# HILLCREST RESOURCES LTD.

## Condensed Consolidated Interim Financial Statements

(Unaudited – Prepared by Management)

## For The Three Months Ended March 31, 2012 and 2011

(Expressed in Canadian Dollars Unless Otherwise Stated)

**Notice of No Auditor Review of the Condensed Consolidated Interim Financial Statements**

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

The accompanying unaudited condensed consolidated interim financial statements of Hillcrest Resources Ltd. ("the Company"), for the three months ended March 31, 2012, have been prepared by management and have not been the subject of a review by the Company's independent auditor.

**HILLCREST RESOURCES LTD.**
**Condensed Consolidated Interim Statements of Financial Position**
(Unaudited - prepared by management)
(Expressed in Canadian dollars)

| | | **March 31 2012** | | December 31 2011 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets | | | | |
| Cash | **$** | **152,500** | $ | 333,028 |
| Share subscription receivable | | **220,100** | | - |
| Accounts receivable | | **153,504** | | 73,173 |
| Government remittances recoverable | | **31,111** | | 52,308 |
| Prepaid expenses | | **27,004** | | 20,000 |
| Due from related parties | | **599** | | 610 |
| Total current assets | | **584,818** | | 479,119 |
| Non-current assets | | | | |
| Exploration and evaluation assets *(note 7)* | | **1,787,311** | | 1,571,761 |
| Property and equipment (*note 6)* | | **2,028,326** | | 1,395,035 |
| **TOTAL ASSETS** | **$** | **4,400,455** | $ | 3,445,915 |
| **LIABILITIES** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | **$** | **132,082** | $ | 290,197 |
| Total current liabilities | | **132,082** | | 290,197 |
| Decommissioning liability | | **23,876** | | 23,181 |
| **Total liabilities** | | **155,958** | | 313,378 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital *(note 9)* | | **5,390,934** | | 4,229,207 |
| Contributed surplus | | **736,538** | | 711,051 |
| Warrants | | **101,033** | | 82,080 |
| Deficit | | **(1,984,008)** | | (1,889,801) |
| | | **4,244,497** | | 3,132,537 |
| **TOTAL LIABILITIES & SHAREHOLDERS' EQUITY** | **$** | **4,400,455** | **$** | 3,445,915 |

*These financial statements were approved and authorized for issue by the Board of Directors on May 25* , 2012.
*They were signed on its behalf by:*

"Martin Wood" *Director*

"David Stone" *Director*

See accompanying notes to the condensed consolidated interim financial statements

**HILLCREST RESOURCES LTD.**

**Condensed Consolidated Interim Statements of Comprehensive Income (Loss)**

(Unaudited - prepared by management)

**For the Three Months Ended March 31, 2012 and 2011**

(Expressed in Canadian dollars)

| | The months ended March 31 | |
|---|---|---|
| | **2012** | **2011** |
| **Revenue** | **$ 205,608** | $ 183,787 |
| **Expenses** | | |
| Operating costs | **$ 69,035** | $ 27,644 |
| Accretion | **695** | - |
| Bank charges and interest | **473** | 520 |
| Consulting fees *(note 10)* | **59,953** | 41,500 |
| Debt issue cost | **-** | 5,108 |
| Depletion and depreciation | **28,215** | 16,844 |
| Filing and transfer agent fees | **14,874** | 49,889 |
| Investor relations and business development | **58,435** | 7,887 |
| Office and general | **8,165** | 4,929 |
| Professional fees | **19,583** | 6,279 |
| Stock-based compensation | **25,487** | 525,295 |
| Travel | **7,711** | 6,179 |
| | **292,626** | 692,074 |
| **Income (loss) before other items** | **(87,018)** | (508,287) |
| **Other items** | | |
| Interest income | **7** | - |
| Interest expense on loan | **-** | (5,836) |
| Foreign exchange gain (loss) | **(7,197)** | 2,893 |
| **Comprehensive income (loss) for the period** | **$ (94,207)** | $ (505,344) |
| Basic and diluted loss per share | **$ (0.00)** | $ (0.03) |
| Weighted average number of common shares outstanding | **36,129,017** | 18,047,587 |

See accompanying notes to the condensed consolidated interim financial statements

**HILLCREST RESOURCES LTD.**

**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity**

(Unaudited - prepared by management)

