LISTING STATEMENT

Form 2A

Hillcrest Petroleum

March 23, 2021

1. TABLE OF CONTENTS

Forward-Looking Statements

The information provided in this Listing Statement, including information incorporated by reference, may contain "forward-looking statements" about the Company. In addition, the Company may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Company that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words.

Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as at the date they are made and are based on information currently available and on the then current expectations of the Company and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to:

- the speculative and competitive nature of resource exploration, development and operations;
- the availability of financing opportunities, risks associated with economic conditions, dependence on management and conflicts of interest; and
- other risks described in this Listing Statement and described from time to time in documents filed by the Company with Canadian securities regulatory authorities.

The forward-looking statements contained herein are based on certain key expectations and assumptions, including: (a) with respect to the anticipated diversification of the Company's business into the investment sector, expectations and assumptions concerning timing of receipt of required shareholder and regulatory approvals and any applicable third party consents, if any; and (b) expectations and assumptions concerning the success of the operation of the Company after the proposed diversification.

With respect to the forward-looking statements contained herein, although the Company believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements, because no assurance can be given that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to: the Company's lack of operating history as an investment company; portfolio exposure risks and sensitivity to macro-economic conditions; the availability of sources of income to generate cash flow and revenue; risks relating to investments in private issuers and illiquid securities; the volatility of the Company's stock price; risks relating to the trading price of the common shares relative to net asset value; risks relating to available investment opportunities and competition for investments; the volatility of the share prices of investments in public companies; risks relating to the concentration of investments; the dependence on management and directors; risks relating to additional funding requirements; due diligence risks; exchange rate risks; risks relating to non-controlling interests; potential conflicts of interest; and potential transaction and legal risks, as more particularly described under "*Part 17 - Risk Factors*" in this Listing Statement.

Consequently, all forward-looking statements made in this Listing Statement and other documents of the Company are qualified by such cautionary statements and there can be no assurance that the anticipated results or developments will actually be realized or, even if realized, that they will have the expected consequences to or effects on the Company. The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that the Company and/or persons acting on the Company's behalf may issue. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required under securities legislation.

Market and Industry Data

This Listing Statement includes market and industry data that has been obtained from third party sources, including industry publications. The Company believes that its industry data is accurate and that its estimates and assumptions are reasonable, but there is no assurance as to the accuracy or completeness of this data. Third party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there is no assurance as to the accuracy or completeness of included information. Although the data is believed to be reliable, the Company has not independently verified any of the data from third party sources referred to in this Listing Statement or ascertained the underlying economic assumptions relied upon by such sources.

Currency Information

Our business is conducted principally in Canada, and our revenue and expenses are denominated, earned and incurred in Canadian dollars. In this Listing Statement, unless otherwise indicated, all references to "$" or "CDN$" are to Canadian dollars.

2. CORPORATE STRUCTURE

2.1 - Corporate Name and Head and Registered Office

This Form 2A is filed in respect to Hillcrest Petroleum Ltd. (the "**Company**") in connection with its listing (the "**Listing**") on the Canadian Securities Exchange (the "**CSE**"). The head office of the Company is located at 1910 – 1030 West Georgia Street, Vancouver, BC V6E 273. The registered and records office of the Company is located at 1500 – 1055 West Georgia Street, Vancouver, BC V6E 4N7.

2.2 – Jurisdiction of Incorporation

The Company was incorporated on May 2, 2006 under the *British Columbia Business Corporations Act* (the "**BCBCA**") as "Shanghai Creek Minerals Ltd.". On August 28, 2007, the Company changed its name to "Hillcrest Petroleum Ltd.".

2.3 – Intercorporate Relationships

The Company has the following wholly-owned subsidiaries:

Name of Subsidiary	Jurisdiction of Incorporation	Principal Activity
Hillcrest Exploration Ltd.	USA	Oil and Gas exploration
2044573 Alberta Ltd.	Canada	Oil and Gas exploration
102031850 Saskatchewan Ltd.	Canada	Oil and Gas exploration
Hillcrest Resources (Arizona) Ltd.	USA	Dormant
ALSET Innovations Inc.	British Columbia	Green energy technology

2.4 – Fundamental Change

The Company is not requalifying following a fundamental change or proposing an acquisition, amalgamation, merger, reorganization or arrangement.

2.5 – Non-corporate Issuers and Issuers incorporated outside of Canada

This Company is corporate issuer and was incorporated within Canada.

3. GENERAL DEVELOPMENT OF THE BUSINESS

3.1 – General Development of the Business

The Company is a junior energy production company that acquires and operates North American conventional oil and gas assets, focusing primarily on Canada's Western Sedimentary Basin. The Company is listed for trading on the TSX Venture Exchange (the "**TSXV**") under the symbol

"HRH", OTC pink sheets in the US (the "**OTCQB**") under the symbol "HLRTF" and the Frankfurt Stock Exchange in Germany under the symbol "7HLF". The Company's common shares will be delisted from the TSXV in connection with its listing on the CSE.

The Company operates a producing oil field in the province of Saskatchewan. To complement its oil and gas production, the Company is building a portfolio of clean energy technology opportunities with potential to substantially reduce greenhouse gas emissions.

Oropass

In April 2020, the Company entered into a letter of intent with Oropass Ltd. ("**Oropass**"), an Ontario registered company, to jointly monetize US licensing rights granted to Oropass by the owner of the intellectual property ("**IP**") for a patented, electrical generation technology which has been demonstrated to improve electrical generation efficiencies by up to 80% with potential application in electric vehicles and power generation applications.

The technology, developed in Canada over the last 20 years, claims to increases efficiency of conventional electrical generators by as much as 80% by reversing electromagnetic inefficiencies inherent in the power generation process, thereby reducing the amount of mechanical energy input required to generate a unit of electric power. Efficiency gains have been demonstrated in lab tests and prototypes have been tested on an electric motorcycle.

Subject to independent testing to recognized engineering standards, application of this technology could be expected to significantly reduce reliance on fossil fuel energy and accelerate the transition to a carbon free energy infrastructure.

In August 2020, the Company executed a US Licensing Agreement (the "**Licensing Agreement**") with Oropass, enabling development, licensing, and marketing of US patented, electricity generation and electric motor technologies.

The Licensing Agreement provides exclusive dealing rights for the licensed technology, which includes all current and future technologies created and/or patented by Potential Difference Innovations Inc. ("**PDi**"). The agreements enables the company to engage with parties in licensing, co-developing or joint venturing the technologies through its wholly owned subsidiary, ALSET Innovations Inc. ("**ALSET**"). Subject to validation with further testing, it is anticipated that the licensed technologies could be applied to deliver step change efficiency gains for electric vehicles, wind turbines and other electricity generation.

It is anticipated that the Company will contribute a minimum of $300,000 and up to $500,000 for the development of the technology, anticipated to be paid to ALSET. Initial primary use of funds will be to secure protection of IP related to recent additional innovations deriving from the existing US patents and development and perfection of operational prototypes as required to demonstrate the technologies to targeted industries and potential licensees and technology development partners.

The Company will directly receive 25% of revenue generated under the Licensing Agreement, less permitted expenses, as well as fees for managing and administering related business activities including business planning, marketing and concluding agreements with potential technology partners on behalf of the owner of the technology.

ALSET

It is intended that the Company's wholly owned subsidiary, ALSET, will hold exclusive rights to license and market the US patented electricity generation and electric motor technology in the US, and exclusive rights to market the technology in the European Union. ALSET will collect revenue from technology licensing or other commercialization and will retain a portion of the revenue, less permitted expenses, with the remainder being passed to Oropass. The exact portion of the revenue to be distributed between ALSET and Oropass has yet to be determined, and it is anticipated that such determinations will be made pursuant to a future shareholder's agreement as described in more detail below. ALSET intends to monetize its licensing and marketing rights by establishing industry partnerships to apply and deploy the technology into worldwide power generation and electric vehicle markets.

The Company anticipates authorizing the issuance of common shares in the capital of ALSET (the "A**LSET Shares**") to Oropass upon execution of a shareholders' agreement between the Company and Oropass, such that Oropass will hold 50% of ALSET Shares and the Company holding the remaining 50%. The Company also anticipates that it will assign the Licensing Agreement to ALSET. The Company is currently in negotiations with Oropass, and there can be no certainty that the relationship will materialize as anticipated.

West Hazel Property, Saskatchewan

During the year ended December 31, 2017, the Company entered into a binding joint venture agreement ("**JV Agreement**") with a Canadian oil and gas company ("**Juniorco**") whereby the Company, via a wholly owned subsidiary, may earn up to a 75% working interest before payout ("**BPO**") and a 50% working interest after payout ("**APO**") and become the operator of record in the West Hazel field, a petroleum asset located in the Western Canadian Sedimentary Basin, by returning certain wells to service and restarting production.

In October 2018, the Company commenced the facility inspection/repair/upgrade and well reactivation activities required to re-establish oil production from previously producing wells on the West Hazel property.

In February 2019, the Company successfully re-established production from three wells and upgraded the related facilities by expending approximately $878,000 since entering into the JV Agreement. Pursuant to the JV Agreement, the Company is the operator of the field and earned its 75% BPO working interest in the property. In February 2019, the Company disposed of 17% of its operating profit interest from reactivated wells in the West Hazel property in exchange for a cash payment of $170,000, reducing the Company's BPO interest to 62.25% and its APO interest to 41.5%, which the Company's working interest will revert to after it has recovered all production reactivation costs from the production revenues.

