



**Hunter Oil Corp.**

**Management's Discussion & Analysis**

**Nine Months Ended September 30, 2017**

**Hunter Oil Corp.**  
**Management's Discussion & Analysis for the Nine Months Ended September 30, 2017**

**DATE AND BASIS OF INFORMATION**

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

The Company's corporate headquarters are located in Vancouver, Canada and its operational headquarters is located in Houston, Texas. Common shares of the Company are listed on the TSX Venture Exchange ("TSX-V") under the symbol "HOC" and quoted on the Over the Counter marketplace ("OTCQX") under the symbol "HOILF." The registered address of the office is Suite 940, 1040 West Georgia Street, Vancouver, British Columbia, V6E 4H1 Canada. Additional information relating to the Company can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

Effective August 14, 2016, the Company changed its name to Hunter Oil Corp. Concurrently, its trading symbol on the TSX-V changed from "EOR" to "HOC" and its trading symbol on the OTCQX changed from "EORIF" to "HOILF."

**Liquidity and Going Concern**

While the unaudited interim condensed 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 the consolidated financial statements, certain conditions and events cast significant doubt on the validity of this assumption. For the three months ended September 30, 2017, the Company had negative cash flows from operations of approximately \$0.5 million and, at September 30, 2017, an accumulated deficit of approximately \$112.8 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.

The annual 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.

**Basis of Presentation**

The following Management's Discussion and Analysis ("MD&A") is dated November 29, 2017 and should be read in conjunction with the Company's consolidated financial statements and related notes for the nine months ended September 30, 2017, as well as the consolidated financial statements and related notes, and MD&A for the year ended December 31, 2016. The referenced consolidated financial statements have been prepared by management and approved by the Company's Board of Directors. Unless otherwise noted, all financial information presented herein has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All financial information is in US dollars, unless otherwise indicated.

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**Non-IFRS Financial Measures**

Certain financial measures in this MD&A, namely netback, cash flow from operations, lifting costs and EBITDA are not prescribed, do not have a standardized meaning defined by IFRS and therefore may not be comparable with the calculation of similar measures by other companies.

Netbacks are used by the Company as a key measure of performance and are not intended to represent operating profit nor should they be viewed as an alternative to cash flow provided by operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS. A netback is a per barrel (or mcf) computation determined by deducting royalties, production expenses, transportation and selling expenses from the oil or gas sales price to measure the average net cash received from the barrels or mcf sold.

Lifting costs include all production costs necessary to produce oil or gas, however exclude severance taxes.

EBITDA refers to income (loss) before income taxes, depletion, depreciation, amortization and accretion.

Please refer to the Abbreviations and Definitions section at the end of this document which lists abbreviations and definitions commonly referred to in the energy business and which may be used in this MD&A.

**BUSINESS OVERVIEW**

**Overview of Nine Months Ended September 30, 2017**

**Crude Oil and Natural Gas Business Segment.** The Company has one reportable business segment, crude oil and natural gas production and development, with all activities located in the United States of America. We produce oil and gas from two Permian Basin crude oil fields located in eastern New Mexico which we purchased in 2007; the "Chaveroo Field" and the "Milnesand Field". The Company's net proved reserves at December 31, 2016 and 2015, respectively, were 12.6 million and 6.2 million barrels of equivalents with a net present value of \$233.4 million and \$180.2 million respectively, using a 10% discount rate for both periods. This represented a 103.2% increase in reserves as of December 31, 2016, from the previous year.