(Expressed in Canadian dollars)

| | *Share Capital* | | | | | |
|---|---|---|---|---|---|---|
| | *Number of Shares* | *Amount* | *Contributed Surplus* | *Warrants* | *Deficit* | *Shareholders' Equity* |
| Balance, December 31, 2010 | 17,647,500 | 1,891,930 | - | - | (1,190,247) | 701,683 |
| Issued for cash pursuant to public financing | 10,350,000 | 1,914,147 | - | 155,853 | - | 2,070,000 |
| Issued for oil and gas properties | - | - | - | - | - | - |
| Issued for cash pursuant to exercise of warrants | 495,933 | 152,184 | - | (66,997) | - | 85,187 |
| Share issuance costs | - | (413,411) | - | - | - | (413,411) |
| Stock-based compensation | - | - | 525,295 | - | - | 525,295 |
| Net loss for the period | - | - | - | - | (512,588) | (512,588) |
| **Balance, March 31, 2011** | 28,493,433 | 3,544,850 | 525,295 | 88,856 | (1,702,835) | 2,456,166 |
| Balance, December 31, 2011 | 33,646,433 | 4,229,207 | 711,051 | 82,080 | (1,889,801) | 3,132,537 |
| Issued for cash pursuant to private placements | 2,785,778 | 501,440 | - | 18,953 | - | 520,393 |
| Issued for oil and gas properties | 3,500,000 | 630,000 | - | - | - | 630,000 |
| Issued for cash pursuant to exercise of warrants | 718,000 | 71,800 | - | - | - | 71,800 |
| Share issuance costs and finders fee | - | (41,513) | - | - | - | (41,513) |
| Stock-based compensation | - | - | 25,487 | - | - | 25,487 |
| Net loss for the period | - | - | - | - | (94,207) | (94,207) |
| **Balance, March 31, 2012** | **40,650,211** | **$ 5,390,934** | **$ 736,538** | **$ 101,033** | **$ (1,984,008)** | **$ 4,244,497** |

See accompanying notes to the condensed consolidated interim financial statements

**HILLCREST RESOURCES LTD.**
**Condensed Consolidated Interim Statements of Cash Flows**
(Unaudited - prepared by management)
**For the Three Months Ended March 31, 2012 and 2011**
(Expressed in Canadian dollars)

| | The months ended March 31 | |
|---|---|---|
| | **2012** | **2011** |
| **Cash flows provided by (used in) operating activities** | | |
| Net loss for the period | **$ (94,207)** | $ (512,588) |
| Adjusted for items not involving cash: | | |
| Accretion | **695** | - |
| Amortization of debt issue costs | **-** | 5,108 |
| Accredited interest on loan payable | **-** | 5,836 |
| Unrealized foreign exchange loss on loan payable | **-** | (5,438) |
| Depletion and depreciation | **28,215** | 16,844 |
| Stock-based compensation | **25,487** | 525,295 |
| Changes in non-cash working capital: | | |
| Accounts receivable | **(80,331)** | 30,597 |
| Government remittances recoverable | **21,197** | (10,580) |
| Prepaid expenses | **(7,004)** | (2,239) |
| Due from related parties | **12** | (582) |
| Accounts payable and accrued liabilities | **(158,115)** | (108,480) |
| | **(264,053)** | (56,227) |
| **Cash flows from (used in) investing activities** | | |
| Purchase of equipment | **-** | (999) |
| Acquisition of oil and gas properties | **(116,240)** | - |
| Exploration and evaluation expenditures | **(130,815)** | (35,120) |
| | **(247,055)** | (36,119) |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of common shares | **353,140** | 2,155,187 |
| Share issuance costs | **(22,560)** | (413,411) |
| | **330,580** | 1,741,776 |
| **Change in cash** | **(180,528)** | 1,649,430 |
| **Cash, beginning of the period** | **333,028** | 65,736 |
| **Cash, end of the period** | **$ 152,500** | $ 1,715,166 |
| Additional Information: | | |
| Income tax paid | **$ -** | $ - |
| Interest paid | **$ -** | $ 5,836 |

See accompanying notes to the condensed consolidated interim financial statements

**HILLCREST RESOURCES LTD.**
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2012 and 2011
(Expressed in Canadian Dollars Unless Otherwise Stated)

## 1. Nature and Basis of Operations

Hillcrest Resources Ltd. (the "Company") was incorporated on May 2, 2006 under the Business Corporations Act of British Columbia, and is in the business of acquiring, exploring and developing exploration interests in oil and gas projects in the United States of America. The Company's registered office is suite 303 – 750 West Pender Street, Vancouver, British Columbia, Canada, V6C 2T7.

The Company is subject to several categories of risk associated with the exploration and development of oil and gas resources. Oil and gas exploration and production is a speculative business, and involves a high degree of risk. Among the factors that have a direct bearing on the Company's prospects are uncertainties inherent in estimating oil and gas reserves, future hydrocarbon production, and cash flows, particularly with respect to wells that have not been fully tested and with wells having limited production histories; access to additional capital; changes in the price of oil and gas; availability and cost of services and equipment; and the presence of competitors with greater financial resources and capacity.

The oil and gas industry is subject, by its nature, to environmental hazards and clean-up costs. At this time, management knows of no substantial costs from environmental accidents or events for which the Company may be currently liable. In addition, the Company's oil and gas business makes it vulnerable to changes in prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future. By definition, proved reserves are based on estimated future oil and gas prices and costs. Price declines reduce the estimated quantity of proved reserves and increase annual depletion expense (which is based on proved and probable reserves).