Oil production at West Hazel shut down for a brief period in April/May 2020 due to low oil prices related to COVID-19's effect on worldwide oil demand. During the shut down, the Company replaced environmentally unfriendly and expensive diesel generated power with clean electricity from the Saskatchewan power grid. As a result, The Company reduced operating expenses by approximately 25%, providing the Company will lower production costs than many competing oil producers. This allowed the Company to resume production (after COVID-19) earlier than others. Production operations re-commenced on May 19, 2020.

Since resuming production field production has averaged approximately 110 barrels of oil per day and has provided sufficient net cash flow to meet Company expenses.

Previously announced plans to purchase the remaining working interest from the joint venture partner did not come to fruition. However, as a result of field activities conducted under the governing joint venture agreements, changes in individual well ownership have resulted in Hillcrest receiving a higher share of total field production from currently producing wells.

In addition, Hillcrest will receive 100% of production revenue from the new well planned to be drilled in Q1 2021, until 200% of well costs are recovered. A drilling pad has been prepared and production equipment has been acquired in anticipation of drilling. Efforts to secure a suitable rig to drill the well are underway.

Total costs for the new well are estimated at $700,000, with approximately $100,000 pre-invested to date.

At current oil prices, the estimated production forecast from the well could be expected to deliver approximately $70,000 per month in additional net cash flow to Hillcrest.

Flaxcombe Property, Saskatchewan

On December 14, 2017, the Company entered into a farm-in agreement with Westcore Energy Ltd. whereby the Company would provide the funds required to work-over two existing but shut-in oil wells, the 16-13 and 07-13 wells, located in the Flaxcombe area of southwestern Saskatchewan and return them to production (the "**Flaxcombe Property**"). The Company earned a 50% working interest in the two wells by contributing 100% of the cost of the work-over operations, which were estimated at $135,000. As at December 31, 2018, the Company has incurred $152,427 on the work-over operations.

The 16-13 well re-commenced production in January 2018 at a field estimated daily total fluid production rate of 41 bopd, with a field estimated oil cut of 48%. The 07-13 well re-commenced production in February 2018 at a field estimated daily total fluid production rate of 91 bopd, with a field estimated oil cut of 11%. Due to a down-hole pump failure the 16-13 well was temporarily shut-in, but the well subsequently came back on line in June 2018.

Due to technical difficulties, both wells have since been shut in.

As a result of the poor performance of the field and a lack of profitability, the Company has recorded a full impairment of $202,525 on the Flaxcombe Property. The Company is currently in discussions with the operator to determine a future course of action, including disposal of the Company's interest in the property.

3.2 – Significant Acquisitions and Dispositions

The response Item 3.1 is responsive to this Item 3.2.

3.3 – Trends, Commitments, Events or Uncertainties

The Company has recently expanded their business to include green energy technology. The Company has also committed to engaging in a joint venture with Oropass through ALSET. The application and success of green energy technology is dependent on the continued development of a consumer base of such technology, and is inversely connected to trends related to conventional energy, including oil and gas.

In March 2020, the World Health Organization declared a global pandemic after the outbreak of COVID-19. In response, countries across the world imposed various restrictions in their jurisdictions, such as border closures, travel restrictions, non-essential business closures, quarantines, isolations and social distancing. As a result, there have been disruption to markets, economic activity, financing, supply chains and sales channels across the world. Oil prices have significantly weakened. The economic outlook is uncertain and volatile and there is a possibility of a national or global recession.

The Company cannot reasonably estimate whether, or to what extent, COVID-19 will affect the Company. It is possible that COVID-19 may have a material adverse effect on the Company's business, results of operations, and financial condition. The extent to which COVID-19 affects the Company's operating and financial results for the remainder of 2020 and beyond will depend on various factors and consequences beyond the control of the Company, including the duration and impact of COVID-19 and any additional actions taken by businesses and governments in response to COVID-19.

There are other significant risks associated with the Company's business, which are described at "*Part 17 – Risk Factors*".

4. NARRATIVE DESCRIPTION OF THE BUSINESS

4.1 (a) – Narrative Description of the Company's Business

(1) Business of the Company

(a) Business Objectives

The current principal business carried on and intended to be carried on by the Company is oil and gas production. The Company also has plans to pursue opportunities related to clean energy technology with potential to reduce greenhouse gas emissions. The Company's oil and gas operations and assets are in Canada. The Company intends to pursue green energy opportunities in Canada and globally.

The Company intends to expand the West Hazel oil assets through further field development involving well recompletions and additional development wells to responsibly deplete field reserves.

In addition to the expansion of the oil assets, the Company's objectives include third party testing and marketing of the US patented technology being licensed by ALSET, and the entry into definitive agreements related to the Company's pursuit of green energy projects, specifically including completion of a definitive agreement with Extreme Vehicle Battery Technology Corp., moving into co-developing a clean energy project such as Eco-ville and further development and deployment of IP associated with a proposed transaction with ANIGO Technology Ltd.

The management team's goal is to complete definitive agreements described above and where possible to deploy technology and IP into projects or joint venture ultimately creating a revenue stream using the technology and IP.

Over the next 12-month period, the Company will transition from a hydrocarbon based production company to one balanced with revenues from both hydrocarbon production and sales to one that includes opportunity and potential revenues from developing, licensing or selling accessible or owned clean energy technology and IP.

(b) Significant Events or Milestones

The principal milestones that must occur for the stated 12-month period business objectives described above to be accomplished are as follows:

Milestone	Target Date	Estimated Cost
Definitive agreement with Extreme Vehicle Battery Technology Corp. (ACDC)	Q1 – Q2 2021	$20,000
Definitive agreement with ANIGO Technologies Ltd.	Q1 – Q2 2021	$20,000
Forward development of Background IP with ANIGO Technologies Ltd.	Q3 2021	$100,000
Third party testing and operational prototype for ALSET	Q1 2021	$125,000
Drill lateral well	Q3 2021	$640,000 – 700,000
TOTAL		$905,000 – 965,000

(c) Total Funds Available

As at February 28, 2021, the Company had a working capital deficiency of $46,655.

As at February 28, 2021, the Company had raised gross proceeds $1,267,000 from the 2021 Offering (defined below). Subsequent to February 28, 2021, the Company raised $82,500 from the exercise of warrants.

Prior to or concurrently with Listing, the Company anticipates entering into a $5,000,000 drawdown equity facility (the "**Facility**"), whereby an investor will commit to purchase up to $5,000,000 in units of the Company (the **"Units**"). The Units will consist of one common share in the capital of the Company (each, a "**Common Share**") issued at a 20% discount to the 20-day volume weighted average price ("**VWAP**") of the Common Shares, or such higher price as may be required under the policies of the CSE, and one half of one Common Share purchase warrant (each whole warrant, a "**Warrant**"), with each whole Warrant exercisable for 24 months at a price that is a 50% premium to the 20-day VWAP of the Company's Common Shares, or such higher price as may be required under the policies of the CSE. Upon entering into the Facility, the Company will provide notice to initiate the first drawdown in the amount of $2,240,000, forming part of the Company's available funds upon Listing. The Facility will be for a term of 12 months, throughout which the Company may, in one or more drawdowns, access the remaining $2,760,000 pursuant to the terms and conditions of the Facility. The Facility will not be part of any securities lending transaction, and each drawdown on the Facility will result in the Units, and their underlying securities, having a hold period of four months and one day from the date of issuance.

The Company will also receive approximately $130,000 per month for the sale of crude oil at the current oil price, and this is expected to cover the monthly operating costs.

Upon Listing, and inclusive of the first drawdown of the Facility, the Company anticipates having positive working capital of approximately $3,884,732.

(d) Purpose of Funds

The Company plans to use its available funds to maintain and expand its oil and gas operations, through the continued operation of its existing wells and the drilling of a second lateral well on the West Hazel property in Saskatchewan. Additionally, the Company plans to expand its portfolio of green energy technology and begin the monetization of the intellectual property such portfolio holds by conducting research and development with an eye to production of the prototypes which would ultimately be sold or licensed by the Company.

Use of Proceeds	Funds to be Expended
Costs of completing Listing on the CSE	$40,000
Investment Initiatives (Milestones)	$265,000
General and Administrative Expenses	$840,000
Drilling lateral well	$700,000
Unallocated Working Capital	$2,039,732
TOTAL	**$3,884,732**

(e) Principal Products or Services

The Company is currently licensing the following US patents:

Country	Title	Application No.	Patent No.	Filing Date	Registration Date
USA	Bi-Toroidal Topology Transformer	14/199,541	9,230,730	2014-03-06	2016-01-05
USA	Generator and Improved Coil Therefor Having Electrodynamic Properties	14/059,775	10,103,591	2013-10-22	2018-10-16
USA	Flyback Mode Process Harnessing Generator Action in Electric Motor	15/435,768	10,291,162	2017-02-17	2019-05-14

The products here described are not fully developed, and development is expected to commence in the second quarter of 2021. The programs and their associated costs will be determined based on negotiations between the parties involved in development, including the patent licensor. The Company plans to complete research and development by organizing an in-house development team which will conduct such research and will also oversee subcontractors. It is uncertain when these products will research commercial production, and the nature of these products is such that the costs of such production will be determined based on the application the product is designed for, and as such are unknown at this time.