**Subsidiaries and Operations.** The operations of the Company include 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:

<b>Subsidiary Name</b>	<b>Jurisdiction</b>	<b>Company Ownership</b>
Hunter Oil Management Corp.	Florida, USA	100%
Hunter Ventures Corp.	Delaware, USA	100%
Hunter Oil Resources Corp.	Delaware, 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.	Delaware, USA	100%
Chaveroo Minerals Inc.	Delaware, USA	100%
Hunter Ranch Corp.	Delaware, USA	100%

## OVERALL PERFORMANCE

### Consolidated Statements of Operations and Comprehensive Loss:

<i>(In thousands of US dollars)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues				
Oil and gas sales	\$ 381	\$ 407	\$ 1,185	\$ 960
Less royalties	(80)	(95)	(248)	(212)
Revenues, net of royalties	301	312	937	748
Expenses				
Operating and production costs	242	282	802	630
Workover expenses	-	198	49	239
General and administrative	398	704	1,441	1,871
Loss on disposition of assets	13	-	35	45
Depreciation and depletion	147	194	471	557
Accretion	108	83	329	274
Financing costs and other, net	(21)	(8)	3	(4)
Foreign currency translation loss	19	6	20	6
Total expenses	906	1,459	3,150	3,618
Net comprehensive loss for the period	\$ (605)	\$ (1,147)	\$ (2,213)	\$ (2,870)
<i>Loss per share - basic and diluted</i>	\$ (0.07)	\$ (0.20)	\$ (0.27)	\$ (0.50)

Results of operations for the nine months ended September 30, 2017, included crude oil and natural gas sales revenues of \$1.2 million, and a net loss of \$2.2 million, compared to revenues of \$1.0 million and a net loss of \$2.9 million for the nine months ended September 30, 2016. Per share losses (basic and fully diluted) were \$0.27 and \$0.50 for the nine months ended September 30, 2017 and 2016, respectively. Cash used in operating activities for the nine months ended September 30, 2017 was \$0.5 million compared to \$2.5 million in 2016, a decrease of \$2.0 million.

Results of operations for the three months ended September 30, 2017, included crude oil and natural gas sales revenues of \$0.4 million, and a net loss of \$0.6 million, compared to revenues of \$0.4 million and a net loss of \$1.1 million for the same three months in 2016. Per share losses (basic and fully-diluted) were \$0.07 and \$0.20 for the three months ended September 30, 2017 and 2016, respectively.

## **DISCUSSION OF OPERATIONS**

### **Revenues**

Gross sales of crude oil and natural gas in the first nine months of 2017 increased by \$0.2 million, or 23.4 %, when compared to the same period in 2016. The increase is primarily due to a 23.1% increase in the average price received for commodity sales (\$44.26 per Boe in 2017 compared to \$35.96 per Boe during the prior year).

Gross sales revenue of crude oil and natural gas in the third quarter of 2017 decreased by 6.4% to \$0.38 million when compared to 2016. The decrease in revenue is due to a 14.5% decrease in sales volumes (8,809 Boe's in 2017 compared to 10,309 Boe's in the prior year) that was partially offset by a 9.2% increase in the average price received for commodity sales (\$43.24 per Boe in 2017 compared to \$39.58 per Boe during the same three months in 2016).

### **Operating Costs, Production Costs and Netback**

Our efforts have been focused on increasing oil recovery from legacy oil fields, which normally reflect higher operating costs than fields with newly established production. Since a majority of the Company's properties are older oil fields, we expect that operating costs will always be relatively higher due to the higher frequency of workovers, increasing compliance costs associated with increased regulatory activity and higher maintenance costs pending additional field development.

*Operating and Production Costs:* Operating and production costs for the nine months ended September 30, 2017, increased approximately \$0.17 million (or 27.3%) to \$0.80 million, compared to \$0.63 million for 2016. The increase in costs is primarily due to the activity of eight wells that were acquired during 2016 and brought online coupled with the reactivation of wells in both the Milnesand and the Chaveroo fields.

Operating and production costs for both the three-month periods ended September 30, 2017 and 2016, were \$0.24 million and \$0.28 million, respectively.

*Workover Expenses:* Workover expenses during the first nine months in 2017 decreased \$0.19 million (or 79.5%) to \$0.05 million when compared to the prior year.

Workover expenses for the three months ended September 30, 2017, decreased \$0.2 million (or 100.0%) when compared to the same three months in 2016.