## 2. Basis of Preparation

### Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including international Accounting Standards 34 Interim Financial Reporting ("IAS 34"). The accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with the accounting policies disclosed in the Company's December 31, 2011 annual consolidated financial statements. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's December 31, 2011 year end consolidated financial statements.

### Basis of measurement

The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is also the Company's functional currency.

### Going concern of operations

These condensed consolidated interim financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent on the continued financial support of the creditors and the shareholders and ultimately, the attainment of profitable operations. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

| | | **March 31, 2012** | | December 31, 2011 |
|---|---|---|---|---|
| Working capital surplus/(deficiency) | **$** | **452,736** | $ | 188,922 |
| Deficit | **$** | **(1,984,008)** | $ | (1,889,801) |

## 2. Basis of Preparation (continued)

### Critical judgments in applying accounting policies

The preparation of these condensed consolidated interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the year. Actual results could differ from these estimates.

These condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of receivables;
- the carrying value and the recoverability of oil and gas properties;
- depletion and depreciation;
- petroleum and natural gas reserves;
- decommissioning liabilities;
- the inputs used in the accounting for share-based payments;
- income taxes.

## 3. Significant Accounting Policies

### Principles of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, Hillcrest Exploration Inc. and Hillcrest Resources (Arizona) Ltd. All intercompany balances and transactions have been eliminated.

### Foreign currency translation

(i) Functional and presentation currency

The financial results of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency. Income and expenditure transactions of foreign operations are translated at the average rate of exchange for the year except for significant individual transactions which are translated at the rate of exchange in effect at the transaction date. All assets and liabilities, including fair value adjustments and goodwill arising on acquisition, are translated at the rate of exchange ruling at the reporting date. Differences arising on translation from the transition date are recognized as other comprehensive income. When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of the net investment in a foreign operation and are recognized in other comprehensive income. On disposal of part or all of the operations, the proportionate share of the related cumulative gains and losses previously recognized in the comprehensive income are included in determining the profit or loss on disposal of that operation. The consolidated financial statements are presented in Canadian dollars, which is the Company’s functional and presentation currency, while the US dollar is the functional currency of the Company’s subsidiary.

## 3. Significant Accounting Policies

### Foreign currency translation (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of comprehensive income (loss), except for the Company's net investment in its foreign subsidiaries which are recognised in other comprehensive income.

### Exploration and evaluation

Exploration and evaluation ("E&E") costs are capitalized for projects after the Company has acquired the legal right to explore but prior to their technical feasibility and commercial viability being confirmed, generally determined as the establishment of proved or probable reserves. These costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses, including remuneration of production personnel and supervisory management, the projected costs of retiring the assets, and any activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources.

Once technical feasibility and commercial viability are confirmed the E&E asset is then reclassified to property and equipment and tested for impairment. For purposes of impairment testing, E&E assets are allocated to the appropriate cash-generating units based on geographic proximity.

Expired lease costs are expensed as part of depletion and depreciation expense as they occur and costs incurred prior to the legal right to explore are charged to net income (loss).

### Property and equipment

(i) Cost and valuation

All costs directly associated with the development of oil and gas interests are capitalized on an area-by-area basis as oil and gas interests and are measured at cost less accumulated depletion and net impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning liabilities and transfers of exploration and evaluation assets.

Equipment includes computer equipment which is recorded at cost on initial acquisition. Cost includes the purchase price and the directly attributable costs of acquisition required to bring an asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management. Subsequent expenditure relating to an item of equipment is capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditure is recognized as repairs and maintenance expenses during the period in which they are incurred.

(ii) Depletion and depreciation

The provision for depletion for oil and natural gas assets is calculated based on each asset's production for the period divided by the Company's estimated total proved and probable oil and natural gas reserve volumes before royalties for that asset, taking into account estimated future development costs. Production and reserves of natural gas and associated liquids are converted at the energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of oil. Changes in estimates used in prior periods, such as proven and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Equipment is depreciated on a declining balance basis over the estimated useful life of the asset at the rate of 45% to 55% per annum. Where components of an asset have a different useful life and cost that is significant to the total cost of the asset, depreciation is calculated on each separate component. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date, and adjusted if appropriate.

## 3. Significant Accounting Policies (continued)

### Impairment of non-financial assets

At each reporting period the carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets, are reviewed for indicators of impairment. If indicators exist, the recoverable amount of the asset is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property and equipment and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For purposes of assessing impairment, exploration and evaluation assets and property and equipment are grouped into cash generating units ("CGU") defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has used geographical proximity, geological similarities, analysis of shared infrastructure, commodity type, assessment of exposure to market risks and materiality to define its CGUs.