(f) Production and Sales

The primary product the Company has is the oil and gas generated from its active wells in Saskatchewan, Canada. Secondarily, the Company has been developing a green technology portfolio, which it expects to monetize in the future both through the sale of products and the licensing of its technology, however no such revenue is anticipated to be achieved from the green technology portfolio for several years. The Company currently has, in addition to its officers, four consultants engaged, one of which is engaged in the green technology prong of the Company's business, with the remaining three consultants engaged in oil and gas activities.

At present, the Company's plans for the production of green technology products will be contingent on the results of negotiations with stakeholders in the intellectual property, including the licensor of patents licensed to the Company, the results of its research and development efforts, and the establishment of a base of consumers for such products, who may have specific needs in respect of the technology which would guide production efforts. Specialized skill and knowledge is required for such activities, and specifically for the development of foreground intellectual property, which is available to the Company through the use of consultants and anticipated strategic acquisitions such as the proposed transaction with ANIGO Technologies Ltd.

Since the Company additionally is the operator of active oil and gas wells, the Company is subject to certain environmental protection requirements. Specifically, there is a $724,000 long term liability expense for the end of life of the Company's wells in Saskatchewan.

(g) Competitive Conditions and Position

The oil and gas exploration and development industry is highly competitive. The Company will have to compete with other companies, many of which have greater financial, technical and other resources than the Company, for, among other things, the acquisition of leases and other interests as well as for the recruitment and retention of qualified employees and other personnel. Failure to compete successfully against other companies could have a material adverse effect on the Company and its prospects.

(h) Lending and Investment Policies and Restrictions

The Company has no lending and investment policies or restrictions.

(2) Bankruptcy and Receivership

Other than as described below, the Company has not been the subject of any bankruptcy or any receivership or similar proceedings against the Company or any of its subsidiaries or any voluntary bankruptcy, receivership or similar proceedings by the Company or any of its subsidiaries, within the three most recently completed financial years or the current financial year.

To further strengthen the Company's balance sheet and be consistent with the decision by the Company to concentrate on onshore oil and gas development and production, on February 3, 2017, the Company's wholly owned subsidiary Hillcrest GOM Inc. ("**HGOM**") was voluntarily placed into a Chapter 7 liquidation in the US Court for the Southern District of Texas. HGOM was the owner of a small number of non-operated oil and gas leases in the shallow waters of the Gulf of Mexico. After extensive consultation with financial and legal advisors, the Company recognized that business conditions in the Gulf of Mexico, most particularly for relatively small companies with non-operated interests, have become unsustainable. This voluntary liquidation allowed the

Company to more effectively allocate resources to capture and develop attractive, low cost onshore assets and to reduce the Company's consolidated current and non-current liabilities. HGOM was subsequently dissolved and is no longer a subsidiary of the Company.

(3) Material Restructuring

The Company has not been through a material restructuring transaction.

(4) Environmental Policies

The Company has not implemented any environmental policies at this time.

4.2 – Asset Backed Securities

The Company does not have any asset backed securities.

4.3 – Companies with Mineral Projects

The Company does not have mineral projects.

4.4 – Companies with Oil and Gas Operations

The information set forth in this Section 4.4 is taken from the Company's *Form 51-101F1 – Statement of Reserves Data and Other Oil and Gas Information* for the fiscal year ended December 31, 2019, attached hereto as Schedule "E".

(1) Drilling Activity

The Company currently has 4 Gross and 3 Net producing oil wells located in the West Hazel field in Saskatchewan, Canada.

(2) Location of Production

The Company's oil production takes place in West Hazel, Saskatchewan.

(3) Location of Wells

The Company's oil wells are located in West Hazel, Saskatchewan.

(4) Interest in Material Properties

The Company has undeveloped reserves attributed for 6 development wells, with 4 wells assumed to be drilled in 2020 and 2 assumed to be drilled in 2021.

(5) Reserve Estimates

The following summarizes the aggregate gross and net reserves of the Company, as per *Form 51-101F1 – Statement of Reserves Data and Other Oil and Gas Information* for the fiscal year ended December 31, 2019, which are all contained in the West Hazel field located in Saskatchewan:

Table #1								
Hillcrest Petroleum Ltd. Summary of Oil and Gas Reserves As of December 31, 2019 Forecast Prices and Costs								
Reserves								
	Light and Medium Oil		Heavy Oil		Natural Gas (Non-associated and Associated)		Natural Gas Liquids	
Reserve Category	Gross (Mbbl)	Net (Mbbl)	Gross (Mbbl)	Net (Mbbl)	Gross (Mbbl)	Net (Mbbl)	Gross (Mbbl)	Net (Mbbl)
Proved Developed Producing P(DP)	-	-	25.1	12.1	-	-	-	-
Proved Developed Non-Producing P(DNP)	-	-	72.2	28.5	-	-	-	-
Proved Developed P(D)	-	-	97.3	40.6	-	-	-	-
Proved Undeveloped P(UD)	-	-	322.6	139.2	-	-	-	-
Proved P	-	-	419.9	179.8	-	-	-	-

The following summarizes the future net revenue attributable to the Company's proved reserves disclosed in Table #1, estimated using forecast prices and costs before deducting future income tax expenses, if any, calculated without discount and using discounts as presented:

Table #2					
Hillcrest Petroleum Ltd. Summary of Net Present Values of Future Net Revenue As of December 31, 2019 Forecast Prices and Costs - $CAD Dollars					
Net Present Values of Future Net Revenue					
Before Income Taxes Discounted at (%/Year)					
Reserve Category	0 (M$)	5 (M$)	10 (M$)	15 (M$)	20 (M$)
Proved (DP)	(1,179.1)	(1,012.8)	(879.5)	(771.2)	(682.1)
Proved (DNP)	996.7	940.3	889.8	844.4	803.3
Proved (UD)	3,848.0	3,381.2	2,984.2	2,644.4	2,351.8
Total Proved	3,665.6	3,308.7	2,994.5	2,717.6	2,473.0
Total Probable	2,061.2	1,768.4	1,530.9	1,336.3	1,175.6
Total Proved and Probable	5,726.8	5,077.1	4,525.4	4,053.9	3,648.6

The following summarizes by reserve category (Proved, Probable or Possible) the elements using forecast pricing and costs of the undiscounted future net revenue and the per unit value of future net revenue before income tax:

Table #3								
Hillcrest Petroleum Ltd. Total Future Net Revenue (Undiscounted) As of December 31, 2019 Forecast Prices and Costs - $CAD Dollars								
Reserve Category	Revenue (M$)	Royalties (M$)	Operating Costs (M$)	Development Costs (M$)	ARO Costs (M$)	Future Net Revenue before Income Taxes (M$)	Income Taxes (M$)	Future Net Revenue after TOTI (M$)
Proved (DP)	951.4	225.3	1,512.7	30.0	332.4	(1,179.1)	-	(1,179.1)
Proved (DNP)	2,229.1	637.0	414.7	187.5	63.3	996.7	149.6	847.1
Proved (UD)	10,015.2	1,529.0	2,137.9	2,362.0	138.0	3,848.0	1,086.2	2,761.8
Total Proved	13,265.7	2,421.3	4,065.3	2,579.5	534.0	3,665.6	1,235.8	2,429.8
Total Probable	3,970.8	961.8	936.7	-	11.1	2,061.2	489.3	1,571.9
Total Proved and Probable	17,236.5	3,383.1	5,002.0	2,579.5	545.1	5,726.8	1,725.1	4,001.7

(6) Source of Reserve Estimates

This information is as evaluated by Trimble Engineering Associated Ltd., an independent qualified reserves evaluator appointed by the Company pursuant to NI 51-101.

(7) Reconciliation of Reserves

As no reserves were reported in 2018, no reconciliation was required.

(8) Production History

The West Hazel field was shut in prior to 2019.

Quarterly oil production (bbl) during 2019 was:

Q1	3,731
Q2	5,467
Q3	11,343
Q4	11,130
Total	31,671

(9) Reserves Data and Other Information

The Company's *Form 51-101F1 – Statement of Reserves Data and Other Oil and Gas Information* for the fiscal year ended December 31, 2019 is attached hereto as Schedule "E".

The *Form 51-101F2 – Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor* for the financial year ended December 31, 2019 is attached hereto as Schedule "F".

The *Form 51-101F3 – Report of Management and Directors on Oil and Gas Disclosure* for the financial year ended December 31, 2019 is attached hereto as Schedule "G".

The Company undertook no exploration or development activity in 2019.

Average unit per bbl value metrics ($CDN/bbl) for 2019 were:

Price received	$53.80
Royalties	$13.75
Production Costs	$36.67
Netback	$3.38

The average daily production volume of the Company, before deduction of royalties, is 150 barrels per day of conventional crude oil, with the average net product price being US$30 for light and medium conventional crude oil.

(10) Future Commitments

Development costs associated with Proved and Proved + Probable reserves are:

- 2021 = $700,000 for drilling of a lateral well.

Development costs are expected to be funded through either equity or debt funding, likely supported by cash flow from production.

(11) Exploration and Development

The Company anticipates drilling a lateral well in its West Hazel property in Saskatchewan in 2021, for an anticipated cost of $700,000. Hillcrest was granted permits required to access untapped oil reserves in formations above currently producing zones in existing wells. During fiscal year 2002, the Company increased oil production by recompleting up-hole in a number of wells.

5. SELECTED CONSOLIDATED FINANCIAL INFORMATION

5.1 – Consolidated Financial Information – Annual Information

The Company's audited financial statements for the years ending December 31, 2017-2019 are attached hereto as Schedule "A" and are available on SEDAR.