*Netback:* Operating netback for the nine months ended September 30, 2017, increased \$8.90 (or 273.0%) to \$5.64 income per Boe when compared to 2016. The increase in income is primarily due to higher oil prices and lower workover costs during the year.

Operating netback for the quarter ending September 30, 2017, was \$7.83 income per Boe compared to a \$10.96 loss per Boe for the same period in 2016. The increase in income is primarily due to higher average price received for commodity sales and lower workover costs during the period.

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**General and Administrative**

General and administrative expenses for the periods ended September 30, 2017 and 2016, were as follows:

<i>(In thousands of US dollars)</i>	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
<b>Expense</b>	<b>2017</b>	<b>2016</b>
Accounting, audit and tax advisory fees	\$ 270	\$ 280
Advertising and promotion	18	5
Consulting fees	267	381
Insurance	17	46
Legal fees	68	87
Office and general	58	25
Professional fees	23	49
Public company expenses	29	72
Rent	89	82
Salaries, directors' fees and related benefits	513	730
Software and IT	47	38
Telephone and utilities	12	12
Travel and accomodation	31	65
<b>Total</b>	<b>\$ 1,441</b>	<b>\$ 1,871</b>

General and administrative expenses decreased approximately \$0.43 million (or 22.7%) to \$1.45 million for the nine months ended September 30, 2017, when compared to the same nine months in 2016. The decrease in expenses is primarily due to personnel reductions in the Houston office. General and administrative expenses for the quarters ended September 30, 2017 and 2016, were \$0.4 million and \$0.7 million, respectively.

**Depreciation and Depletion**

Depreciation and depletion expenses for the nine months ended September 30, 2017, were \$0.47 million compared to \$0.56 million for the same period in 2016. The \$0.09 million decrease is primarily due to lower well bond premiums and a lower depreciable asset base when compared to the prior year, coupled with increased reserve balances at December 31, 2016. Depreciation and depletion expenses were \$0.14 million and \$0.19 million for the quarters ended September 30, 2017 and 2016, respectively.

**Accretion**

Accretion expense for the nine-month period ended September 30, 2017, was \$0.33 million compared to \$0.27 million for the same nine months in 2016. The \$0.06 million increase is primarily due to the activity of eight wells that were acquired during 2016 and brought online coupled with the reactivation of wells in both the Milnesand and the Chaveroo fields.

Accretion expense for the quarters ended September 30, 2017 and 2016, was \$0.11 million and \$0.08 million, respectively.

**Foreign Exchange Gain (Loss)**

The Company's functional currency and presentational currency, as determined under International Accounting Standard ("IAS") 21, *The Effects of Changes in Foreign Exchange Rates*, is the United States dollar. All of the Company's operating expenses and capital expenditures are paid in the United States dollar except for general and

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administrative expense of the Canadian parent entity and all historical equity issuances of the Canadian parent which are denominated in Canadian dollars. There will continue to be an impact from currency translation and exchange gains and losses, but we believe this translation will have a small impact on our financial results. The average Canadian/US dollar exchange rate was \$0.77 and \$0.76 for the nine-month periods ended September 30, 2017 and 2016, respectively.

**EBITDA Reconciliation**

<i>(In thousands of US Dollars)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net comprehensive loss	\$ (605)	\$ (1,147)	\$ (2,213)	\$ (2,870)
<i>Adjustments:</i>				
Loss on disposition of assets	13	-	35	45
Depreciation and depletion	147	194	471	557
Accretion	108	83	329	274
Foreign currency translation loss	19	6	20	6
Financing costs and other, net	(21)	(8)	3	(4)
<b>EBITDA</b>	<b>\$ (339)</b>	<b>\$ (872)</b>	<b>\$ (1,355)</b>	<b>\$ (1,992)</b>

