



**Condensed Interim Consolidated Financial Statements**

**Three Month Period Ended**

**March 31, 2016**

(Unaudited)

(Expressed in Canadian Dollars)

## **NOTICE TO READER**

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

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the management.

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

**HILLCREST PETROLEUM LTD.****Condensed Interim Consolidated Statements of Financial Position**

(Expressed in Canadian dollars)

(Unaudited)

	March 31, 2016 (\$)	December 31, 2015 (\$)
<b>ASSETS</b>		
Current assets		
Cash	56,444	198,581
Accounts receivable	247,883	305,095
GST receivable	5,998	5,953
Short-term investments (Note 3)	26,046	34,659
Prepaid expenses	121,986	228,338
Total current assets	458,357	772,626
Non-current assets		
Restricted Cash (Note 12)	2,307,095	2,456,013
Exploration and evaluation assets (Note 5)	82,237	87,545
Property and equipment (Notes 4)	10,923,383	11,892,067
<b>TOTAL ASSETS</b>	<b>13,771,072</b>	<b>15,208,251</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	4,909,106	4,667,255
Secured loan (Note 7)	409,500	418,841
Current portion of decommissioning liability (Note 10)	1,753,361	2,061,484
Current portion of unsecured loans (Note 8)	219,620	227,583
Total current liabilities	7,291,587	7,375,163
Unsecured loans (Note 8)	143,429	212,176
Decommissioning liability (Note 10)	11,842,888	11,578,388
<b>TOTAL LIABILITIES</b>	<b>19,277,904</b>	<b>19,165,727</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Share capital (Note 11)	5,738,384	5,708,384
Contributed surplus	980,454	949,834
Reserves	486,698	1,112,538
Deficit	(12,712,368)	(11,728,232)
	(5,506,832)	(3,957,476)
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY (DEFICIENCY)</b>	<b>13,771,072</b>	<b>15,208,251</b>

**Nature of operations and going concern (Note 1)****Commitments and contingencies (Note 13)**

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 27, 2016. They were signed on the Board's behalf by:

"Don Currie"  
Director

"Thomas Milne"  
Director

The accompanying notes are an integral part of these condensed interim consolidated financial statements

**HILLCREST PETROLEUM LTD.****Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**

(Expressed in Canadian dollars)

(Unaudited)

	<b>Three Month Period Ended March 31, 2016 (\$)</b>	<b>Three Month Period Ended March 31, 2015 (\$)</b>
<b>Revenue, net of royalties</b>	478,752	977,698
<b>Expenses</b>		
Operating costs	446,318	509,833
Financing expenses (Note 17)	81,962	207,583
Consulting fees (Note 9)	209,602	156,263
Depletion and depreciation (Note 4)	435,561	828,220
Office and general (Note 17)	361,511	542,512
	1,534,954	2,244,411
<b>Loss from operations</b>	(1,056,202)	(1,266,713)
Impairment of short-term investments (Note 3)	(8,613)	-
Overriding royalty interest on secured loan (Note 7)	(4,587)	(8,768)
Foreign exchange gain	85,266	8,000
<b>Loss for the period</b>	(984,136)	(1,267,481)
<b>Item that may be subsequently reclassified to net loss</b>		
Exchange differences on translating foreign operations	(595,220)	84,866
<b>Comprehensive loss</b>	(1,579,356)	(1,182,615)
<b>Basic and diluted loss per share</b>	(0.02)	(0.03)
<b>Weighted average common shares outstanding:</b>		
Basic	50,295,655	50,295,655
Diluted	50,295,655	50,295,655

The accompanying notes are an integral part of these condensed interim consolidated financial statements

**HILLCREST PETROLEUM LTD.**

**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)**

(Expressed in Canadian dollars)

(Unaudited)