The following financial data summarizes selected financial data for the Company prepared in accordance with IFRS for the three years ended December 31, 2019, 2018, 2017 and for the subsequent third quarter ended September 31, 2020. The information presented below for the three fiscal years is derived from the Company's financial statements which were audited by the Company's independent auditor. The information set forth below should be read in conjunction with the Company's annual financial statements and related notes thereto.

Selected Financial Data

	Sept 30, 2020	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017
	($)	**($)**	**($)**	**($)**
Total assets	1,185,767	863,898	1,115,423	251,077
Total liabilities	3,044,458	3,353,924	3,787,915	1,711,284
Shareholders' equity (deficiency)	(1,858,691)	(2,490,026)	(2,672,492)	(1,460,207)
Revenue	445,213	1,042,327	52,263	36,299
Net income (loss)	(1,836,406)	(1,201,929)	(1,866,535)	5,284,533
Earnings (loss) per share	(0.01)	(0.01)	(0.02)	0.07

5.2 – Consolidated Financial Information – Quarterly Information

The quarterly results for the last eight quarters are summarized below:

	September 30, 2020 $	June 30, 2020 $	March 31, 2020 $	December 31, 2019 $
Total assets	1,185,767	909,745	750,618	863,898
Total liabilities	3,044,458	3,647,537	3,436,163	3,353,924
Revenue	198,811	110,158	136,244	325,519
Net income (loss)	(1,486,967)	(117,209)	(232,230)	(271,018)
Earnings (loss) per share	(0.00)	(0.00)	(0.00)	(0.00)
Weighted average common shares outstanding	137,039,416	124,616,784	124,101,277	91,461,993

	September 30, 2019 $	June 30, 2019 $	March 31, 2019 $	December 31, 2018 $
Total assets	1,234,139	1,104,211	1,180,254	1,115,423
Total liabilities	4,623,954	4,189,376	4,159,059	3,787,915
Revenue	377,620	205,819	133,389	640
Net income (loss)	(324,654)	(301,208)	(305,049)	(859,423)
Earnings (loss) per share	(0.00)	(0.00)	(0.00)	(0.01)
Weighted average common shares outstanding	91,217,270	89,521,797	87,293,226	87,293,226

5.3 – Dividends

This does not apply to the Company.

6. MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's MD&A for the year ended December 31, 2019 and for the nine months' ended September 30, 2020 are attached to this Listing Statement as Schedule "B".

7. MARKET FOR SECURITIES

The Company's Common Shares are currently listed for trading on the TSXV under the symbol "**HRH**" and the OTCQB under the symbol "**HLRTF**". The trading symbol for the Company's Common Shares on the CSE is expected to be "**HRH**".

8. CONSOLIDATED CAPITALIZATION

The Company is authorized to issue an unlimited number of Common Shares. As at the date of this Listing Statement, there are 224,324,030 issued and outstanding Common Shares, 8,800,000 stock options outstanding, 41,699,334 warrants outstanding and 675,200 agents' warrants outstanding. For the exercise price and expiry dates of the options, warrants and agents' warrants, see "*Section 14.2 – Convertible / Exchangeable Securities*".

There have been material changes on the share and loan capital of the Company since the date of the financial statements for the financial year ended December 31, 2019.

9. OPTIONS TO PURCHASE SECURITIES

10% "Rolling" Share Option Plan

The Company has in place a 10% rolling share option plan dated for reference November 4, 2010, as amended which was originally approved for adoption by the shareholders of the Company at the Company's annual and general meeting held on May 27, 2011 (the "**Option Plan**"). The Option Plan was implemented in order to provide the Company with the flexibility necessary to attract and maintain the services of senior executives and other employees in competition with other businesses in the industry. The Option Plan was established to provide incentive to qualified parties to increase their proprietary interest in the Company and thereby encourage their continuing association with the Company. The Compensation and Corporate Governance Committee proposes share option grants to the board of directors (the "**Board**") based on such criteria as performance, previous grants, and hiring incentives. All grants require approval of the Board. The Option Plan provides that options will be issued to directors, officers, employees or consultants of the Company or a subsidiary of the Company.

A number of Common Shares equal to 10% percent of the issued and outstanding Common Shares in the capital stock of the Company from time to time are reserved for the issuance of stock options pursuant to the Option Plan.

The Option Plan provides that the number of Common Shares issuable under the Option Plan, together with all of the Company's other previously established or proposed share compensation arrangements, may not exceed 10% of the total number of the Company's issued and outstanding Common Shares.

Fixed 10% Restricted Share Unit Plan

The Company has in place a fixed 10% restricted share unit plan dated for reference November 9, 2020, which was approved for adoption by the shareholders of the Company at the Company's annual general and special meeting held on December 18, 2020 (the "**RSU Plan**"). The RSU Plan was designed to provide Directors, Employees and Consultants (as defined in the RSU Plan) of the Company and its related entities ("**Eligible Persons**") with the opportunity to acquire restricted share units ("**RSUs**") of the Company in order to enable them to participate in the long-term success of the Company and to promote a greater alignment of their interests with the interests of the Company's shareholders. The Board and the Compensation and Corporate Governance Committee are is responsible for awarding RSUs to Eligible Persons under and subject to the terms and conditions of the RSU Plan.

A number of Common Shares equal to 10% percent of the issued and outstanding Common Shares in the capital stock of the Company from time to time are reserved for the issuance of RSUs under the RSU Plan. The Common Shares reserved for issuance under the RSU Plan will not be deducted from the number of Common Shares issuable under the Option Plan. However, the percentage limitations imposed on the number of RSUs granted to all Insiders (as defined in the RSU Plan) as group, any one Eligible Person, and on Consultants (as defined in the RSU Plan) apply to the RSU Plan and the Option Plan in aggregate.

For Insiders (as a group), (i) the aggregate number of Common Shares reserved for issuance under the RSU Plan, Option Plan and any other share based compensation arrangements for Insiders (as a group) at any point in time may not exceed 10% of the issued and outstanding Common Shares from time to time, and (ii) the maximum number of RSUs and Options that may be granted to Insiders (as a group) under the RSU Plan and the Option Plan, together with any other share based compensation arrangements, within a 12 month period, may not exceed 10% of the issued and outstanding Common Shares calculated on the grant or award date.

For Eligible Persons, the maximum number of RSUs that may be granted to any one Eligible Person under the RSU Plan and the Option Plan, together with any other share based compensation arrangement, within a 12 month period, may not exceed 5% of the issued and outstanding Common Shares calculated on the grant or award date.

For Consultants, the maximum number of RSUs that may be granted to any one Consultant under the RSU Plan and the Option Plan, together with any other share based compensation arrangement, within a 12 month period, may not exceed 2% of the issued and outstanding Common Shares calculated on the grant or award date.

Stock Options and other Compensation Securities

Compensation Securities								
Name and position	**Type of compensation security**	**Number of compensation securities, number of underlying securities, and percentage of class**[(1)]	**Date of issue or grant** (mm/dd/yy)	**Issue, conversion or exercise price ($)**	**Closing price of security or underlying security on date of grant ($)**	**Closing price of security or underlying security at year end ($)**	**Expiry date** (mm/dd/yy)	**Restricted Share Units**
Donald J. Currie CEO and Director	Options	1,300,000 14.77%	07/08/2020	0.05	0.05	0.065	07/08/2025	Nil
David M.R. Stone Director	Options	800,000 9.09%	07/08/2020	0.05	0.05	0.065	07/08/2025	Nil
Thomas J. Milne Director	Options	1,050,000 11.93%	07/08/2020	0.05	0.05	0.065	07/08/2025	Nil
Robert Lambert Director	Options Options	300,000 800,000 12.50%	05/22/2018 07/08/2020	0.05 0.05	0.06 0.05	0.05 0.065	05/01/2022 07/08/2025	Nil Nil
Aaron Triplett CFO	Options	600,000 6.82%	07/08/2020	0.05	0.05	0.065	07/08/2025	Nil
Dale Miller COO	Options	350,000 3.98%	07/08/2020	0.05	0.05	0.065	07/08/2025	Nil
Consultants	Options Options Options Options	900,000 700,000 1,000,000 1,000,000 40.91%	02/21/2017 07/08/2020 10/07/2020 11/09/2020	0.05 0.05 0.05 0.05	0.07 0.05 0.06 0.06	0.065 0.065 0.065 0.065	02/21/2022 07/08/2025 10/07/2025 11/09/2025	Nil

Notes:
(1) Based on 8,800,000 Options issued and outstanding.

10. DESCRIPTION OF THE SECURITIES

10.1 (a) – Description of the Company's Securities

The Company's authorized share structure is an unlimited number of Common Shares. The Company is also authorized to issue an unlimited number of voting preferred shares without par value, each carrying the right to one vote. During financial years ending December 31, 2019 and 2018, there were no Preferred Shares issued and outstanding. There are special rights and restrictions attached to the shares as set out in the Articles of the Company.

Common Shares

A holder of a Common Share of the Company is entitled to receive notice of, attend and vote at any general meeting of the Company and to cast one vote for each Common Share held on the applicable record date in respect of nay matter put to vote at such a meeting.

The board may form time to time declare and cause the Company to pay dividends on Common Shares.

In the event of liquidation, dissolution or winding up of the Company, or other distribution of the assets of the Company among the holders of shares in the capital of the Company for the purpose of winding up its affairs, unless there is no preferred shares outstanding and held by a person other than the Company or a wholly-owned subsidiary of the Company:

a) there will be paid to the holder of each Common Share, in preference to and priority over any distribution or payment on the preferred shares, an amount equal to the capital paid up thereon and after such payment such holder will not as such be entitled to participate in any further distribution of the property or assets of the Company, and

b) the remaining assets of the Company will be distributed among the holders of the preferred shares pro rata based on the number of shares held by each of them.