If the carrying amount exceeds the recoverable amount, the asset or CGU is recorded at its recoverable amount with the reduction recognized in net income (loss) in depletion and depreciation expense. The recoverable amount is the greater of the value in use or fair value less costs to sell. Fair value is the amount the asset could be sold for in an arm's length transaction. The value in use is the present value of the estimated future cash flows of the asset from its continued use. The fair value less costs to sell considers the continued development of a property and market transactions in a valuation model. The Company uses the present value of the cash generating unit's estimated future cash flows from both proved and probable reserves in its fair value model. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

Impairments are reversed in subsequent periods when there has been an increase in the recoverable amount of a previously impaired asset or CGU and these reversals are recognized in net income (loss). The recovery is limited to the original carrying amount less depletion and depreciation that would have been recorded had the asset not been impaired.

### Impairment of financial assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

### Joint operations

Oil and natural gas operations are conducted jointly with external parties and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

### Revenue recognition

Revenue from the sale of oil and natural gas is recoded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. Revenue is measured net of discounts and customs duties.

### Financial instruments

(i) Non-derivative financial assets

All financial instruments are classified into one of five categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Financial assets at fair value through profit or loss are measured at fair value and changes in fair value are recognized in net income (loss).

## 3. Significant Accounting Policies (continued)

### Financial instruments (continued)

(i) Non-derivative financial assets

Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current year net earnings (loss).

The Company has classified its cash as a financial asset at fair value through profit or loss, and accounts receivable as loans and receivables.

The Company derecognizes a financial asset when its contractual obligations to the cash flows from the asset are discharged or cancelled or expire.

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company classifies the non-derivative financial liabilities to the following categories: loans and borrowings, bank overdrafts, and trade and other payables. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Accounts payable and accrued liabilities, and loan payable are classified as other financial liabilities. Transaction costs incurred upon the issuance of debt instruments or modification of a financial liability are deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### Cash and cash equivalents

Cash equivalents consist of highly liquid investments, which are readily convertible into cash and generally have maturities of three months or less when acquired. As of March 31, 2012 and December 31, 2011, there were no cash equivalents.

### Decommissioning and restoration costs

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of the Company's assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates. As a result, there could be significant adjustments to the provisions established which would affect future financial results. In the Company's judgment, the most appropriate discount rate to use is the Company's credit adjusted rate of 12%.

As at March 31, 2012, the Company has incurred \$23,876 asset retirement obligations (December 31, 2011 - \$23,181) related to its oil and gas and mineral exploration properties.

## 3. Significant Accounting Policies (continued)

### Share-based payments

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credit to share capital, adjusted for any consideration paid.

### Basic and diluted earnings (loss) per share

Earnings (loss) per share are calculated using the weighted-average number of common shares outstanding during the year. In calculating diluted earnings (loss) per share, the Company considers the potential exercise of outstanding share purchase options and warrants to the extent each option, warrant or contingent issuance was dilutive. Potentially dilutive securities were excluded in the computation of diluted loss per share as their inclusion would be anti-dilutive.

### Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

i) Current income tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

ii) Deferred income tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for the following temporary differences:

- liabilities arising from initial recognition of goodwill for which amortization is not deductible for tax purposes;
- liabilities arising from the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or the taxable profit; and
- liabilities arising from undistributed profits from investments where the entity is able to control the timing of the reversal of the difference and it is probable that the reversal will not occur in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

## 3. Significant Accounting Policies (continued)

**Taxes (continued)**

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

iii) Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables that are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**Standards, amendments and interpretations not yet effective**

The following standards and amendments to existing standards have been published and are mandatory for the Company's annual accounting periods beginning January 1, 2012 or later, with early adoption permitted:

*IFRS 9 'Financial Instruments: Classification and Measurement'* – introduces new requirements for the classification and measurement of financial instruments.

*IFRS 10* '*Consolidated Financial Statements'* – establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

*IFRS 11* '*Joint Arrangements'* - provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.

*IFRS 12* '*Disclosure of Interests in Other Entities'* - requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

*IFRS 13* '*Fair Value Measurement'* - provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

*IAS 1 'Presentation of Financial Statements'* – improves the consistency and clarity of the presentation of items of other comprehensive income.

*IAS 19 'Employee Benefits'* – revises the accounting for defined benefit plans as well as the recognition and measurement of defined benefit plan pension expense and other benefits.

*IAS 27 'Separate Financial Statements'* – contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

*IAS 28 'Investments in Associates and Joint Ventures'* – prescribes the accounting for investments in associates and joint ventures and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

*IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine'* – clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.

Management anticipates that the above standards will be adopted in the Company's financial statements for the period beginning January 1, 2012 or later, and currently evaluating the impact of the adoption of these standards.