	Share Capital			Reserves			Shareholders' Equity (Deficiency)	
	Number of Shares	Amount (\$)	Share Subscription Receivable (\$)	Contributed Surplus (\$)	Warrants (\$)	Foreign Currency Translation (\$)		Deficit (\$)
<b>Balance at December 31, 2014</b>	50,295,655	5,707,184	(46,000)	949,834	30,620	(34,127)	2,974,291	9,581,802
Cash received from share subscription	-	-	46,000	-	-	-	-	46,000
Share issuance cost recovery	-	1,200	-	-	-	-	-	1,200
Currency translation adjustment	-	-	-	-	-	84,866	-	84,866
Loss for the period	-	-	-	-	-	-	(1,267,481)	(1,267,481)
<b>Balance at March 31, 2015</b>	50,295,655	5,708,384	-	949,834	30,620	50,739	1,706,810	8,446,387
Currency translation adjustment	-	-	-	-	-	1,031,179	-	1,031,179
Loss for the period	-	-	-	-	-	-	(13,435,042)	(13,435,042)
<b>Balance at December 31, 2015</b>	50,295,655	5,708,384	-	949,834	30,620	1,081,918	(11,728,232)	(3,957,476)
Currency translation adjustment	-	-	-	-	-	(595,220)	-	(595,220)
Shares issued for unsecured loan	1,000,000	30,000	-	-	-	-	-	30,000
Transfer expired warrants to contributed surplus	-	-	-	30,620	(30,620)	-	-	-
Loss for the period	-	-	-	-	-	-	(984,136)	(984,136)
<b>Balance at March 31, 2016</b>	51,295,655	5,738,384	-	980,454	-	486,698	(12,712,368)	(5,506,832)

The accompanying notes are an integral part of these condensed interim consolidated financial statements

**HILLCREST PETROLEUM LTD.****Condensed Interim Consolidated Statements of Cash Flows**

(Expressed in Canadian dollars)

(Unaudited)

	<b>Three Month Period Ended March 31, 2016 (\$)</b>	<b>Three Month Period Ended March 31, 2015 (\$)</b>
Income (loss) for the year	(984,136)	(1,267,481)
Adjusted for items not involving cash:		
Accretion	53,591	116,648
Accrued interest expense	1,037	972
Debt issue costs	-	31,896
Depletion and depreciation	435,561	828,220
Impairment of short-term investments	8,613	-
Unrealized foreign exchange gain	(64,547)	-
Changes in non-cash working capital:		
Accounts receivable	43,523	48,592
Prepaid expenses	98,860	68,447
GST receivable	(45)	(8,211)
Accounts payable and accrued liabilities	522,581	129,646
<b>Cash flows used in operating activities</b>	<b>115,038</b>	<b>(51,271)</b>
Oil and gas property expenditures	-	(162,957)
Exploration and evaluation expenditures	-	(619)
<b>Cash flows provided by (used in) investing activities</b>	<b>-</b>	<b>(163,576)</b>
Asset retirement obligation expenditures	(194,128)	-
Proceeds from share subscriptions	-	46,000
Proceeds from unsecured loans, net of repayments	(50,638)	(9,000)
Repayment of secured loan	(9,341)	(41,500)
<b>Cash flows provided by (used in) financing activities</b>	<b>(254,107)</b>	<b>(4,500)</b>
<b>Change in cash</b>	<b>(139,069)</b>	<b>(219,347)</b>
<b>Effect of exchange rate changes on cash denominated in a foreign currency</b>	<b>(3,068)</b>	<b>(131,534)</b>
<b>Cash, beginning of the period</b>	<b>198,581</b>	<b>619,317</b>
<b>Cash, end of the period</b>	<b>56,444</b>	<b>268,436</b>

**Supplemental cash flow information (Note 16)**

The accompanying notes are an integral part of these condensed interim consolidated financial statements

## **Hillcrest Petroleum Ltd.**

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Month Period Ended March 31, 2016

(Unaudited - Expressed in Canadian dollars)

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### **1. Nature of Operations and Going Concern**

Hillcrest Petroleum 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. Effective March 10, 2015, the Company changed its name from Hillcrest Resources Ltd. to Hillcrest Petroleum Ltd. The Company's registered office is suite 1700 - 3050 Post Oak Blvd, Houston, Texas 77056. The Company's shares are listed for trading on the TSX Venture Exchange ("TSX-V") under the symbol "HRH" and on the OTCQB Exchange under the symbol "HLRTF".

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.

These condensed interim consolidated 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 incurred a loss for the period of \$984,136 and had a working capital deficiency of \$6,833,230 during and as at the three month period ended March 31, 2016. 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. There is no certainty that the Company will continue to produce revenue due to the inherent production risks associated with the oil and natural gas industry. In the past, the Company has relied on sales of equity securities, debt instruments and asset sales to meet its cash requirements. There can be no assurance that funding from this or other sources will be sufficient in the future to satisfy operational requirements and cash commitments. Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to it. Failure to obtain such financing on a timely basis could cause the Company to reduce or terminate its operations. Due to the conditions and events as noted above, there is material uncertainty casting significant doubt on the Company's ability to continue as a going concern. These condensed interim 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. These adjustments could be material.

### **2. Significant Accounting Policies**

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounts Standards ("IAS") 34, "Condensed Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

As these are condensed interim consolidated financial statements, they do not include all the information required under IFRS for annual consolidated financial statements. Accordingly, the condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2015.