Preferred Shares

The preferred shares of the Company may include one or more series of shares, and, subject to the BCBCA, the directors may, by resolution:

a) determine the maximum number of shares of any of those series of shares that the Company is authorized to issue, determine that there is no maximum number or, if none of the shares of that series is issued, alter any determination so made, and authorize the alteration of the notice of articles accordingly;

b) alter the articles, and authorize the alteration of the notice of articles, to create an identifying name by which the shares of any of those series of shares may be identified or, if none of the shares of that series is issued, to alter any such identifying name so created;

c) alter the articles, and authorize the alteration of the notice of articles accordingly, to attach special rights or restrictions to the shares of any of those series of shares, including, but without in any way limiting or restricting the generality of the foregoing, the rate or amount of dividends, whether cumulative, non-cumulative or partially cumulative, the dates, places and currencies of payment thereof, the consideration for, and the terms and conditions of, any purchase or redemption thereof, including redemption after a fixed term or at a premium, conversion or exchange rights, the terms and conditions of any share purchase plan or sinking fund, the restrictions respecting payment of dividends on, or the repayment of capital in respect of, any other shares of the Company and voting rights and restrictions but no special right or restriction so created, defined or attached shall contravene the provisions of section 28.3 and section 28.4 of the Company's Articles of Incorporation, or, if none of the shares of that series is issued, to alter any such special rights or restrictions.

Holder of preferred shares shall be entitled, on the distribution of assets of the Company on the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or on any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, to receive, before any distribution shall be made to holders of Common Shares or any other shares of the Company ranking junior to the preferred shares with respect to repayment of capital on any such event, the amount required to be paid in accordance with the special rights and restrictions attached to the series of shares held by them, together with the fixed premium (if any) thereon, an amount equal to all accrued and unpaid cumulative dividends (if any and if preferential) thereon, which for such purpose shall be calculated as if such dividends were accruing on a day-to-day basis up to the date of such distribution, whether or not earned or declared, and all declared and unpaid non-cumulative dividend s(if any and if preferential) thereon. After payment to holders of preferred shares of the amounts so payable to them, they shall not, as such, be entitled to share in any further distribution of the property or assets of the Company except as specifically provided in the special rights and restrictions attached to any particular series.

Holders of preferred shares shall only be entitled, as such, to receive notice of, and/or to attend and/or vote at, any general meeting of shareholders of the Company only as provided in the special rights and restrictions attached to any particular series.

10.2 – 10.6 – Miscellaneous Securities Provisions

None of the matters set out in sections 10.2 to 10.6 of CSE Form 2A are applicable to the share structure of the Company.

10.7 – Prior Sales of Common Shares

(1) 2019 Private Placement

In December 2019, the Company completed a private placement of units (the "**2019 Units**") at $0.03 per 2019 Unit for gross proceeds of $628,333.38 (the "**2019 Offering**"). Each 2019 Unit consists of one Common Share and one Common Share purchase warrant. Each warrant entitles the holder to purchase one additional share at a price of $0.05 per warrant share for a period of one year form the closing of the 2019 Offering.

The Company intends to use the proceeds from the 2019 Offering to pay aged outstanding accounts payable of $539,500, and the remaining proceeds of up to $60,500 will be used for general working capital. Specifically, $140,000 will be used to retire a senior secured creditor loan, $149,500 will be used to retire overdue creditor debt and $250,000 will be used for immediate operation liabilities related to the Saskatchewan assets.

All securities issued in connection with the 2019 Offering are subject to a statutory hold period expiring on April 5, 2020 in accordance with applicable securities legislation.

The Company paid eligible finders a cash commission in the aggregate amount of $17,600 and issued an aggregate of 586,666 non-transferable finder's warrants. Each finder's warrant entitles the holder to purchase one additional share at a price of $0.05 per share for a period of one year from the closing of the 2019 Offering.

(2) 2020 Private Placement

In August 2020, the Company oversubscribed a non-brokered private placement, resulting in 20,442,000 units of the Company (the "**2020 Units**") being purchased at $0.05 for a total of $1,022,100.00 (the "**2020 Offering**"). The 2020 Units consist of one Common Share and one-half of a Common Share purchase warrant. Each whole warrant will be exercisable into an additional

Common Share of the Company at a price of $0.07 per Common Share for a period of two (2) years.

The Company intends to use the proceeds of the 2020 Offering to fund expansion of the West Hazel oil asset in Saskatchewan, to retire certain payables related to the Company's oil and gas asset sin Saskatchewan, and for general working capital purposes.

All securities issued in connection with the 2020 Offering are subject to a four (4) month holding period in accordance with applicable securities law.

(3) 2020 Debt Settlement

On October 28, 2020 the Company issued 12,804,952 Common Shares at a deemed price of $0.0525 per Common Share to settle accounts payable and loans payable in the amount of $672,260.

(4) 2021 Private Placement

In January 2021, the Company completed a non-brokered private placement, resulting in 25,340,000 units of the Company (the "**2021 Units**") being purchased at $0.05 for a total of $1,267,000 (the "**2021 Offering**"). The 2021 Units consist of one Common Share and one Common Share purchase warrant. Each Common Share purchase warrant will be exercisable into an additional Common Share of the Company at a price of $0.10 per Common Share for a period of two (2) years.

The Company intends to use the proceeds of the 2021 Offering for well maintenance on the Company's existing wells, preparation for the drilling of a new well, retirement or reduction of payables, the payment of provincial royalties related to its oil and gas operations and further developments of the Company's energy portfolio through the establishment of a local energy laboratory, as well as for general working capital purposes.

The Company paid eligible finders a cash commission in the aggregate amount of $33,760 and issued an aggregate of 675,2000 non-transferable finder's warrants, entitling the holders thereof to purchase one Common Share at a price of $0.10 per Common Share for a period of two (2) years from the closing of the 2021 Offering.

All securities issued in connection with the 2020 Offering are subject to a four (4) month holding period expiring on May 19, 2021 in accordance with applicable securities law.

<u>10.8 – Stock Exchange Price</u>

The Company's Common Shares have been listed and posted for trading on the TSXV under the symbol "**HRH**" since January 2011. The following table sets out the high and low trading of the Company's Common Shares for the periods indicated as reported by the TSXV.

Period	High ($)	Low ($)	Trading Volume
March 1 – March 19, 2021	0.32	0.17	52,050,253
February 2021	0.24	0.1	69,642,294
January 2021	0.125	0.06	96,833,420
December 2020	0.07	0.055	14,486,461
November 2020	0.08	0.055	23,138,358
October 2020	0.085	0.05	27,000,816
July 1, 2020 – September 30, 2020	0.155	0.02	211,944,783
April 1, 2020 – June 30, 2020	0.04	0.01	29,294,302
January 1, 2020 – March 31, 2020	0.045	0.015	7,457,454
October 1, 2019 – December 31, 2019	0.04	0.02	6,035,711
July 1, 2019 – September 30, 2019	0.035	0.02	1,204,000
April 1, 2019 – June 30, 2019	0.04	0.03	2,942,650
January 1, 2019 – March 31, 2019	0.05	0.04	5,237,790

The Company's Common Shares have been listed and posted for trading on the OTCQB under the symbol "**HLRTF**" since November 2015. The following table sets out the high and low trading of the Company's Common Shares for the periods indicated as reported by the OTCQB.

Period	High (US$)	Low (US$)	Trading Volume
March 1 – March 19, 2021	0.231549	0.1371	4,029,633
February 2021	0.193	0.0766	8,600,195
January 2021	0.0964	0.05	2,636,111
December 2020	0.0569	0.0401	2,464,845
November 2020	0.0615	0.0403	3,708,427
October 2020	0.06049	0.0383	182,000
July 1, 2020 – September 30, 2020	0.113	0.02	3,312,208
April 1, 2020 – June 30, 2020	0.0282	0.0104	390,140
January 1, 2020 – March 31, 2020	0.0326	0.01	500,252
October 1, 2019 – December 31, 2019	0.02604	0.0177	695,695
July 1, 2019 – September 30, 2019	0.0255	0.02	190,003
April 1, 2019 – June 30, 2019	0.035	0.0177	392,224
January 1, 2019 – March 31, 2019	0.043375	0.03	3,091,333

11. ESCROWED SECURITIES

11.2 (a) - Escrowed Securities

None of the Company's securities are currently being held in escrow.

12. PRINCIPAL SHAREHOLDERS

12.1 and 12.2 - Principal Shareholders

To the knowledge of the directors and senior officers of the Company, no persons or companies beneficially owns, or controls or directs, directly or indirectly, shares carrying more than 10% of the voting rights attached to all outstanding shares of the Company as of the date hereof.

12.3 – Voting Trusts

To the knowledge of the Company, no voting trust exists within either company such that more than 10 per cent of any class of voting securities of the Company are held, or are to be held, subject to any voting trust or other similar agreement.

12.4 – Associates and Affiliates

To the knowledge of the Company, no principal shareholder is an associate or affiliate of another person or company named as a principal shareholder.