**HILLCREST RESOURCES LTD.**
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2012 and 2011
(Expressed in Canadian Dollars Unless Otherwise Stated)

## 4. Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of oil and gas properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is primarily dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate available or committed financial resources to complete such acquisitions.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2012. The Company is not subject to externally imposed capital requirements.

## 5. Risk Factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

### Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents are held with reputable financial institutions, from which management believes the risk of loss to be remote.

### Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2012, the Company had current assets of $584,818 (December 31, 2011 - $479,119) to settle current liabilities of $132,082 (December 31, 2011 – $290,197). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

### Market risk

Market risk is the risk of loss that may arise from changes in market factor such as interest rates, foreign exchange rates, and commodity and equity prices.

### Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term certificates of deposits issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

### Foreign currency risk

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company operates in Canada and the United States. All of the Company's oil and natural gas sales are denominated in United States dollars.

The Company was exposed to the following foreign currency risk:

| Expressed in foreign currencies | **March 31, 2012 US$** | December 31, 2011 US$ |
|---|---|---|
| Cash | **$ 19,043** | $ 159,336 |
| Accounts receivable | **153,674** | 71,950 |
| Accounts payable and accrued liabilities | **(41,545)** | (200,499) |

**HILLCREST RESOURCES LTD.**
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2012 and 2011
(Expressed in Canadian Dollars Unless Otherwise Stated)

| | | |
|---|---|---|
| | **$ 131,172** | $ 30,787 |

## 5. Risk Factors (continued)

### Foreign currency risk (continued)

The following foreign exchange rates applied for the three months ended as at March 31, 2012 and year ended as at December 31, 2011:

| | **March 31, 2012** | December 31, 2011 |
|---|---|---|
| Year-to-date average USD to CAD | **1.0011** | 0.9893 |
| As at | **0.9975** | 1.0170 |

The Company has performed a sensitivity analysis on its foreign currency denominated financial instruments. Based on the Company's foreign currency exposure noted above and assuming that all other variables remain constant, a 10% appreciation of the US dollar against the Canadian dollar would result in the increase of net gain of $13,117 at March 31, 2012 (December 31, 2011 - increase of net gain of $3,079). For a 10% depreciation of the above foreign currencies against the Canadian dollar, assuming all other variables remain constant, there would be an equal and opposite impact on net loss.

### Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of natural resources, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

## 6. Property and Equipment

| | **Computer** | **Oil and Gas Interests** | **Total** |
|---|---|---|---|
| | **$** | **$** | **$** |
| **Cost** | | | |
| Balance at December 31, 2011 | 13,520 | 1,491,838 | 1,505,358 |
| Additions | - | 661,506 | 661,506 |
| Balance at March 31, 2012 | 13,520 | 2,153,344 | 2,166,864 |
| **Accumulated depletion and depreciation** | | | |
| Balance at December 31, 2011 | 11,938 | 98,385 | 110,323 |
| Depletion and depreciation for the period | 206 | 28,009 | 28,215 |
| Balance at March 31, 2012 | 12,144 | 126,394 | 138,538 |
| **Carrying amounts** | | | |
| Balance at December 31, 2011 | 1,582 | 1,393,453 | 1,395,035 |
| Balance at March 31, 2012 | 1,376 | 2,026,950 | 2,028,326 |

**HILLCREST RESOURCES LTD.**
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2012 and 2011
(Expressed in Canadian Dollars Unless Otherwise Stated)

**6. Property and Equipment (continued)**

**Hartburg Project, Newton County, Texas**

By agreement dated December 8, 2009, the Company entered into an Assignment and Assumption Agreement for the assignment of a 60% working interest in certain land leases known as the Hartburg Project in Newton County, Texas. In consideration the Company paid a lump sum of $111,266 US ($117,040 CDN). The Company is responsible for their proportionate share of all future costs of the development of the property.

On March 27, 2009, Barry Lasker ("Lasker") and Delta Oil and Gas, Inc. ("Delta") entered into an exploration agreement (the "Exploration Agreement"). Pursuant to the terms of the Exploration Agreement, Lasker agreed to identify and secure leases which would subsequently be assigned to Delta and pursuant to the terms of such agreement, Delta agreed to pay 100% of the lease acquisition costs and operating costs of up to three wells. In exchange for Lasker's performance under the Exploration Agreement, Lasker obtained a 10% carried interest in the first target well, Donner #1, and a 20% carried interest in the second and third target wells, Prospect 1 and Prospect 2, respectively, until payout in each of the wells. Upon payout, Lasker's carried interest converted to a 50% working interest in Donner #1 and a 40% working interest in each of Prospect 1 and Prospect 2.

On December 30, 2010, Delta entered into an agreement (the "HRI Assignment") with the Company to assign 60% of all of Delta's right, title and interest in and to the Exploration Agreement.