## Hillcrest Petroleum Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Month Period Ended March 31, 2016

(Unaudited - Expressed in Canadian dollars)

### 3. Short-term Investments

Short-term investments consist of common shares of Black Stallion Oil and Gas, Inc. ("Black Stallion"), a publicly traded American energy corporation, with an original acquisition cost of \$197,301.

During the three month period ended March 31, 2016, the Company recorded an impairment loss of \$8,613 (2015 - \$Nil). As at March 31, 2016, the Company held 250,000 common shares of Black Stallion with a fair value of \$26,046.

### 4. Property and Equipment

	<b>Computer</b>	<b>Oil and Gas</b>	<b>Total</b>
	<b>(\$)</b>	<b>Interests</b>	<b>(\$)</b>
		<b>(\$)</b>	<b>(\$)</b>
<b>Cost</b>			
At December 31, 2014	18,341	24,038,117	24,056,458
Additions	7,888	-	7,888
Change in decommissioning estimate	-	(4,060,913)	(4,060,913)
Foreign exchange movement	1,395	4,029,315	4,030,710
At December 31, 2015	27,624	24,006,519	24,034,143
Foreign exchange movement	(702)	(1,252,517)	(1,253,219)
<b>At March 31, 2016</b>	<b>26,922</b>	<b>22,754,002</b>	<b>22,780,924</b>
<b>Accumulated depletion and depreciation</b>			
At December 31, 2014	13,343	1,246,229	1,259,572
Depletion and depreciation for the year	5,262	2,786,531	2,791,793
Disposals	284	300,297	300,581
At December 31, 2015	18,889	4,333,057	4,351,946
Depletion and depreciation for the period	1,199	434,361	435,560
Foreign exchange movement	(304)	(269,736)	(270,040)
<b>At March 31, 2016</b>	<b>19,784</b>	<b>4,497,682</b>	<b>4,517,466</b>
<b>Impairment</b>			
At December 31, 2014	-	-	-
Impairment for the year	-	7,790,130	7,790,130
At December 31, 2015	-	7,790,130	7,790,130
Foreign exchange movement	-	(450,055)	(450,055)
<b>At March 31, 2016</b>	<b>-</b>	<b>7,340,075</b>	<b>7,340,075</b>
<b>Carrying amounts:</b>			
At December 31, 2015	8,735	11,883,332	11,892,067
<b>At March 31, 2016</b>	<b>7,138</b>	<b>10,916,245</b>	<b>10,923,383</b>



## Hillcrest Petroleum Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
For the Three Month Period Ended March 31, 2016  
(Unaudited - Expressed in Canadian dollars)

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### 4. Property and Equipment (continued)

The Company included future development costs of \$3,134,612 in property, plant and equipment costs subject to depletion.

During the three month period ended March 31, 2016, the Company reviewed the carrying value of its oil and gas interests for impairment indicators, and none were identified.

During the year ended December 31, 2015, the Company reviewed the carrying value of its oil and gas interests for impairment indicators. It was determined that the carrying values of the Donner 4 onshore oil well and the Eugene Island offshore oil field exceeded their recoverable amounts. Accordingly, the Company recorded an impairment of \$321,426 and \$7,468,704, respectively, for each CGU.

The recoverable amounts for both CGUs were based on their fair value less costs of disposal ("FVLCD"). To determine the FVLCD, the Company considered recent transactions within the industry, long-term views of commodity prices, externally evaluated reserve volumes and discount rates specific to the CGU. The discount rate applied to the onshore assets was 10% and the offshore assets was 17%.

The following commodity price estimates were used in determining whether an impairment to the carrying value of the CGUs existed at March 31, 2016 and December 31, 2015:

Year	WTI Cushing Oil Price US\$/BBL	Henry Hub Natural Gas Price US\$/MMBtu
2016	45.00	2.25
2017	60.00	3.00
2018	70.00	3.50
2019	80.00	4.00
2020	81.20	4.25
2021	82.42	4.31
2022	83.65	4.38
2023	84.91	4.44
2024	86.18	4.51
2025	87.48	4.58
Thereafter	esc 1.5%	esc 1.5%

### Gulf of Mexico Properties

The Company holds a portfolio of non-operated oil and gas properties, which are located in the Gulf of Mexico, within the shallow water "shelf" region offshore Louisiana. These comprise 6 leases containing 4 producing fields. Working interests in these leases range from approximately 4% to 26%.