13. DIRECTORS AND OFFICERS

13.1 – 13.3 – Directors and Officers

The following table sets out the names, municipalities of residence, the number of voting securities beneficially owned, directly or indirectly, or over which each exercises control or direction, and the offices held in the Company and the principal occupation of the directors and senior officers during the past five years as follows:

Name & Municipality of Residence and Position	Present Occupation and Positions Held During the Last Five Years	Period served as Director/ Officer and when his/her term with the Company will expire	Number of Shares Beneficially Held	Percentage of Issued and Outstanding Common Shares(1)
Michael Krzus Executive Chairman, Technical Director Vancouver, British Columbia	Consultant and Director Executive Chairman Hillcrest Petroleum Ltd.	Director since November 26, 2013 Executive Chairman since August 19, 2015	5,870,000	2.61%

Don J. Currie Chief Executive Officer and Director Vancouver, British Columbia	Consultant; CEO and Director Hillcrest Petroleum Ltd.; and Director New Leaf Ventures Inc.	Chief Executive Officer and Director since July 10, 2010	12,995,813	5.79%
Dale Miller Chief Operations Officer Airdrie, Alberta	COO	Chief Operations Officer since June 13, 2018	Nil	0%
Aaron Triplett Chief Financial Officer Langley, British Columbia	CFO	Chief Financial Officer since January 1, 2020	Nil	0%
David Stone Director (Independent) Bellevue, Washington, USA	Independent Director	Director since July 18, 2007	1,965,000	0.87%
Tom Milne Director (Independent) Parksville, British Columbia	Independent Director	Director since November 1, 2012	983,333	0.43%
Robert Lambert Director (Independent) London, United Kingdom	Independent Director	Director since December 15, 2017	1,960,000	0.87%

Notes:

(1) Based on 224,324,030 Common Shares issued and outstanding as of the date of this Listing Statement.

13.4 – Board Committees of the Company

Audit Committee

The audit committee will assist the Board in fulfilling its financial oversight responsibilities. The audit committee will review and consider in consultation with the auditors the financial reporting process, the system of internal control and the audit process. In performing its duties, the committee will maintain effective working relationships with the Board, management, and the external auditors. To effectively perform his or her role, each committee member must obtain an understanding of the principal responsibilities of committee membership as well and the Company's business, operations and risks.

The current members of the Audit Committee are Thomas Milne (Chair), David Stone, and Michael Krzus. Thomas Milne and David Stone are independent. Michael Krzus is not independent. All three members of the Audit Committee are considered to be financially literate.

Compensation and Corporate Governance Committee

The Compensation and Corporate Governance Committee is responsible for executive and director compensation, including reviewing and recommending director compensation, overseeing the Company's base compensation structure and equity based compensation program, recommending compensation of the Company's officers and employees, and evaluating the performance of officers generally and in light of annual goals and objectives.

The Compensation and Corporate Governance Committee also assumes responsibility for reviewing and monitoring the long-range compensation strategy for the Company's senior management. The Compensation and Corporate Governance Committee reviews the compensation of senior management on an annual basis taking into account other issuers of similar size and activity.

The current members of the Company's Compensation and Corporate Governance Committee are Thomas Milne (Chair), Donald Currie, Michael Krzus, and Robert Lambert.

Disclosure Committee

The Disclosure Committee general mandate is to: 1) educate directors and the appropriate officers and employees about disclosure issues, the Corporate Disclosure Policy and the Disclosure Controls and Procedures Policy of the Company; 2) recommend changes to those Policies to the Board as may be necessary or advisable; 3) establish and implement processes for the timely collection and reporting of potential material information, and the timely evaluation and dissemination of material information to securities regulators, stock exchanges and shareholders; 4) report on its evaluation of disclosure controls and procedures at least annually to the Audit Committee and the Board; and 5) disclose disclosure controls and procedures in the Company's annual Management's Discussion and Analysis.

The current members of the Disclosure Committee are Aaron Triplett (Chair), David Stone, and Michael Krzus.

Reserves Committee

The Reserves Committee is responsible for reviewing and approving the annual independent evaluation of the Company's reserves. The Reserves Committee's general mandate is to oversee and monitor the Company's process for calculating the reserves and procedures for compliance with applicable legislation and conformity with industry standards and disclosure of information. It reviews, reports and, when appropriate, makes recommendations to the Board on the Company's policies and procedures related to the Company's reserves estimates.

The current members of the Reserves Committee are Robert Lambert (Chair), Michael Krzus and David Stone.

13.5 – Principal Occupation of Director or Officer being Director or Officer of Another

No director or officer of the Company is acting as an officer of a person or company other than the Company.

13.6 – Corporate Cease Trade Orders or Bankruptcies

Other than as disclosed below, none of the proposed directors of the Company or any of their personal holding companies:

(a) is, as at the date of this Listing Statement, or has been, within ten years before the date of this Listing Statement, a director, chief executive officer or chief financial officer of any Company, including the Company, that:

(i) was subject to a cease trade order or similar order or an order that denied the relevant Company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days while that person was acting in the capacity as director, chief executive officer or chief financial officer; or

(ii) was subject to a cease trade or similar order or an order that denied the Company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the person ceased to be a director, chief executive officer or chief financial officer of the Company and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer; or

(b) is as at the date of this Listing Statement or has been within the 10 years before the date of this Listing Statement, a director or executive officer of any Company, including the Company, that while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(c) has, within the 10 years before the date of this Listing Statement, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangements or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

None of the proposed directors or any of their personal holding companies has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

Michael Krzus and Donald J. Currie were directors or officers of HGOM, a wholly owned subsidiary of the Company, which was voluntarily placed into a Chapter 7 liquidation in the US Court for the Southern District of Texas on February 3, 2017, pursuant to which the Company lost control over all of the assets and liabilities of HGOM.

13.7, 13.8 – Penalties or Sanctions

No proposed director, officer, or promoter of the Company, or any shareholder anticipated to hold a sufficient amount of securities of the Company to materially affect control of the Company, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or has been subject to any other penalties or sanctions imposed by a court or regulatory body or self-regulatory authority that would be likely to be considered important to a reasonable investor making an investment decision.

13.9 – Personal Bankruptcies

No director or officer of the Company, or shareholder holding sufficient securities of the Company to affect materially the control of the Company, or personal holding company of any such persons has, within the 10 years before the date of the Listing Statement, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or officer, state the fact.

13.10 – Conflicts of Interest

There are no current conflicts of interest.

There are potential conflicts of interest to which the directors and officers of this Company may be subject to in connection with the Company's operations. Certain of the directors and officers of the Company are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies and, as a result of these and other activities, such directors and officers may be in direct conflict with the Company. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA and any other applicable corporate laws.

13.11 – Management

Michael Krzus, Age 62 (Executive Chairman, Technical Director)

Mr. Michael Krzus brings 37 years of oil and gas industry experience, including senior executive management positions and directorships, which includes managing technical and business aspects of conventional and unconventional oil and gas assets, both onshore and offshore, and integrated liquefied natural gas (LNG) projects in Australia, the US, the Netherlands and Canada, including roles as CEO and Director of operating oil and gas companies.

Mr. Krzus was a director and the founding CEO of Emerald Oil Inc., a New York Stock Exchange listed; operating oil company focused on the Williston Basin, Bakken shale oil play in the US and was CEO and Managing Director of Emerald Oil and Gas NL, an oil and gas company listed on the Australian Stock Exchange. Prior to this, Mr. Krzus held various managerial and executive positions during 22-year career with Woodside Petroleum Ltd. and Shell in Australia and the Netherlands, which he joined 3 years after he began working as a petroleum engineer with Home Oil Ltd in Canada.

Mr. Krzus holds a Diploma in Oil and Gas Technology from the British Columbia Institute of Technology and a BSc. in Petroleum Engineering from Tulsa University.

Don Currie, Age 59 (CEO and Director)

Mr. Donald Currie has been the Chairman and CEO of the Company since February 10, 2010, and a director since July 10, 2010.

Mr. Currie has over 25 years of experience in the oil and gas industry with a focus primarily in the southern US. From 1994 to late 2014, Mr. Currie held various positions with Enhanced Oil Resources Inc., an oil and gas exploration and production company, including director, officer and VP corporate communications. Mr. Currie has also held various roles in other public ventures involved in the mining industry in South America.

Dale Miller, Age 61 (COO)

Mr. Dale Miller has 35 years experience in the Canadian upstream oil and gas industry focused on managing production operations, growing production and building value through effectively executed field development programs, acquisitions and & divestments in both public and privately held companies.

Mr. Miller has held a wide range of production operations, engineering and senior management positions with various independent oil and gas companies including Gibraltar Exploration Ltd, Pace Oil and Gas Ltd, Midnight Oil Exploration Ltd, 10 years with Penn West Petroleum and then most recently serving from 2011 to 2017 as President and Chief Operating Officer for Long Run Exploration Ltd.

Mr. Miller holds a BSc Petroleum Engineering from Tulsa University.

Aaron Triplett, Age 38 (CFO)

Effective January 1, 2020, Aaron Triplett was appointed as the new Chief Financial Officer of and Corporate Secretary of the Company.

Mr. Triplett is a Chartered Professional Accountant (CPA, CA), and has accumulated experience in the field of financial management and accounting, specializing in forecasting, compliance and risk management, and the development and monitoring of control systems. Most recently, Mr.

Triplett served as CFO of Grande West Transportation Group Inc. (TSXV: BUS), a Canadian manufacturer of mid-sized multi-purpose transit vehicles for sale in Canada and the US. Prior to that, Mr. Triplett served as the CFO of Angkor Resources Corp. (TSXV: ANK), a mineral exploration company in Cambodia.