**Operating Netback Analysis**

**Operating Netback Per Gross Boe:**

<i>(In US dollars)</i>		<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
		<b>September 30,</b>		<b>September 30,</b>	
		<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Oil &amp; Gas Sales Volumes</b>					
Oil equivalent	<i>Boe's</i>	8,809	10,309	26,762	26,723
<b>Average prices</b> <sup>1</sup>					
Oil equivalent	<i>\$/Boe</i>	\$ 43.24	\$ 39.58	\$ 44.26	\$ 35.96
<b>Less:</b>					
Royalties, net	<i>\$/Boe</i>	(9.09)	(8.29)	(9.27)	(7.55)
Production taxes	<i>\$/Boe</i>	(2.81)	(2.74)	(2.88)	(2.49)
Production costs	<i>\$/Boe</i>	(23.51)	(20.22)	(25.20)	(21.64)
Workover expense	<i>\$/Boe</i>	-	(19.29)	(1.27)	(7.54)
<b>Operating Netback</b> <sup>3</sup>	<i>\$/Boe</i>	\$ 7.83	\$ (10.96)	\$ 5.64	\$ (3.26)

<sup>1</sup> Average prices are after deduction of transportation costs.

<sup>2</sup> Net of related production taxes.

<sup>3</sup> Operating netback equals crude oil and natural gas sales less royalties, operating costs and transportation costs calculated on a Boe basis. Operating netback does not have a standardized measure prescribed by IFRS and therefore may not be comparable with the calculations of similar measures for other companies.

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**LIQUIDITY AND CAPITAL RESOURCES**

As of September 30, 2017, the Company had unrestricted cash of \$0.08 million and restricted cash balances of \$2.3 million.

On May 13, 2016, the Company closed a private placement of 6,470,000 common shares of the Company at a price of C\$0.50 per share to raise gross proceeds of US \$2.5 million. The funds are recorded in equity instruments on the unaudited interim condensed consolidated balance sheet.

In order to provide the necessary funds to develop its projects, the Company is considering all available sources of financing to develop its projects, including equity, bank and mezzanine debt, asset sales and joint venture arrangements. The Company expects that financing of drilling activities will require dilution of equity interests or higher cost debt financing and will require that the development of these fields command a high rate of return on investment. The Company will continue to focus on operations activities that further its objectives of positive operating cash flows and increasing production in one or more of its oil fields.

While the 2016 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 nine months ended September 30, 2017, the Company had negative cash flows from operations of approximately \$0.5 million and, at September 30, 2017, an accumulated deficit of approximately \$112.8 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.

**QUARTERLY RESULTS OF OPERATIONS AND SELECT FINANCIAL DATA**

**Summary of Quarterly Information:**

**Quarterly Revenue, Loss and Earnings Per Share:**

*(In thousands except per share amounts)*

	2015			2016			2017		
	Fourth	First	Second	Third	Fourth	First	Second	Third	
Revenues	\$ 325	\$ 236	\$ 317	\$ 407	\$ 455	\$ 457	\$ 347	\$ 381	
Net comprehensive loss	\$ (1,424)	\$ (1,033)	\$ (690)	\$ (1,147)	\$ (1,101)	\$ (945)	\$ (663)	\$ (605)	
Per share - basic	\$ (0.89)	\$ (0.65)	\$ (0.12)	\$ (0.20)	\$ (0.19)	\$ (0.12)	\$ (0.08)	\$ (0.07)	
Per share - diluted	\$ (0.89)	\$ (0.65)	\$ (0.12)	\$ (0.20)	\$ (0.19)	\$ (0.12)	\$ (0.08)	\$ (0.07)	



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Revenue varies directly with the average price of oil received and production volumes achieved. The following table summarizes the average received prices and gross production for the three-month periods indicated:

**Quarterly Average Prices Received and Sales Volumes:**

	2015		2016				2017		
	Fourth	First	Second	Third	Fourth	First	Second	Third	
Average price received	\$ 37.43	\$ 28.19	\$ 39.96	\$ 39.58	\$ 43.77	\$ 46.19	\$ 43.02	\$ 43.24	
Sales volume	8,704	8,378	8,036	10,309	10,389	9,893	8,060	8,809	

The quarterly table reflects operational activity arising from planned and unplanned activities, such as regulatory requirements, changes in prices, availability of oil field services and/or weather-related downtime, thereby affecting the level of workover and maintenance activity in each of the oilfields. Crude oil sales decreased in the first and second quarters of 2017 principally due to the loss of production of a few wells that went offline during the period.