## Hillcrest Petroleum Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
For the Three Month Period Ended March 31, 2016  
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### 4. Property and Equipment (continued)

#### Hartburg Project, Texas

During 2014, both the Donner 4 well and the Brown 1 well were completed and placed into production.

A total 4 wells have been completed thus far with the following working interests to the Company:

<u>Well</u>	<u>Working Interest</u>
Donner #1	30.0%
Donner #2	48.0%
Donner #4	48.0%
Brown #1	90.0%

### 5. Exploration and Evaluation Assets

	<u>Muddy Creek</u>	<u>Woodrow</u>	<u>Carrera Prospect</u>	<u>Total</u>
	<u>(\$)</u>	<u>(\$)</u>	<u>(\$)</u>	<u>(\$)</u>
Balance at December 31, 2014	345,706	670,434	401,120	1,417,260
Additions	-	-	38,429	38,429
Disposals	-	(670,434)	-	(670,434)
Impairment	(345,706)	-	(480,795)	(826,501)
Foreign exchange movement	-	-	128,791	128,791
Balance at December 31, 2015	-	-	87,545	87,545
Foreign exchange movement	-	-	(5,308)	(5,308)
Balance at March 31, 2016	-	-	82,237	82,237

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

On September 26, 2011, the Company entered into a purchase and sale agreement with Longshot Oil, LLC for the acquisition of certain oil and gas properties in Teton County, Montana. The Company issued 1,000,000 common shares of the Company at a fair value of \$0.25 per share and paid \$400,000.

On September 2, 2013, the Company entered into a Letter of Intent with Nelan Advisors Corporation (“Nelan”) pursuant to which Nelan has the right to farm in to a 50% working interest in the Company’s oil and gas interests and related rights to the oil and gas leases in Montana. Pursuant to the Letter of Intent, the Company received an aggregate of US\$400,000 as consideration for the farm-in. During the year ended December 31, 2014, the Company recognized a gain on sale of working interest of \$84,546.

During the year ended December 31, 2015, the Company decided that it would discontinue exploration on the Muddy Creek property and, accordingly, recorded an impairment of \$345,706.

## Hillcrest Petroleum Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
For the Three Month Period Ended March 31, 2016  
(Unaudited - Expressed in Canadian dollars)

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### 5. Exploration and Evaluation Assets (continued)

#### Woodrow Project with Bakken Oil Holdings LLC – Montana

On November 30, 2011 and amended in August 2012, the Company entered into a purchase and sale agreement with Bakken Oil Holdings, LLC (“Bakken”) to acquire certain oil and gas properties in Teton and Pondera Counties, Montana. As consideration, the Company paid \$365,000 and gave Bakken the Company’s interest in a property known as the Tulla property.

On August 14, 2013, the Company signed a definitive agreement with West Bakken Holdings Ltd (“WBHL”) giving them the right to farm in to the working interest of the Company. The agreement, when completed, includes 50% in the oil and gas interests, and properties and related rights and interests to the oil and gas leases in Teton and Pondera counties, Montana.

Pursuant to the agreement, the Company received a total of US\$550,000 as consideration from WBHL for the farm-in. During the year ended December 31, 2014, the Company recognized a loss on sale of working interest of \$87,897.

On October 2, 2015, the Company sold its remaining 50% interest to Black Stallion Oil and Gas, Inc. (“Black Stallion”) in exchange for \$65,062 (US\$50,000) cash and 500,000 common shares of Black Stallion, payable 250,000 common shares upon closing and 250,000 common shares upon Black Stallion spudding a well on the property. As at March 31, 2016, a total of 250,000 common shares of Black Stallion have been received. No new wells have been drilled on the property (Note 3).

#### Carrera Prospect, Newton County, Texas

On August 1, 2013, Bazmo Exploration Inc., (“Bazmo”) and the Company entered into an exploration agreement (the “Exploration Agreement”). Pursuant to the terms of the Exploration Agreement, Bazmo agreed to identify and secure leases which would subsequently be assigned to the Company and pursuant to the terms of such agreement, the Company agreed to pay 100% of the lease acquisition costs and operating costs of all wells drilled. In exchange for Bazmo’s performance under the Exploration Agreement, Bazmo obtained a 10% carried interest in all target wells, until payout in each of the wells. Upon payout, Bazmo’s carried interest will convert to a 50% working interest in all target wells. The Company currently has mineral interests of 80% to 89% within certain parts of the Carrera Prospect area.