14. CAPITALIZATION

14.1 - Issued Capital

All capitalization information contained in this item 14.1 is accurate as of the record date of March 16, 2021.

	Number of Securities (non-diluted)	**Number of Securities (fully-diluted)**	**% of Issued (non-diluted)**	**% of Issued (fully diluted)**
Public Float				
Total outstanding (A)	224,324,030	275,498,564[(1)]	100.00%	100.00%
Held by Related Persons or employees of the Company or Related Person of the Company, or by persons or companies who beneficially own or control, directly or indirectly, more than a 5% voting position in the Company (or who would beneficially own or control, directly or indirectly, more than a 5% voting position in the Company upon exercise or conversion of other securities held) (B)	23,774,146[(2)]	30,974,146[(3)]	10.60%	11.24%
Total Public Float (A-B)	200,549,884	244,524,418	89.40%	88.76%
Freely-Tradeable Float				
Number of outstanding securities subject to resale restrictions, including restrictions imposed by pooling or other arrangements or in a shareholder agreement and securities held by control block holders (C)	25,340,000[(4)]	51,355,200[(5)]	11.30%	18.64%
Total Tradeable Float (A-C)	198,984,030	224,143,364	88.70%	81.36%

Notes:

(1) Includes 224,324,040 Common Shares, 8,800,000 Options, 41,699,334 Warrants and 675,200 Agents Warrants currently issued and outstanding.

(2) Includes Common Shares held by Michael Krzus, Donald Currie, David Stone, Thomas Milne, and Robert Lambert.

(3) Includes securities held by Michael Krzus, Donald Currie, David Stone, Thomas Milne, Robert Lambert, Dale Miller, and Aaron Triplett.

(4) Includes 25,340,000 Common Shares issued pursuant to the January 2021 Private Placement.

(5) Includes 25,340,000 Common Shares, 25,340,000 Warrants and 675,200 Agents Warrants issued pursuant to the January 2021 Private Placement.

Public Securityholders (Registered)

For the purposes of this table, "public securityholders" does not include persons enumerated in section (B) the *Issued Capital* table above:

Class of Security: Common Shares

Size of Holding	**Number of holders**	**Total number of securities**
1 – 99 securities	0	0
100 – 499 securities	1	100
500 – 999 securities	0	0
1,000 – 1,999 securities	0	0
2,000 – 2,999 securities	0	0
3,000 – 3,999 securities	0	0
4,000 – 4,999 securities	1	4,333
5,000 or more securities	54	221,169,597
TOTAL:	**56**	**221,174,030**

Public Securityholders (Beneficial)

For the purposes of this table, "public securityholders" does not include persons enumerated in section (B) the *Issued Capital* table above:

Class of Security: Common Shares

Size of Holding	**Number of holders**	**Total number of securities**
1 – 99 securities	44	1,471
100 – 499 securities	135	31,610
500 – 999 securities	157	99,756
1,000 – 1,999 securities	344	427,276
2,000 – 2,999 securities	259	575,413

3,000 – 3,999 securities	143	464,189
4,000 – 4,999 securities	102	427,942
5,000 or more securities	2,238	196,203,129
Unable to confirm	Unknown	2,319,108
TOTAL:	**3,422**	**200,549,894**

Non-Public Securityholders (Registered)

For the purposes of this chart, "non-public securityholders" are persons enumerated under (B) in the *Issued Capital* table above.

Class of Security: Common Shares

Size of Holding	**Number of holders**	**Total number of securities**
1 – 99 securities	0	0
100 – 499 securities	0	0
500 – 999 securities	0	0
1,000 – 1,999 securities	0	0
2,000 – 2,999 securities	0	0
3,000 – 3,999 securities	0	0
4,000 – 4,999 securities	0	0
5,000 or more securities	5	23,774,146
TOTAL:	**5**	**23,774,146**

14.2 – Convertible / Exchangeable Securities

The following table sets out information regarding outstanding securities convertible or exchangeable into Common Shares:

Description of Security	Number of Convertible / Exchangeable Securities Outstanding	Number of Listed Securities Issuable Upon Conversion / Exercise
Warrants(1)	200,000 at $0.05 expiry May 10, 2021	200,000
Warrants(1)	32,000 at $0.10 expiry May 10, 2021	32,000
Warrants(2)	2,971,000 at $0.07 expiry July 14, 2022	2,971,000
Warrants(3)	13,156,334 at $0.10 expiry September 1, 2022	13,156,334
Warrants(4)	25,340,000 at $0.10 expiry January 18, 2023	25,340,000
Agents' Warrants(4)	675,200 at $0.10 expiry January 18, 2023	675,200
Options	900,000 at $0.05 expiry Feb 21, 2022	900,000
Options	300,000 at $0.05 expiry May 1, 2022	300,000
Options	5,600,000 at $0.05 expiry July 8, 2025	5,600,000
Options	1,000,000 at $0.05 expiry October 7, 2025	1,000,000
Options	1,000,000 at $0.05 expiry Nov 9, 2025	1,000,000

Notes:

(1) Issued pursuant to a non-brokered private placement wherein the Company issued 3,900,000 units at $0.05 per unit for gross proceeds of $195,000. Each unit comprised of one Common Share and one half of a Common Share purchase warrant. Each whole warrant entitled the holder thereof to acquire an additional Common Share at $0.10 for two years from the date of closing of the placement.

(2) Issued pursuant to the 2020 Offering.

(3) Issued pursuant to an early warrant exercise incentive program, intended to encourage the early exercise of 22,894,446 outstanding warrants by enabling the holders thereof to receive a new warrant exercisable at $0.10 for each warrant exercised at $0.05.

(4) Issued pursuant to the 2021 Offering.

14.3 – Other Listed Securities

The Company has Common Shares reserved for issuance under the Option Plan in an amount equal to 10% the number of Common Shares currently issued and outstanding at any given time.

15. EXECUTIVE COMPENSATION

15.1 – Compensation of Executive Officers and Directors

The Company's Statement of Executive Compensation from *Form 51-102F6V* is attached as Schedule "D".

Material Changes to Compensation

The Company does not intend to make any material changes to compensation.

16. INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No director or officer of the Company or person who acted in such capacity in the last financial year, or any other individual who at any time during the most recently completed financial year of the Company was a director of the Company or any associate of the Company, is indebted to the Company, nor is any indebtedness of any such person to another entity the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company.

17. RISK FACTORS

17.1 Description of Risk Factors

The business and operations of the Company are subject to numerous risks, many of which are beyond the Company's control. The Company considers the risks set out below to be some of the most significant to current and potential investors in the Company, but readers are cautioned that the list is not exhaustive. If any of these risks materialize into actual events or circumstances, or any other additional risks or uncertainties material to the Company's business occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), and business and business prospects are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline, and investors may lose all or part of their investment. The Company is engaged in the acquisition, exploration and development of oil and gas properties. Given the nature of the oil and gas business, the limited extent of the Company's assets and the present stage of exploration, the following risks, among others, should be considered.

Financing Risks and Dilution to Shareholders

The Company has limited financial resources and further exploration or acquisitions will require additional funds to complete. There can be no assurance that the Company will be successful in its efforts to obtain adequate financing in the future or that such financing will be available on favourable terms or at all. It is likely such additional capital may be raised through the issuance of additional equity or other forms of capital such as debt or sale of assets which may result in dilution to the Company's existing shareholders.

Fluctuating Oil and Gas Prices

The economics of oil and gas exploration are affected by many factors beyond the Company's control, including commodity prices, supply and demand in the market and the cost of operations. Depending on the price of commodities, the Company may determine that it is impractical to continue exploration. Any material decline in prices may result in the reduction of existing and potential profitable exploration and development activities as well as reducing the financing options available to the Company. Prices are prone to fluctuations and marketability is affected by government regulations relating to price, royalties and allowable production, the effect of which cannot be accurately predicted. There is no assurance that a profitable market will exist for the sale of any commodities found on the properties.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of this Company may be subject to in connection with the Company's operations. Certain of the directors and officers of the Company are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies and, as a result of these and other activities, such directors and officers may be in direct conflict with the Company. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA and any other applicable corporate laws.

Local Resident Concerns

In addition to ordinary environmental issues, the exploration and development of the Company's projects could be subject to resistance from local residents that could either prevent or delay exploration and development of its properties.

Competition

The oil and gas exploration and development industry is highly competitive. The Company will have to compete with other companies, many of which have greater financial, technical and other resources than the Company, for, among other things, the acquisition of leases and other interests as well as for the recruitment and retention of qualified employees and other personnel. Failure to compete successfully against other companies could have a material adverse effect on the Company and its prospects.

Environmental Risks

The Company's exploration and appraisal programs will, in general, be subject to approval by regulatory bodies. Additionally, all phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, state and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

Exploration, Development and Operating Risks

Oil and gas exploration and development is highly speculative in nature and involves a high degree of risk. There is no assurance that expenditures made on future exploration and development by the Company will result in new discoveries of oil and gas in commercial quantities. The recovery of expenditures on oil and gas properties and the related deferred exploration expenditures are dependent on the ability of the Company to obtain financing necessary to complete the exploration and development of its projects, and upon future profitable production, or alternatively, on the sufficiency of proceeds from disposition. The long-term commercial success of the Company depends on its ability to acquire, develop and commercially produce oil and gas reserves. The Company is in the process of exploring its properties and determining the technical feasibility and economically recoverable reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Additionally, if such acquisitions and participation are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisition or participation uneconomic. Even if the Company is successful in locating satisfactory properties, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. The Company attempts to control operating risks by maintaining a disciplined approach to execution of its exploration and development programs. Exploration risks are managed by utilizing management experience and expertise along with technical professionals and by concentrating on the exploration activity on specific core regions that have multi-zone potential. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner. Additionally, oil and gas operations are subject to the usual risks involved in the acquisition, exploration, development and production of oil and gas properties, including whether any of the remaining projects contain economically recoverable reserves and are able to generate any revenues from production.