The effect of the Exploration Agreement and the HRI Assignment was to create the following net revenue interests to the Company in Donner #1, Prospect 1, and Prospect 2:

| | |
|---|---|
| <u>Donner #1</u> | |
| Before payout | 54% |
| After payout | 22.5% |
| <u>Prospect 1 and Prospect 2</u> | |
| Before payout | 48% |
| After payout | 27% |

**Livingston Property, Polk County, Texas**

By agreement dated November 1, 2009, the Company, entered into an Assignment of Oil and Gas Lease and Bill of Sale for the assignment of a 30% working interest and a 22.5% net revenue interest in certain oil and gas leases known as the Livingston property in Polk County, Texas. In consideration the Company paid a lump sum of $90,000 US ($96,120 CDN). The Company is responsible for their proportionate share of all future costs of the development of the property.

**Tulla Property, Teton and Pondera County, Texas**

On November 1, 2011 the Company entered into a purchase and sale agreement with Washington-based Longshot Oil LLC, with respect to the acquisition by the company from Longshot of certain oil and gas properties in Pondera county, Montana. Pursuant to the terms of the purchase and sale agreement, the Company acquired Longshot's legal and beneficial right, title and interest in and to certain oil and gas properties in Pondera county, Montana, including all oil and gas leases, all geological and geophysical data (including all seismic data) and copies of all records with respect to such oil and gas properties. As consideration for the acquisition of the properties, the Company paid Longshot $350,000 in cash.

**HILLCREST RESOURCES LTD.**
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2012 and 2011
(Expressed in Canadian Dollars Unless Otherwise Stated)

## 7. Exploration and Evaluation Assets

| | Total $ |
|---|---|
| **Cost** | |
| Balance at January 1, 2011 | - |
| Additions | 1,571,761 |
| Balance at December 31, 2011 | 1,571,761 |
| Additions | 215,550 |
| Balance at March 31, 2012 | 1,787,311 |

**Arizona Project**

The Company acquired a total of 120,080 acres through a significant leasehold position in the Pedregosa Basin located in Cochise and Graham County in the State of Arizona. In consideration, the Company paid US$200,000 (CDN$ 193,669). The Company purchased the carried interest for the price of 1.5 million common shares of the Company. 1.5 million common shares were issued on March 1, 2012 with the price of $0.18 per share, total cost was $270,000. Costs as at March 31, 2012 are $476,493.

**Montana Project with Longshot Oil, LLC – Muddy Creek**

On September 26, 2011, the Company entered into a purchase and sale agreement with Longshot Oil, LLC with the acquisition of certain oil and gas properties in Teton County, Montana. The Company will issue 1,000,000 common shares in the capital of the Company at a deemed price of $0.25 per Share and pay $400,000 in cash. Costs as at March 31, 2012 are $693,028.

**Montanna Project with Bakken Oil Holding - Woodrow**

On November 30, 2011 the Company entered into a purchase and sale agreement with Bakken Oil Holdings, LLC to acquire certain oil and gas properties in Teton and Pondera Counties, Montana comprising approximately 12,333 acres. As consideration the Company will issue 4,000,000 warrants at a price of $0.20 per share exercisable for a period of 24 months and pay $1,000,000 in cash.

The Company obtained 3,849 acres of oil and gas properties in Teton County, Montana at a land sale held on December 7, 2011. Costs as at March 31, 2012 are $257,790.

**Montana Project with 0914577 BC Ltd**

On January 25, 2012, the Company entered into a purchase and sale agreement with 0914577 BC Ltd. (Wolf Fiedler) with the acquisition of 85 per cent working interest before payout and a 75 per cent working interest after payout in 600 acres in Pondera county, Montana. Consideration is two million common shares of the Company. The shares were issued on March 1, 2012 with the price of $0.18 per share, total cost was $360,000.

## 8. Loan Payable

During the year ended December 31, 2010, the Company received a loan in the principal sum of US$200,000. The term of the loan is for a twelve (12) month period ending June 8, 2011. Interest is calculated at 12% per annum, compounded annually.

During the initial six months of the term, no payments of principal or interest is payable. On the first day of the seventh month of the term, the Company shall make its first payment of no less than the proportionate amount of principal and interest then due and payable. Thereafter, the Company shall make payments of not less than the proportionate amount of principal and interest due and payable on a quarterly basis until the end of the term. During the year ended December 31, 2010, the Company and the lender mutually agreed to delay the commencement of repayment until April 2011.

## 8. Loan Payable (continued)

If the Company elects, at any time during the term of the loan, to repay the lender the full amount of principal and interest then due and payable, it is free to do so, but in doing it agrees to pay an additional sum of 3% of the principal amount of the loan as an exit fee. If the Company elects, at any time during the second 12 months of the term, to repay the lender the full amount of principal and interest then due and payable, it is free to do so, but in doing it agrees to pay an additional sum of 1.5% of the principal amount of the loan as an exit fee.