During the year ended December 31, 2015, the Company reviewed the carrying value of the Carrera Prospect for impairment indicators. It was determined that the carrying value of the Carrera Prospect exceeded its recoverable amount and the Company recorded an impairment of \$480,795. The recoverable amount of the Carrera Prospect was based on the fair value less costs of disposal as “value in use” was not determinable for a project that is not currently generating any cash flows. The fair value was determined in conjunction with a proposed offer of US\$885,000 for all of the Hartburg assets, inclusive of the Carrera Prospect, that was received in 2015. The fair value of the asset was therefore determined to be \$87,545.

During the three month period ended March 31, 2016, the Company did not incur any expenditures on the Carrera prospect and no impairment indicators were identified.

## Hillcrest Petroleum Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
For the Three Month Period Ended March 31, 2016  
(Unaudited - Expressed in Canadian dollars)

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### 6. Accounts Payable and Accrued Liabilities

	March 31, 2016	December 31, 2015
	(\$)	(\$)
Trade payables	2,499,690	2,420,465
Accrued liabilities	2,409,416	2,246,790
	<u>4,909,106</u>	<u>4,667,255</u>

Included in accrued liabilities at March 31, 2016 is a provision for repair of a drilling rig and offshore platform totaling \$1,627,863 (December 31, 2015 - \$1,732,938). The provision has been accrued for costs and expenses related to the operation of a certain property in the Gulf of Mexico for which the operator has billed but are disputed by the Company as the expenditures were incurred without the consent of the working interest partners. The Company is currently in settlement discussions with the insurance carrier and the operator to resolve the disputed charges and does not expect to be responsible for the full amount.

### 7. Secured Loan

On July 19, 2013, the Company closed its initial draw of \$1,000,000 (the "Initial Draw") pursuant to a senior secured loan facility of up to \$2,000,000 arranged with Ascendant Securities Inc. ("ASI") on behalf of a group of clients of ASI (the "Lenders"). An additional \$1,000,000 may be drawn at the option of the Company subject to the terms and conditions of a trust indenture between the Company and ASI. In connection with the Initial Draw, the Company has issued senior secured debentures of the Company (the "Debentures") in an aggregate principal amount of \$1,000,000. The Debentures have a two year term and bear interest at a rate of 15% per annum, compounded monthly. The principal amount of the Debentures matured on July 18, 2015 without being fully repaid, but with the lender verbally agreeing to extend the loan under the existing repayment terms.

As part of the consideration for the Loan Facility, the Lenders received an aggregate 8% overriding royalty interest in the Company's proceeds from all oil, gas and other hydrocarbons produced from any new wells developed on the Company's Hartburg Properties using any portion of the proceeds from the Initial Draw. The Company has paid ASI a cash agent's fee of \$60,000, the first two installments of an annual monitoring fee of \$25,000 and a 2% overriding royalty interest on the Company's proceeds from all oil, gas and other hydrocarbons produced from any well, for acting as collateral agent.

The Company also issued an aggregate of 1,200,000 Agent Warrants. The Agent Warrants entitled the holder thereof to purchase up to 1,200,000 common shares of the Company at a price of \$0.10 per share until July 18, 2015. The Agents Warrants all expired without being exercised.

On September 9, 2014, the Company amended the senior secured loan terms such that if the principal payments were not paid, then the Company would pay \$4,000 plus 15% interest on the outstanding principal, and the overriding royalty interest will be increased to 10% of the net revenue interest received by the Company on its Brown #1 and Donner #4 wells. Furthermore, the Parties have agreed that as a minimum monthly principal payment the revenue received from all producing wells in Newton County, less any joint interest billings and any other costs associated with the operation of these wells each month, will be paid to the Lenders until the Company has paid all past outstanding principal payments.

Commencing on January 1, 2016, the Company amended the senior secured loan terms such that the \$4,000 interest payment was eliminated and the stated interest rate was increased to 20%.

## Hillcrest Petroleum Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
For the Three Month Period Ended March 31, 2016  
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### 7. Secured Loan (continued)

During the three month period ended March 31, 2016, the Company incurred \$20,475 (2015 - \$48,981) and \$4,587 (2015 - \$8,768) in interest expense and overriding royalty payments, respectively. At March 31, 2016, a total of \$409,500 (December 31, 2015 - \$409,500) in loan principal remained outstanding.

### 8. Unsecured Loan

On November 17, 2015, the Company obtained an unsecured loan of \$50,000. The loan carried an interest rate of 10% per annum and was payable on maturity. The Company agreed to a monthly payment of \$3,000 commencing on December 8, 2015 and increasing to \$5,500 after six months until the loan matures on December 8, 2016.

