Loss before income taxes	(1,147)	(1,099)	(2,870)	(3,754)
Income tax provision	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net comprehensive loss for the period	<u>(1,147)</u>	<u>(1,099)</u>	<u>(2,870)</u>	<u>(3,754)</u>
Loss per share - basic and diluted	\$ (0.14)	\$ (0.69)	\$ (0.36)	\$ (2.34)

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			
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>Total Shareholders' Equity, beginning balances</b>			<b>\$ 26,810</b>	<b>\$ 31,988</b>
<b>Equity Instruments (Common Shares)</b>				
Balance, January 1	1,600,871	1,601,849	124,166	124,166
Shares issued in private placement, net	6,470,000	-	2,500	-
Balance, September 30	<u>8,070,871</u>	<u>1,601,849</u>	<u>126,666</u>	<u>124,166</u>
<b>Contributed Surplus</b>				
Balance, January 1			9,256	9,256
Balance, September 30			<u>9,256</u>	<u>9,256</u>
<b>Accumulated Deficit</b>				
Balance, January 1			(106,612)	(101,434)
Net loss			<u>(2,870)</u>	<u>(3,754)</u>
Balance, September 30			<u>(109,482)</u>	<u>(105,188)</u>
<b>Total Shareholders' Equity, ending balances</b>			<b>\$ 26,440</b>	<b>\$ 28,234</b>

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)

	Nine Months Ended	
	September 30,	
	2016	2015
Cash provided by (used in):		
Operating activities		
Net loss for the year	\$ (2,870)	\$ (3,754)
Add (deduct) noncash and other items:		
Depreciation, depletion, and amortization	557	419
Accretion of asset retirement costs	274	334
Loss on disposition of assets	45	64
Unrealized loss on derivative financial instruments	-	23
Foreign currency translation loss	6	23
Other non-cash expense	(55)	150
	(2,043)	(2,741)
Asset retirement expenditures	(330)	(50)
Changes in non-cash working capital	(102)	(193)
Cash used in operations	(2,475)	(2,984)
Investing activities		
Property and equipment expenditures	(461)	(130)
Decreases in restricted cash, net	1,933	1,228
Cash provided by investing activities	1,472	1,098
Financing activities		
Proceeds from private placement funding	2,200	-
Cash provided by financing activities	2,200	-
Change in cash and cash equivalents	1,197	(1,886)
Cash and cash equivalents, beginning of the period	1,257	4,079
Cash and cash equivalents, end of period	\$ 2,454	\$ 2,193

See accompanying notes to unaudited interim condensed consolidated financial statements.

# HUNTER OIL CORP.

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

Nine Months Ended September 30, 2016

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## 1. Reporting Entity and Description of Business

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

Common shares of the Company are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “HOC” and quoted on the OTCQX (“Over the Counter” qualified stock exchange) 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.

## 2. 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.” 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, 2015, which are available on the Company’s website at [www.hunteroilcorp.com](http://www.hunteroilcorp.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 interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies applied in these unaudited interim consolidated financial statements are based on IFRS issued and outstanding as of November 15, 2016, 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.

# HUNTER OIL CORP.

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

Nine Months Ended September 30, 2016

**Reclassifications** – Certain reclassifications have been made to the September 30, 2015 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 subsidiary, Hunter Oil Management Corp. (“HOMC”) (formerly Ridgeway Petroleum (Florida), Inc.). HOMC includes the results of its wholly-owned subsidiaries, Hunter Oil Resources Corp. (formerly Enhanced Oil Resources USA Inc.), Milnesand Minerals Inc., Chaveroo Minerals Inc., and Hunter Oil Production Corp. (“HOPC”) (formerly Arizona Resources Industries, Inc.). HOPC includes the results of its wholly-owned subsidiaries, Ridgeway Arizona Oil Corp. and EOR Operating Company. All intercompany amounts have been eliminated upon consolidation.