At any time during the term, regardless of whether the Company is current with its interest payments, the lender may, at its option, by giving the Company written notice of its intentions, convert not more than the amount of principal and interest then due and payable into one or a combination of the following:

a) Common shares at $0.05 per common share; and/or

b) The acquisition of a working interest(s) in the hydrocarbon production of the Company in which the value of each flowing barrel, to be determined at the time the conversion, shall be equal to the current market value for a flowing barrel of oil, discounted by an amount to be agreed upon at the time by the Company and the lender.

The Company determined the equity component of the conversion option to have a nominal fair value.

On May 9, 2011, the full amount of principal and interest of the loan was repaid.

## 9. Share Capital

Authorized:

Unlimited number of common shares without par value

Issued and outstanding:

*Three Months Ended March 31, 2012*

**Issued for Cash**

On February 29, 2012, the Company closed the first tranche of a non-brokered private placement and issued 2,785,778 common shares at a price of $0.18 per unit for gross proceeds of $501,440. Each unit consists of one common share and one half of a common share purchase warrant with each whole warrant exercisable at a price of $0.30 for a term of 2 years until February 28, 2014. The Company also paid a cash commission in the amount of $20,088 and issued 111,600 Agent’s warrants, being 8% of the aggregate proceeds from the sale of Units to purchasers introduced by the Finder. The Agent`s warrants have an exercise price of $0.18 per share and exercisable until February 28, 2014. The Agent’s warrants were valued at $18,953 using the Black Scholes option pricing model with weighted average assumptions of an expected life of two years, dividend yield of 0%, expected volatility of 198%, and risk-free rate of return of 1.10%.

During the three months ended March 31, 2012, the Company issued 718,000 common shares pursuant to the exercise of 718,000 warrants at $0.10 per share for total proceeds of $71,800.

**Issued for Oil and Gas Properties**

On March 1, 2012, the Company issued 2,000,000 common shares at a fair value of $0.18 per share to 0914577 BC Ltd., for certain oil and gas properties in Pondera County, Montana.

On March 1, 2012, the Company issued 1,500,000 common shares at a fair value of $0.18 per share to Arizona Energy Explorations LLC, for the override position in the Pedregosa Basin in Cochise County, Arizona.

**HILLCREST RESOURCES LTD.**
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2012 and 2011
(Expressed in Canadian Dollars Unless Otherwise Stated)

**9. Share Capital (continued)**

*Year Ended December 31, 2011*

**Issued for Cash**

On March 17, 2011, the Company completed its Initial Public Offering and issued 10,350,000 common shares at a price of $0.20 per share for gross proceeds of $2,070,000. The Company also issued 828,000 Agent's warrants with an exercise price of $0.20 per share, exercisable until March 17, 2013. The Agent's warrants were valued at $155,853 using the Black Scholes option pricing model with weighted average assumptions of an expected life of two years, dividend yield of 0%, expected volatility of 266%, and risk-free rate of return of 1.61%.

During the year ended December 31, 2011, the Company issued 4,648,933 common shares pursuant to the exercise of 4,257,000 warrants at $0.10 per share and 391,933 agent's warrants at $0.20 per share for total proceeds of $504,087.

**Issued for Oil and Gas Properties**

On October 13, 2011, the Company issued 1,000,000 common shares at a fair value of $0.27 per share to Longshot Oil LLC, for certain oil and gas properties in Teton county, Montana, including all oil and gas leases.

**Share Purchase Warrants**

During the year ended December 31, 2010, the Company issued 6,710,000 share purchase warrants pursuant to private placements. Each warrant is exercisable for one common share at $0.10 per share expiring 24 months from the date of issuance. During the year ended December 31, 2011, 4,257,000 warrants were exercised. During the three months ended March 31, 2012, 718,000 warrants were exercised. The Company also issued 1,392,889 share purchase warrants pursuant to private placements. Each warrant is exercisable for one common share at $0.30 per share expiring on February 28, 2014.

| | **March 31, 2012** | | December 31, 2011 | |
|---|---|---|---|---|
| | **Number of warrants** | **Weighted Average Exercise Price** | Number of warrants | Weighted Average Exercise Price |
| Balance, beginning of period | **2,453,000** | **$ 0.10** | 6,710,000 | $ 0.10 |
| Issued | **1,392,889** | **0.30** | - | - |
| Exercised | **(718,000)** | **0.10** | (4,257,000) | 0.10 |
| Balance, end of period | **3,127,889** | **$ 0.19** | 2,453,000 | $ 0.10 |

(Expressed in Canadian Dollars Unless Otherwise Stated)

## 9. Share Capital (continued)

### Agent's Warrants

On March 17, 2011, the Company completed its Initial Public Offering and issued 828,000 Agent's warrants with an exercise price of $0.20 per share, exercisable until March 17, 2013. During the year ended December 31, 2011, 391,933 agent's warrants were exercised.