Crude oil sales increased in the third quarter of 2017 due to a reduction in crude storage that was partially offset by a decrease in crude production. Crude oil sales decreased in the second quarter of 2017 due to a decrease in crude production coupled with an increase in crude storage. The increase in crude oil sales in the fourth quarter of 2016 was due to the activity of eight wells brought online that were acquired during 2016 coupled with the reactivation of wells in both the Milnesand and the Chaveroo fields. The increase in crude oil sales in the third quarter of 2016 was due to the reactivation of wells in both the Milnesand and the Chaveroo fields. Crude oil sales volume decreased in the second quarter of 2016 principally due to an increase in crude storage. The decrease in crude oil sales volumes in the first quarter of 2016 was primarily due to weather related downtime in January 2016.

Revenue increased in the third quarter of 2017 due to both higher sales volumes and higher oil prices. Revenue decreased in the second quarter of 2017 due to both the lost production of wells going offline and lower oil prices. The increase in revenue in the fourth quarter of 2016 was due to both higher sales volumes and higher oil prices. Revenue increased in the third quarter of 2016 due to higher sales volumes. Revenue increased in the second quarter of 2016 due to higher commodity prices received from oil sales. Revenue decreased in the first quarter of 2016 due to lower commodity prices received from oil sales.

**Equity Placement**

On May 13, 2016, the Company closed a private placement of 6,470,000 common shares of the Company at a price of C \$0.50 per share to raise gross proceeds of US \$2.5 million (see "Liquidity and Capital Resources" above).

**Regulatory Compliance in New Mexico**

The Company's operating subsidiaries, primarily Ridgeway Arizona Oil Corp. ("Ridgeway") and EOR Operating Company, conduct their operations under the oversight of multiple federal and state agencies. The Company's Chaveroo field is operated by Ridgeway, which is both the federal and State of New Mexico operator of record. The Company's other principal oil field, Milnesand, is operated by EOR Operating Company, which is both the federal and State of New Mexico operator of record.

## **DISCLOSURE OF CONTROLS, PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

As a TSX Venture Exchange issuer, the Company's officers are not required to certify the design and evaluation of operating effectiveness of the Company's disclosure controls and procedures ("DC&P") or its internal controls over financial reporting ("ICFR"). The Company maintains DC&P designed controls to ensure that information required to be disclosed in reports filed or submitted is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In addition, the Chief Executive Officer and the Chief Financial Officer have designed controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Due to its size, the small number of employees, the scope of its current operations, its limited liquidity and capital resources, there are inherent limitations on the Company's ability to design and implement on a cost-effective basis the DC&P and ICFR procedures, the effect of which may result in additional risks related to the quality, reliability, transparency and timeliness of its interim filings and other reports. There have been no changes in ICFR during the nine months ended September 30, 2017.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any special purpose entities nor is it party to any arrangements that would be excluded from the consolidated balance sheet.

## **RELATED PARTY TRANSACTIONS**

Pursuant to a management services agreement (the "Agreement") with Century Capital Management ("Century"), a company controlled by the Company's Chief Executive Officer, the Company incurred approximately \$0.18 million in management fees, office rent and office expenses during the nine months ended September 30, 2017 and 2016, 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 CEO terminated without cause or a reduction in position results within 2 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.