On December 10, 2015, the Company obtained access to an unsecured line of credit bearing interest at an annual rate calculated semi-annually which is equal to the lending rate of the Canadian Imperial Bank of Commerce ("CIBC"). The credit line has a term of 30 months, and it is a non-revolving facility of up to \$400,000 that requires monthly repayments equal to the lesser of i) \$15,000 and ii) the aggregate principal and interest outstanding. In addition, the Company issued 1,000,000 common shares as consideration to the lender. The Company borrowed \$390,000 under the credit line, and the cash received has been allocated between the fair value of the loan liability and the fair value of the 1,000,000 common shares. The fair value of the common shares as at the loan date was \$30,000, and the residual amount has been allocated to the loan liability.

During the three month period ended March 31, 2016, the Company incurred \$7,425 (2015 - \$972) in interest expense, including \$2,890 (2015 - \$Nil) in accretion of the loan liability. At March 31, 2016, a total of \$363,049 (December 31, 2015 - \$439,759) in loan principal and accrued interest remained outstanding.

### 9. Related Party Transactions

The following summarizes the Company's related party transactions during the three month periods ended March 31, 2016 and 2015:

#### Key management compensation

	<b>March 31, 2016</b>	<b>March 31, 2015</b>
	<b>(\$)</b>	<b>(\$)</b>
Consulting fees paid or accrued to the Executive Chairman of the Company	81,620	18,600
Consulting fees paid or accrued to the Chief Executive Officer ("CEO") of the Company	81,188	74,400
Consulting fees paid or accrued to a corporation controlled by the Chief Financial Officer ("CFO") of the Company	34,739	5,000
Professional and consulting fees paid to two corporations controlled by the former CFO of the Company	-	10,500
Salary and consulting fees paid to the Chief Operating Officer ("COO") of the Company	82,440	74,400
	<u>279,987</u>	<u>182,900</u>

## Hillcrest Petroleum Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
For the Three Month Period Ended March 31, 2016  
(Unaudited - Expressed in Canadian dollars)

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### 9. Related Party Transactions (continued)

- a) As at March 31, 2016, a total of \$113,558 (December 31, 2015 - \$66,302) was included in accounts payable and accrued liabilities owing to the CEO of the Company for consulting fees and reimbursable expenses.
- b) As at March 31, 2016, a total of \$93,114 (December 31, 2015 - \$50,602) was included in accounts payable and accrued liabilities owing to the Executive Chairman of the Company for consulting fees.
- c) As at March 31, 2016, a total of \$13,163 (December 31, 2015 - \$6,600) was included in accounts payable and accrued liabilities owing to a corporation controlled the CFO of the Company for consulting fees.
- d) As at March 31, 2016, a total of \$52,092 (December 31, 2015 - \$Nil) was included in accounts payable and accrued liabilities owing to the COO of the Company for wages.

### 10. Decommissioning Liability

The decommissioning liability relates to the expected present value of costs of plugging and abandoning the oil and gas held by Hillcrest. The provision for decommissioning is estimated after taking account of inflation, years to abandonment and an appropriate discount rate. As at March 31, 2016, the oil and gas properties had estimated abandonment dates between 2016 and 2034.

Actual decommissioning costs will ultimately depend upon future market prices for the decommissioning work required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

The movement in the provision for the decommissioning liability was as follows:

	<b>Hartburg Project, Texas</b>	<b>Gulf of Mexico Properties</b>	<b>Total</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Balance, December 31, 2014	104,266	14,212,362	14,316,628
Accretion	10,916	469,334	480,250
Change in estimate	41,202	(4,102,115)	(4,060,913)
Paid during the year	-	(85,247)	(85,247)
Foreign exchange movement	-	2,989,154	2,989,154
Balance, December 31, 2015	156,384	13,483,488	13,639,872
Accretion	586	50,113	50,699
Paid during the period	-	(194,128)	(194,128)
Foreign exchange movement	-	99,806	99,806
Balance, March 31, 2016	156,970	13,439,279	13,596,249
Current portion	-	1,753,361	1,753,361
Non-current portion	156,970	11,842,888	11,842,888
	156,970	13,439,279	13,596,249

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### 10. Decommissioning Liability (continued)

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Hartburg Project and the Gulf of Mexico Properties is \$150,024 (US\$115,200) and \$16,417,366 (US\$12,606,536), respectively, as at March 31, 2016. The provision has been estimated using a risk-free discount rate of 1.5% and an inflation rate of 1.0%.

In addition, the Company had \$2,307,095 (US\$1,771,568) in escrow as security for reclamation bonds held with ACE Wealth Management as at March 31, 2016. These funds will be released to the Company upon completion of decommissioning activities on certain properties held by the Company.