On February 29, 2012, the Company issued 111,600 Agent's warrants, being 8% of the aggregate proceeds from the sale of Units to purchasers introduced by the Finder with an exercise price of $0.18 per share and exercisable until February 28, 2014.

| | **March 31, 2012** | | December 31, 2011 | |
|---|---|---|---|---|
| | **Number of warrants** | **Weighted Average Exercise Price** | Number of warrants | Weighted Average Exercise Price |
| Balance, beginning of period | **436,067** | **$ 0.20** | - | $ - |
| Issued | **111,600** | **0.18** | 828,000 | 0.20 |
| Exercised | **-** | **-** | (391,933) | 0.20 |
| Balance, end of period | **547,667** | **$ 0.20** | 436,067 | $ 0.20 |

### Stock Options

Effective November 4, 2010, the Company adopted a stock option plan to grant stock options to its directors, officers, employees and consultants. Subjective to the requirement of the TSX Venture Exchange (the "Exchange"), the aggregate number of securities reserved for issuance under the plan, at any point in time, will be 10% of the number of common shares of the Company issued and outstanding at the time the option is granted (on a diluted basis), less any common share reserved for issuance under share options granted under share compensation arrangements other than the plan. The exercise price of option grants will be determined by the board, but will not be less than the closing market price of the common shares on the Exchange less allowable discounts at the time of grant. All options granted under the plan will expire not later than the date that is five years from the date that such options are granted.

On March 22, 2011, the Company granted 1,550,000 stock options to officers and directors of the Company and 350,000 stock options to two consultants of the Company. The stock options are exercisable for a period of 5 years from the date of listing on the TSX Venture Exchange ("Listing") at an exercise price of $0.20 per common share. The stock options granted will vest on the day that is four months from date of Listing. Total stock-based compensation expense of $525,295 has been charged to operations. The weighted average fair value of the options granted was $0.28 per option.

On September 26, 2011, the Company granted 800,000 stock options to directors and consultants of the Company. The stock options are exercisable for a period of 5 years from the date of listing on the TSX Venture Exchange ("Listing") at an exercise price of $0.25 per common share. The stock options granted will vest on the day that is four months from date of Listing. Total stock-based compensation expense of $185,756 has been charged to operations. The weighted average fair value of the options granted was $0.235 per option.

On February 16, 2012, the Company granted 125,000 stock options to a consultant for investor relations. The stock options are exercisable for a period of 2 years from the date of listing on the TSX Venture Exchange ("Listing") at an exercise price of $0.20 per common share. The stock options granted have a vesting period of 25% that vest immediately and 25% vest over the next 9 months at three month intervals. Total stock-based compensation expense of $25,487 has been charged to operations.

The weighted average fair value of the options granted was $0.27 per option.

**HILLCREST RESOURCES LTD.**
Notes to Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2012 and 2011
(Expressed in Canadian Dollars Unless Otherwise Stated)

## 9. Share Capital (continued)

### Stock Options (continued)

The fair value of the option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weight average assumptions:

| | **March 31, 2012** | December 31, 2011 |
|---|---|---|
| Dividend yield | **Nil** | Nil |
| Expected volatility | **198% - 204%** | 216% - 225% |
| Risk-free rate of return | **1.07% - 1.10%** | 1.43% - 2.57% |
| Expected life of options | **2 years** | 5 years |

| | **March 31, 2012** | | December 31, 2011 | |
|---|---|---|---|---|
| | **Number of Stock Options** | **Weighted Average Exercise Price** | Number of Stock Options | Weighted Average Exercise Price |
| Outstanding, beginning of period | **2,700,000** | **$ 0.21** | - | $ - |
| Granted | **125,000** | **0.20** | 2,700,000 | 0.21 |
| Exercised | **-** | **-** | - | - |
| Outstanding, end of period | **2,825,000** | **$ 0.21** | 2,700,000 | $ 0.21 |
| Exercisable, end of period | **2,731,250** | **$ 0.21** | 2,700,000 | $ 0.21 |

## 10. Related Party Transactions

Related party transactions are with directors and a company controlled by a director and officer of the Company.

The following summarizes the Company's related party transactions during the three months ended March 31, 2012 and 2011:

| | **2012** | 2011 |
|---|---|---|
| Consulting fees to directors and companies controlled by a director of the Company | **$ 39,500** | $ 21,000 |

As at March 31, 2012, due from related parties includes $599 (December 31, 2011 - $ 610) advanced to a company controlled by the Chief Executive Officer of the Company for legal fee. The Company owes the Chief Executive Officer of the Company, a company controlled by the Chief Financial Officer and the director a total of $8,171.36 (December 31, 2011- $6,697), which is included in accounts payable and accrued liabilities.

Stock-based compensation of $ nil was recognised during the three months ended March 31, 2012 (year ended December 31, 2011 - $548,725), related to stock options granted to directors and officers.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.