## **CRITICAL ACCOUNTING ESTIMATES**

Estimates and underlying assumptions are reviewed on an ongoing basis and involve significant estimation uncertainty which have a significant risk of causing adjustments to the carrying amounts of assets and liabilities. Revisions to accounting estimates are recognized in the year in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in the consolidated financial statements are outlined below:

*Oil and natural gas reserves:* Certain depletion, depreciation, impairment and asset retirement obligation charges are measured based on the Company's estimate of proved and probable oil and gas reserves and resources. The estimation of proved and probable reserves and resources is an inherently complex process and involves the exercise of professional judgment. Oil and natural gas reserves have been evaluated at December 31, 2016 and December

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31, 2015 by independent petroleum engineers in accordance with National Instruments 51-101 *Standards of Disclosure for Oil and Gas Activities*.

Oil and natural gas reserve estimates are based on a range of geological, technical and economic factors, including projected future rates of production, estimated commodity prices, engineering data, and the timing and amount of future expenditures, all of which are subject to uncertainty. Assumptions reflect market and regulatory conditions existing at the reporting date, which could differ significantly from other points in time throughout the year, or future periods. Changes in market and regulatory conditions and assumptions can materially impact the estimation of net reserves and resources.

*Impairment of assets:* The Company evaluates its assets for possible impairment at the CGU level. The determination of CGUs requires judgment in defining the smallest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs has been determined based on similar geological structure, shared infrastructure, geographical proximity, commodity type, the existence of active markets, similar exposure to market risks, and the way in which management monitors the operations.

The recoverable amounts of CGUs and individual assets have been determined based on the higher of fair value less costs of disposal model and value in-use model. The key assumptions the Company uses in estimating future cash flows for recoverable amounts are: anticipated future commodity prices, expected production volumes, future operating and development costs, estimates of inflation on costs and expenditures, expected income taxes and discount rates. In addition, the Company considers the current environmental, social and governance issues affecting its property interests and operations, including the current legislative and regulatory activity affecting the permitting and approval of its projects and operations. Changes to these assumptions will affect the estimated recoverable amounts attributed to a CGU or individual assets and may then require a material adjustment to their related carrying value.

The decision to transfer exploration and evaluation assets to property and equipment is based on management's determination of a property's technical feasibility and commercial viability based on proved and probable reserves as well as related future cash flows.

Judgements are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

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

Judgements are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

*Asset retirement obligations:* The Company estimates and recognizes liabilities for future asset retirement obligations and restoration of exploration and evaluation assets, and for oil and gas development and producing assets. These provisions are based on estimated costs, which take into account the anticipated method and extent of restoration, technological advances and the possible future use of the asset. Actual costs are uncertain and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new restoration techniques,

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operating experience and prices. The expected timing of future retirement and restoration may change due to these factors, as well as affect the estimates of reserve life. Changes to assumptions related to future expected costs, discount rates and timing may have a material impact on the amounts presented. The Company has chosen to use a risk-free rate for discounting asset retirement obligations.

**FUTURE ACCOUNTING PRONOUNCEMENTS**

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018, and have not been applied in preparing these financial statements.

*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*. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company has not fully assessed the impact of *IFRS 9* on the financial statements, but does not expect the impact to be significant.

*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. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company has not fully assessed the impact of *IFRS 15* on the financial statements, but does not expect the impact to be significant.

*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

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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.

**POTENTIAL RISKS AND UNCERTAINTIES**

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. Readers are referred to the discussion of Potential Risks and Uncertainties in the Company's MD&A for the year ended December 31, 2016.

**SUBSEQUENT EVENTS**

On May 5, 2017, as a result of delinquent filing of its consolidated financial statements, the Company was issued a Cease Trade Order by its principal regulator, the British Columbia Securities Commission (see the Company's press release dated May 8, 2017). The consolidated annual financial statements have now been filed and the Cease Trade Order was revoked on November 10, 2017. Trading on the TSX-V resumed on November 16, 2017.