### 3. Restricted Cash

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

The following table summarizes the restricted cash balances of the Company:

(all amounts expressed in thousands of US dollars)

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Escrow deposit for St. Johns Dome contingent obligations	\$ -	\$ 1,248
Bank deposits to secure asset retirement obligations	2,340	3,025
Balance, end of year	\$ 2,340	\$ 4,273
Short -term	\$ -	\$ 1,248
Long-term	\$ 2,340	\$ 3,025

In January of 2016, in connection with the sale of the St. Johns Dome contingent obligations noted above, approximately \$1.25 million of the Company’s restricted cash was released from escrow (see Note 10 – Commitments). In May of 2016, in connection with the deposits to secure asset retirement obligations noted above, approximately \$0.7 million of certain bond funds was released to the Company as it fulfilled the requirements of those obligations.



# HUNTER OIL CORP.

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

Nine Months Ended September 30, 2016

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## 4. Receivables

The Company's receivables were comprised of amounts due from crude oil purchasers of \$0.1 million at both September 30, 2016 and December 31, 2015, and other receivables of \$0.1 million and \$0.2 million for the same periods, respectively. Management does not consider any of the receivable balances to be impaired. The carrying amount of receivables approximates the fair value due to the short-term nature of the financial instrument.

## 5. Property and Equipment

Property and equipment activity for the period ended September 30, 2016 was as follows:

(all amounts expressed in thousands of US dollars)

	Oil and Gas		
	Properties	Other	Total
Balance, January 1, 2016	\$ 43,231	\$ 823	\$ 44,054
Additions	633	27	660
Dispositions	(122)	(564)	(686)
Change in estimates of asset retirement obligations	736	-	736
Balance, September 30, 2016	\$ 44,478	\$ 286	\$ 44,764
<b>Accumulated depreciation and depletion:</b>			
Balance, January 1, 2016	\$ (2,962)	\$ (668)	\$ (3,630)
Depreciation and depletion	(493)	(64)	(557)
Dispositions	(179)	524	345
Balance, September 30, 2016	\$ (3,634)	\$ (208)	\$ (3,842)
<b>Net book value:</b>			
January 1, 2016	\$ 40,269	\$ 155	\$ 40,424
September 30, 2016	\$ 40,844	\$ 78	\$ 40,922

Future development costs of \$95.6 million and \$134.6 million for the periods ended September 30, 2016 and 2015, respectively, have been included in the computation of depletion expense. No general and administrative costs have been capitalized with regard to property and equipment.

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

Nine Months Ended September 30, 2016

## 6. 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:

(all amounts expressed in thousands of US dollars)

Balance, January 1, 2016	\$	19,061
Increase in provision due to change in discount rate		736
Increase in provision due to passage of time (accretion)		274
Increase in provision due to asset addition		143
Decrease in provision due to asset disposition		(289)
Asset retirement costs incurred		(330)
Balance, September 30, 2016	\$	19,595

The total undiscounted amount of estimated future cash flows required to settle the obligations is \$26.9 million as of September 30, 2016, discounted using risk free rates from 0.29% to 2.13% at September 30, 2016, and assumes an inflation rate of 1.5%. The Company expects to settle these obligations over the next twenty-five years with funds from general Company resources at the time of retirement.

At September 30, 2016, the Company estimated plugging obligations of \$2.2 million and \$1.0 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 \$1.8 million and \$9.2 million for active BLM leases and for active OCD leases, respectively, in its Chaveroo field. Total estimated plugging obligations for expired leases (all in the Chaveroo field) is \$2.5 million. This is a reduction of \$1.9 million from the \$4.4 million plugging obligation on expired leases at January 1, 2016. The table below summarizes the Company's total estimated plugging obligation by field at September 30, 2016.

(all amounts expressed in thousands of US dollars)

	Active Leases		Expired Leases		Facilities	Total Liability
	BLM	OCD	BLM	OCD		
Milnesand Field	\$ 2,188	\$ 974	\$ -	\$ -	\$ 827	\$ 3,989
Chaveroo Field	1,767	9,161	1,188	1,284	2,206	15,606
Balance, September 30, 2016	\$ 3,955	\$ 10,135	\$ 1,188	\$ 1,284	\$ 3,033	\$ 19,595

## 7. Accounts Payable and Accrued Liabilities

The Company's trade payables at both September 30, 2016, and December 31, 2015, were \$0.2 million. The Company's accrued liabilities at September 30, 2016, and December 31, 2015, were \$0.2 million and \$0.5 million, respectively.