### 11. Share Capital

#### Authorized

Unlimited number of common shares without par value

#### Issued and outstanding

The Company did not issue any common shares during the three month period ended March 31, 2016 or the year ended December 31, 2015.

#### Share Purchase Warrants

During the year ended December 31, 2015, the Company extended the expiry date of 853,111 share purchase warrants to February 28, 2016. These warrants expired during the three month period ended March 31, 2016.

The continuity of the Company's share purchase warrants was as follows:

	Number of Warrants	Weighted Average Exercise Price (\$)
Balance, December 31, 2014 and 2015	6,165,611	0.09
Expired	(853,111)	0.12
Balance, March 31, 2016	5,312,500	0.08

The following table summarizes the share purchase warrants outstanding as at March 31, 2016:

Number of Options	Weighted Average Exercise Price (\$)	Expiry Date	Weighted Average Remaining Contractual Life (yrs)
5,312,500	0.08	December 30, 2016	0.75

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### 11. Share Capital (continued)

#### Agent's Warrants

The Company did not issue any Agent's warrants during the three month period ended March 31, 2016 or the year ended December 31, 2015. A total of 1,360,000 Agent's warrants exercisable at \$0.10 per share expired during the year ended December 31, 2015.

#### Stock Options

Effective November 4, 2010, the Company adopted a stock option plan to grant stock options to its directors, officers, employees and consultants. In accordance with the policies 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 of Directors, but will not be less than the closing market price of the common shares on the Exchange at the time of grant. All options granted under the plan will expire no later than five years from the date of grant.

The continuity of the Company's stock options was as follows:

	<b>Number of Stock Options</b>	<b>Weighted Average Exercise Price</b>
		<b>(\$)</b>
Balance, December 31, 2014 and 2015	2,700,000	0.11
Expired	(800,000)	0.23
Balance, March 31, 2016	1,900,000	0.04

The following table summarizes the stock options outstanding and exercisable as at March 31, 2016:

<b>Number of Options Outstanding</b>	<b>Number of Options Exercisable</b>	<b>Weighted Average Exercise Price</b>	<b>Expiry Date</b>	<b>Weighted Average Remaining Contractual Life</b>
		<b>(\$)</b>		<b>(yrs)</b>
1,400,000	1,400,000	0.06	September 9, 2018	2.44
500,000	500,000	0.06	November 26, 2018	2.66
1,900,000	1,900,000	0.06		2.50



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### 12. Geographical Segmented Information

The Company is engaged in one business activity, being the acquisition, exploration, development and production of oil and gas reserves. The two geographical segments are Canada and United States. All non-current assets, revenue and operating costs are held solely in the United States segment.

### 13. Commitments

- a) The Company entered into a rental agreement on June 3, 2013, with a term of 50 months, terminating on July 31, 2017. The base rent payable under the lease is as follows;

	<b>Annual Base Rent (US\$)</b>
April 1, 2016 to July 31, 2016	32,702
August 1, 2016 to July 31, 2017	101,031
	<u>133,733</u>

In addition to the above base rent, the Company's share of the operating costs for calendar year 2016 is estimated at US\$5,306 per month.

- b) The Company entered into an office rental agreement in Vancouver, British Columbia on October 8, 2015, with a term of 24 months, terminating on November 30, 2017. The rent payable under the lease is as follows:

	<b>Annual Base Rent (\$)</b>
April 1, 2016 to November 30, 2016	11,720
December 1, 2016 to November 30, 2017	18,250
	<u>29,970</u>

In addition to the base rent, the Company's share of operating costs is estimated at approximately \$1,217 per month.

- c) On February 12, 2015, the Company entered into an Installment Agreement with the United States Department of the Interior and through the Office of Natural Resources Revenue (ONRR) in connection with civil penalties. The Company agreed to pay the balance of civil penalties of US\$313,176 in 60 monthly installments of US\$5,220 beginning on March 12, 2015 (Note 6(a)). A total of \$319,413 remains unpaid at March 31, 2016 (December 31, 2015 - \$361,741) and is included within accounts payable and accrued liabilities.

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### 14. 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 using best efforts. 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 month period ended March 31, 2016. The Company is not subject to externally imposed capital requirements.

### 15. Financial Instruments and Risk Management

#### Financial Risk Management

The Company's financial instruments that are measured at fair value on a recurring basis in periods subsequent to initial recognition and the fair value hierarchy used to measure them are presented in the table below. The Company classifies its other financial assets and other financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash, restricted cash, accounts receivable, short-term investments, accounts payable, secured loan, and unsecured loans.