**OTHER MD&A INFORMATION NOT DISCLOSED ELSEWHERE**

**Exploration and Evaluation Expenditures**

<i>(In thousands of US Dollars)</i>	<b>Chaveroo Field</b>	
Acquisition costs:		
Balance, January 1, 2017	\$	64
Additions		116
<b>Balance, September 30, 2017</b>	<b>\$</b>	<b>180</b>
<b>Carrying Amounts:</b>		
January 1, 2017	\$	64
September 30, 2017	\$	180

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**Share Capital**

Authorized capital:

25 million preference shares of no par value  
Unlimited common shares of no par value

Issued and outstanding at November 29, 2017:

8,070,871 common shares

**General and Administrative Expenses**

Please refer to the heading "General and Administrative" under Discussion of Operations.

**FORWARD-LOOKING STATEMENTS**

Certain statements contained in this Management's Discussion and Analysis and in certain documents incorporated by reference into this Management's Discussion and Analysis, contain estimates and assumptions which management are required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Management's assessment of future operations, drilling and development plans and timing thereof, other capital expenditures and timing thereof, methods of financing capital expenditures and the ability to fund financial liabilities, expected commodity prices and the impact on the Company, and the impact of the adoption of future changes in accounting standards may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, the flexibility of capital funding plans and the source of funding therefore; production, marketing and transportation, loss of markets, volatility of commodity prices, the effect of the Company's risk management program, including the impact of derivative financial instruments; currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, the inability to fully realize the benefits of the acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources.

All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar other expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A, as the case may be. The Company does not intend, and does not assume an obligation, to update these forward-looking statements, except as required by securities law.

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In particular, this MD&A and the documents incorporated by reference include, but are not limited to, forward-looking statements pertaining to the following:

- the quantity of reserves and contingent resources on the Company's Milnesand and Chaveroo Fields;
- crude oil, natural gas, CO<sub>2</sub> and helium operations and production levels;
- capital expenditure programs, including drilling programs, asset retirement and abandonment activities and pipeline construction projects, and the timing and method of financing thereof;
- projections of market prices and costs;
- supply, demand and pricing for crude oil and natural gas;
- expectations regarding the Company's ability to raise capital and to continually add to reserves through acquisitions and development;
- drilling inventory, drilling plans and timing of drilling, re-completion and tie-in of wells;
- plans for production facilities construction and completion and the timing and method of funding thereof;
- productive capacity of wells, anticipated or expected production rates and anticipated dates of commencement of production;
- drilling results of various projects of the Company;
- the performance and characteristics of the Company's oil and natural gas properties;
- timing of development of undeveloped reserves;
- timing of receipt of regulatory approvals;
- timing and effect of production increases and the related effect and timing on operating costs per BOE;
- ability to lower cost structure in certain projects of the Company;
- growth expectations within the Company;
- the tax horizon and tax related implications of the Company;
- supply and demand for oil, natural gas liquids and natural gas;
- the Company's acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- the impact of United States federal and state governmental regulation on the Company, either directly or relative to other oil and gas issuers of similar size;
- realization of the anticipated benefits of acquisitions and dispositions;
- weighting of production between different commodities;
- expected levels of royalty rates, production and workover costs, office field expenses, general and administrative costs, costs of services and other costs and expenses;
- benefits or costs related to settlement of financial instruments; and
- treatment under United States and Canada government regulation and taxation, including carbon taxation regimes.

This forward-looking information is based on a number of assumptions and factors, including, but not limited to, the following:

- assumptions set out herein and in the Company's most recently filed Form 51-101F1 oil and gas report;
- stability in the credit markets and continued willingness of lenders to lend capital to issuers such as the Company;
- continuing availability of funds for capital expenditures through internally generated cash and/or equity raises and debt raises;
- stability of political and fiscal regimes in Canada and the United States;