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

Nine Months Ended September 30, 2016

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During 2015, the Company received \$0.3 million in connection with the private placement discussed in Note 14 – Private Placement. During 2016, the Company received an additional \$2.2 million in private placement funds. Gross proceeds totaled \$2.5 million. The Company also incurred offering costs of \$0.036 related to the private placement. The funds are recorded in equity instruments on the unaudited interim condensed consolidated balance sheet (see Note 8 – Equity Instruments).

## 8. Equity Instruments

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

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

**Issued and Outstanding** – The Company had 1,600,871 common shares outstanding at December 31, 2015. During 2016, the Company issued 6,470,000 common shares in connection with a private placement (see Note 14 – Private Placement). The Company had 8,070,871 common shares outstanding at September 30, 2016.

**Stock option plan** – The Company has a stock option plan under which up to 10% of the number of outstanding common shares may be reserved for issuance as of any particular stock option grant date. The stock options were granted with a five-year expiry term. The exercise prices for all outstanding options are denominated in Canadian dollars, the trading currency of the Company's common shares.

The following tables summarize information about stock options as at September 30, 2016 (number of options in thousands):

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	<u>Number of Options</u>	<u>Weighted-Average Exercise Price (C\$)</u>
Oustanding, January 1, 2016	5	\$ 17.20
Expired	<u>(2)</u>	\$ 25.00
Oustanding, September 30, 2016	3	\$ 12.00

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Notes to Unaudited Interim Condensed Consolidated Financial Statements  
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Nine Months Ended September 30, 2016

Range of Prices C\$		Options Outstanding			Options Exercisable		
		Number Outstanding	Weighted-Average Contractual Life (Yrs.)	Weighted-Average Exercise Price (C\$)	Number Exercisable	Weighted-Average Exercise Price (C\$)	
Low	High						
\$ 10.00	\$ 16.00	3	0.99	\$ 12.00	3	\$ 12.00	

**Earnings per share** – The weighted average number of shares outstanding that was used for purposes of the computation of basic per share data was 8,070,871 and 1,601,849 at September 30, 2016 and 2015, respectively. Since the Company incurred a net loss for both periods, no common stock equivalents were included in the computation of diluted earnings per share as their inclusion would have been anti-dilutive.

**Stock-Based Compensation** – No stock-based compensation expense was recognized during the nine months ended September 30, 2016 and 2015, as no options were granted and all options were fully vested at January 1, 2014.

## 9. Related Party Transactions

The Company paid approximately \$0.18 million in management fees to an entity controlled by the Company's Chief Executive Officer during the nine months ended September 30, 2016 and 2015, respectively.

## 10. Commitments

The Company is committed to the following future payments (principally related to office leases), as of September 30, 2016:

(all amounts expressed in thousands of US dollars)		
2016	\$	31
2017		45
Total	\$	76

In February 2014, the Company amended its CO<sub>2</sub> Purchase Agreement with Kinder Morgan CO<sub>2</sub> Company, L.P. (Kinder Morgan), to extend the dates before which the Company is obligated to take or pay for CO<sub>2</sub> purchases and connect to Kinder Morgan's pipeline. The agreement will provide the source of CO<sub>2</sub> for use in tertiary oil recovery projects in the Permian Basin. The contract, as amended, requires the Company to take or pay for the purchase of 27.4 billion cubic feet of CO<sub>2</sub> over a five-year period commencing no later than January 1, 2018. The maximum daily purchase commitment required under the contract is 20 million cubic feet per day during year three with the cost of CO<sub>2</sub> fluctuating based on the price of crude oil and transportation tariffs at the time. The Company will be required to construct a pipeline, currently estimated to be a distance of approximately 32 miles, to the pipeline operated by Kinder Morgan. Both the purchase commitment and the obligation to pay, as amended, are cancellable before January 1, 2017, without termination penalty.