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### 15. Financial Instruments and Risk Management (continued)

The Company has classified its cash, accounts receivable, other receivables and restricted cash as loans and receivables; short-term investments as available-for sale; and accounts payable, secured loan and unsecured loans as other financial liabilities. The fair value of cash, accounts receivable and accounts payable approximate their book values because of the short-term nature of these instruments. The fair value of the short-term investments are based on quoted market prices for publicly traded shares. The carrying amounts of the secured and unsecured loans approximate fair value as the applicable interest rates, which were negotiated between the Company and arm's length third parties, are similar to market interest rates which would be available to the Company at the balance sheet date.

#### Financial Instrument Risk Exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

#### Credit risk

The Company's credit risk is primarily attributable to cash and accounts receivable. The Company's maximum exposure to credit risk at the end of the reporting period is the carrying value of these assets. Substantially all of the Company's customers are in the oil and natural gas industry and are subject to normal industry credit risks. The Company has minimal collection risk related to these receivables and expects to collect the outstanding receivables in the normal course of operations. At March 31, 2016, the maximum credit exposure is the carrying amount of the accounts receivable of \$247,883 (December 31, 2015 - \$305,095). Furthermore, there were no receivables overdue, and thus no allowance for doubtful debt recorded.

The Company has no significant concentration of credit risk arising from operations. Cash is 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 liquid capital to meet its current liabilities as they come due. At March 31, 2016, the Company had a working capital deficiency of \$6,833,230 (December 31, 2015 - \$6,602,537), refer to note 1 for further discussion.

As at March 31, 2016, the Company's financial liabilities had contractual maturities as follows:

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
	<b>(\$)</b>	<b>(\$)</b>
Less than 6 months	5,129,978	4,821,172
Between 6 – 12 months	170,405	181,000
Between 1 – 2 years	224,998	266,834
Between 2 – 5 years	156,275	220,248
	<b>5,681,655</b>	<b>5,489,255</b>

#### 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.

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### 15. Financial Instruments and Risk Management (continued)

#### Interest rate risk

The Company is exposed to interest rate risk. The Company's bank account earns interest income at variable rates, and the Company has an unsecured loan associated with a CIBC line of credit which has a variable interest rate, recalculated semi-annually. Interest rate risk, however, is minimal as the Company does not have significant variable interest bearing assets or liabilities that are tied into market rates.

#### 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 as at March 31, 2016 and December 31, 2015:

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
	<b>(US\$)</b>	<b>(US\$)</b>
Cash	70,328	249,259
Accounts receivable	158,494	188,269
Restricted cash	1,771,568	1,771,568
Accounts payable and accrued liabilities	(3,646,470)	(3,254,122)
	<u>(1,646,080)</u>	<u>(1,045,026)</u>

The following foreign exchange rates applied for the three month period ended March 31, 2016 and the year ended December 31, 2015:

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
Average USD to CAD	1.3740	1.2783
As at	<u>1.3023</u>	<u>1.3864</u>

### 16. Supplemental Cash Flow Information

	<b>March 31, 2016</b>	<b>March 31, 2015</b>
	<b>(\$)</b>	<b>(\$)</b>
<b>Non-cash investing and financing activities:</b>		
Common shares issued as a bonus in connection with unsecured loan	30,000	-
<b>Interest paid during the period</b>	36,202	63,831
<b>Income taxes paid during the period</b>	<u>-</u>	<u>-</u>

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### 17. Expense By Nature

Office and general expenses for the three month periods ended March 31, 2016 and 2015 are comprised of the following:

	<b>March 31, 2016</b>	<b>March 31, 2015</b>
	<b>(\$)</b>	<b>(\$)</b>
Administration	36,606	104,017
Investor relations and business development	13,791	61,522
Professional fees	14,606	60,536
Rent	63,603	56,989
Transfer and filing fees	5,424	9,711
Travel	196	8,182
Wages and benefits	227,285	241,555
	<b>361,511</b>	<b>542,512</b>

Financing expenses for the three month periods ended March 31, 2016 and 2015 are comprised of the following:

	<b>March 31, 2016</b>	<b>March 31, 2015</b>
	<b>(\$)</b>	<b>(\$)</b>
Accretion	50,699	116,648
Bank charges and interest	3,498	2,836
Debt issue costs	-	38,146
Interest expense on secured loan	20,475	48,981
Interest expense on unsecured loans	7,290	972
	<b>81,962</b>	<b>207,583</b>