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- ability of the Company to hold mineral leases and projects in which it has interests and to find suitable industry partners to assume or share capital expenditure requirements necessary to keep various of the Company's projects in good standing, if and as needed;
- stable future costs;
- availability of equipment and personnel when required for operations;
- future strong demand for oil and natural gas;
- that the Company will not experience unforeseen delays, unexpected geological, environmental or other natural occurrences, equipment failures, permitting delays or delays in procurement of required equipment or personnel;
- that the Company will not experience labor or contract disputes;
- that the Company's financial condition and development plans will not substantially change;
- the assumptions underlying reserve estimates;
- that indications of early results are reasonably accurate predictors of the prospectiveness of the hydrocarbon bearing strata;
- that environmental and other regulations affecting the Company will not substantially change, and that required regulatory approvals will be available when required;
- that expected production from future wells can be achieved as modeled and that declines will match the modeling;
- that rates of return as modeled can be achieved;
- that reserve recoveries are consistent with management's expectations;
- that additional wells are actually drilled and completed;
- expectations and assumptions regarding future growth, results of operations, production, future capital and other expenditures (including the amounts, nature and sources of funding thereof);
- plans for and results of drilling activities; and
- assumptions regarding business prospects and opportunities.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance, or achievements. Neither the Company nor any other person assumes responsibility for the outcome of the forward-looking statements. Many of the risks and other factors are beyond the Company's control, which could cause actual results to differ materially from those anticipated in these forward-looking statements as a result of risk factors as set forth, but not limited to, those below and elsewhere in this MD&A:

- volatility in market prices for oil, natural gas, and CO<sub>2</sub>;
- liabilities and risks inherent in oil and natural gas operations;
- uncertainties associated with estimating reserves;
- competition for capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- incorrect assessments of the recoverability of asset costs and investments;
- geological, technical, drilling and processing problems; and
- governmental regulation in the areas of taxation, royalty rates and environmental protections.



**ABBREVIATIONS AND DEFINITIONS**

**Crude Oil and Natural Gas Liquids**

**Carbon Dioxide and Natural Gas**

Bbl	barrel	Bcf	billion cubic feet
Bbls	barrels	CO <sub>2</sub>	carbon dioxide
BBls/d	barrels per day	Mcf	thousand cubic feet
BOEPD	barrel of oil equivalent per day	MMcf	million cubic feet
MMbbls	million barrels	Mcf/d	thousand cubic feet per day
Mbbls	thousand barrels	MMcf/d	million cubic feet per day
Boe	Barrel of oil equivalent of natural gas and crude oil on the basis of one boe for six mcf of natural gas and one boe for 42 gallons of plant products (these conversion factor are an industry accepted norm and is not based on either energy content or current prices).		
Contingent resource	Those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable.		
EBITDA	Income before income taxes, depletion, depreciation, amortization and accretion and often referred to as 'cash flow from operations'		
MBoe	1,000 barrels of oil equivalent		
Net revenue	Gross revenue less all taxes, royalties and lease operating expenses.		
NI 51-101	National Instrument 51-101 <i>Standards of Disclosure for Oil and Gas Activities</i> adopted by the Canadian Securities Administrators.		
Primary recovery	Production in which only existing natural energy sources in the reservoir provide for movement of well fluids.		
Permian Basin	A large crude oil and natural gas producing area representing a sedimentary basin dating from the Permian geologic period and covering an area extending from West Texas to eastern New Mexico.		
Reserves	Estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward based on (i) analysis of drilling, geophysical and engineering data; (ii) the use of established technology; (iii) specified economic conditions, which are generally accepted as being reasonable, and shall be disclosed; and (iv) a remaining reserve life of 50 years. These definitions and disclosures are in accordance with the definitions, procedures and standards contained in the Canadian Oil and Gas Evaluation (COGE) Handbook and the Canadian Securities Administrators NI 51-101.		
Secondary recovery	Any method by which an essentially depleted reservoir is restored to producing status by the injection of liquids or gases (from external sources) into the formation, thereby effecting a restoration of reservoir energy which moves the unrecoverable secondary reserves through the reservoir to the wellbore.		
Tertiary recovery	Any of various methods, chiefly reservoir drive mechanisms and enhanced recover techniques, designed to improve the flow of hydrocarbons from the reservoir to the wellbore to recover more oil after the primary and secondary methods (water and gas floods) are uneconomic.		
\$	United States dollars		
C\$	Canadian dollars		