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

Nine Months Ended September 30, 2016

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In connection with the sale of certain assets to Kinder Morgan in 2012, the Company agreed to be contingently responsible for up to \$5.0 million of future appraisal drilling costs to evaluate helium in certain areas of the St. Johns Dome field ("Drilling Costs"). The obligation was secured in part by \$2.5 million placed into escrow at closing of the sale. On September 4, 2015, approximately \$1.25 million of the Company's restricted cash was released from escrow. On January 11, 2016, Kinder Morgan released from escrow the remaining balance of approximately \$1.25 million. The funds released in 2016 are included in cash provided by investing activities in the Company's consolidated statement of cash flows for the nine months ended September 30, 2016 (see Note 3 - Restricted Cash).

## 11. Financial Instruments - Commodity Contracts

The Company realized derivative losses net of contract settlements of \$0.1 million for the nine months ended September 30, 2015. The Company had no outstanding derivative agreements relating to its crude oil sales during the nine months ended September 30, 2016.

## 12. Fair Value Measurements

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

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

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

The fair values of the derivatives are determined by a Level 2 valuation model, where pricing inputs other than quoted prices in an active market are used. These pricing inputs include quoted forward prices for commodities, foreign exchange rates, volatility and risk-free rate discounting, all of which can be observed or corroborated in the marketplace. The actual gains and losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices and foreign exchange rates as compared to the valuation assumptions.

# HUNTER OIL CORP.

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

Nine Months Ended September 30, 2016

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## 13. Risk Management

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

### 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, accounts receivable and counterparty risk on derivative contracts.

The Company limits its exposure to credit risk with respect to cash equivalents by investing available cash in short-term deposits with Canadian and US banks, principally in overnight money market funds investing in government treasury instruments. The Company's receivables mainly consist of amounts due from sales of its crude oil and natural gas production. 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 and natural gas production receivables, the Company is the operator of all its property interests and owns the significant majority of the working interest in producing and non-producing properties.

Receivables related to the sale of crude oil production are with two major reputable marketers and proceeds are collected within approximately 25 days following the month of delivery. With respect to the majority of operated production, the Company remits royalty and severance taxes to the other royalty and working interest owners of the leaseholds interests.

### 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 September 30, 2016, the Company had cash of \$2.5 million, excluding restricted cash of \$2.3 million. The Company believes it can meet its current obligations, but currently has negative cash flows due to declining oil prices and production. The Company is still dependent on raising funds by borrowings, equity issues, or asset sales to finance its ongoing operations, capital expenditures and acquisitions. The contractual maturity of the majority of accounts payable is within three months or less. Management has delayed capital expenditures on certain projects until the oil commodity pricing environment improves and has reduced general and administrative and operating costs during 2015 and 2016. The Company has historically financed its expenditures and working capital requirements through the sale of common stock or, on occasion, through the issuance of short-term debt.

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

Nine Months Ended September 30, 2016

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## Foreign Exchange Risk

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

## Commodity Price Risk

The Company is exposed to fluctuations in the world commodity prices for its products with a corresponding impact to cash flow. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow production while at the same time replacing continuous production declines from existing properties. When the Company forecasts increased debt levels due to capital expenditures exceeding cash flow, it may enter into oil and natural gas hedging contracts in order to provide stability of future cash flow and, thus, predictable debt reduction. 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.

## 14. Private Placement

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

During 2015, the Company received \$0.3 million in connection with the private placement. During 2016, the company received an additional \$2.2 million in private placement subscription proceeds. The private placement proceeds are recorded in equity instruments on the unaudited interim condensed consolidated balance sheet.

## 15. Supplemental Cash Flow Information

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

(all amounts expressed in thousands of US dollars)

	September 30, 2016	September 30, 2015
Receivables	\$ 131	\$ 152
Other current assets	(273)	246
Other non current assets	74	32
Accounts payable and accrued liabilities	(34)	(623)
Total	\$ (102)	\$ (193)
Relating to:		
Operating activities	\$ (102)	\$ (193)