Litigation

The Company and/or its directors may become subject to a variety of civil or other legal proceedings, with or without merit.

Uninsurable Risks

Exploration, development and production operations of oil and gas reserves involve numerous risks, including sub-surface production issues or mechanical failure in wells, uncontrolled release of hydrocarbons, fires, floods, hurricanes, earthquakes and other environmental occurrences, any of which could result in damage to, or destruction of, wells and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although the Company intends to take precautions to minimize risk that will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks, such as environmental risks, as a result of high premiums or other reasons. Should such liabilities arise, they could have an adverse impact on the Company's operations and financial condition and could cause a decline in the value of the Company's shares.

Regulatory, Permit and License Requirements

The current or future operations of the Company require permits from various governmental authorities, and such operations are and will be governed by laws and regulations concerning exploration, development, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, site safety and other matters. Companies engaged in the exploration and development of oil and gas properties generally experience increased costs and delays in development and other schedules as a result of the need to comply with applicable laws, regulations and permits. Adverse changes to laws and regulations could have a material adverse effect on present and future exploration and development projects, operations, and capital expenditures. There can be no assurance that all permits which the Company may require for facilities and to conduct exploration and development operations on the properties will be obtainable on reasonable terms, or that such laws and regulations will not have an adverse effect on any exploration or development project which the Company might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in exploration and development operations may be required to compensate those suffering loss or damage by reason of the exploration and development activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of oil and gas companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or exploration and development costs, or require abandonment or delays in the development of new or existing properties.

Reliance on Management and Dependence on Key Personnel

The success of the Company will be largely dependent upon the performance of its directors and officers and on the Company's ability to attract and retain key personnel. The loss of the services of these persons may have a material adverse effect on the Company's business and prospects. The

Company will compete with numerous other companies for the recruitment and retention of qualified employees and contractors. There is no assurance that the Company can maintain the service of its directors and officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Availability of Equipment and Labour

The oil and gas exploration industry is dependent on the availability of equipment and labour in the areas where such activities will be conducted. Demand for limited equipment and labour and restrictions imposed on access to equipment may affect the availability of such equipment to the Company which could delay exploration, development and production activities.

17.2 – Additional Securityholder Risk

There is no risk that securityholders of the Company may become liable to make an additional contribution beyond the price of the security.

17.3 – Other Risks

Subject to the risk factors set out under Part 17.1 above, there are no other material risk factors that a reasonable investor would consider relevant to an investment in the Company's shares.

18. PROMOTERS

18.1 – 18.3 – Promoter Consideration

Other than the directors and officers of the Company, management is not aware of any person or company who could be characterized as a promoter of the Company within the two years immediately preceding the date of this Listing Statement.

19. LEGAL PROCEEDINGS

19.1 – Legal Proceedings

There are no legal proceedings material to the Company to which the Company is a party or of which any of its property is the subject matter, and there are no such proceedings known to the Company to be contemplated.

19.2 – Regulatory Actions

The Company is not subject to any penalties or sanctions imposed by any court or regulatory authority relating to securities legislation or by a securities regulatory authority, nor has the Company entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body or self-regulatory authority that are necessary to provide full, true and plain disclosure of all material facts relating to the Company's securities or would be likely to be considered important to a reasonable investor making an investment decision.

20. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, officer, proposed management nominee for director or person who, to the knowledge of the directors or officers of the Company, beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of the votes attached to all outstanding Common Shares of the Company, informed person or any associate or affiliate of the foregoing has any material interest, direct or indirect, in any transaction since the commencement of the Company's last financial year or in any proposed transaction, which, in either case, has materially affected or will materially affect the Company.

21. AUDITORS, TRANSFER AGENTS AND REGISTRARS

21.1 – Auditors

The firm of DeVisser Gray LLP ("**DeVisser**"), Chartered Accountants, is the independent registered certified auditor of the Company. DeVisser is located at 401-905 West Pender Street, Vancouver, BC V6C 1L6. DeVisser was first appointed on March 26, 2020. Prior to that, the Company's auditor was PricewaterhouseCooper LLP.

21.2 – Transfer Agent and Registrar

The registrar and transfer agent of the Company's Common Shares is Computershare Canada at its Vancouver office located at 510 Burrard Street, Vancouver, BC V6C 3A8.

22. MATERIAL CONTRACTS

22.1 – Material Contracts

As of the date of this Listing Statement, the Company has no material contracts.

22.2 – Special Agreements

The Company is not a party to any co-tenancy, unitholders' or limited partnership agreements.

23. INTEREST OF EXPERTS

23.1 – Interest of Experts

No person or company whose profession or business gives authority to a statement made by the person or company and who is named as having prepared or certified a part of this Listing

Statement or as having prepared or certified a report or valuation described or included in this Listing Statement holds any beneficial interest, direct or indirect, in any securities or property of the Company or of an Associate or Affiliate of the Company and no such person is expected to be elected, appointed or employed as a director, senior officer or employee of the Company or of an Associate or Affiliate of the Company and no such person is a promoter of the Company or an Associate or Affiliate of the Company. DeVisser is independent of the Company in accordance with the rules of professional conduct of the Institute of Chartered Accountants of British Columbia.

24. OTHER MATERIAL FACTS

Other than as set out elsewhere in this Listing Statement, there are no other material facts about the Company and its securities which are necessary in order for this Listing Statement to contain full, true and plain disclosure of all material facts relating to the Company and its respective securities.

25. FINANCIAL STATEMENTS

Schedule "A" contains the audited financial statements for the Company for the years ended December 31, 2019, 2018 and 2017 and for the nine months' ended September 30, 2020.

SCHEDULE "A"

FINANCIAL STATEMENTS OF THE COMPANY

(see attached)

Hillcrest Petroleum

Consolidated Financial Statements

December 31, 2017 and 2016

(Expressed in Canadian Dollars)

April 30, 2018

Independent Auditor's Report

To the Shareholders of Hillcrest Petroleum Ltd.

We have audited the accompanying consolidated financial statements of Hillcrest Petroleum Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' deficiency and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hillcrest Petroleum Ltd. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements, which discloses conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Hillcrest Petroleum Ltd. to continue as a going concern.

(Signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants

HILLCREST PETROLEUM LTD.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	December 31, 2017	December 31, 2016
	($)	($)
ASSETS		
Current assets		
Cash	59,186	184,940
Accounts receivable	780	29,402
GST receivable	14,894	3,945
Prepaid expenses	137,953	63,953
Total current assets	212,813	282,240
Non-current assets		
Exploration and evaluation assets (Note 4)	38,264	-
Restricted Cash	-	2,048,604
Property and equipment (Note 5)	-	272,530
TOTAL ASSETS	251,077	2,603,374
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	505,166	5,763,186
Current portion of loans (Notes 7 and 8)	829,533	771,381
Current portion of decommissioning liability (Note 9)	33,893	27,019
Total current liabilities	1,368,592	6,561,586
Loans (Notes 7 and 8)	260,041	84,761
Embedded derivative liability (Note 7)	73,700	-
Decommissioning liability (Note 9)	8,951	2,740,024
TOTAL LIABILITIES	1,711,284	9,386,371
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 11)	7,029,436	6,178,384
Contributed surplus (Note 11)	1,345,420	980,454
Reserves (Note 11)	170,631	1,348,392
Deficit	(10,005,694)	(15,290,227)
	(1,460,207)	(6,782,997)
TOTAL LIABILITIES & SHAREHOLDERS' DEFICIENCY	251,077	2,603,374

Nature of operations and going concern (Note 1)
Commitments (Note 12)
Subsequent events (Note 20)

These consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2018.
They were signed on the Board's behalf by:

"Don Currie"
Director

"Thomas Milne"
Director

HILLCREST PETROLEUM LTD.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in Canadian dollars)

	Year Ended December 31, 2017	Year Ended December 31, 2016
	($)	($)
Revenue, net of royalties	36,299	1,299,214
Expenses		
Operating costs	75,711	2,020,821
Consulting fees (Note 10)	265,511	632,511
Depletion and depreciation (Note 5)	3,588	806,918
Office and general (Note 17)	815,601	1,697,569
Share-based payments (Note 11)	288,966	76,000
Workover costs	59,303	-
	1,508,680	5,233,819
Loss from operations	(1,472,381)	(3,934,605)
Change in estimate of decommissioning liability (Note 9)	4,112	(321,168)
Change in fair value of loan conversion liability (Note 7)	31,600	-
Financing expenses (Note 17)	(325,193)	(325,732)
Gain on disposal of oil and gas properties (Note 5)	66,651	961,134
Gain on loss of control of HGOM (Note 19)	6,887,012	-
Impairment of oil and gas properties (Note 5)	-	(332,865)
Impairment of exploration and evaluation assets (Note 4)	-	(410,955)
Impairment of short-term investments	-	(34,659)
Proceeds from insurance settlement (Note 5)	82,429	832,018
Foreign exchange gain	10,303	4,837
Net income (loss) for the year	5,284,533	(3,561,995)
Item that may be subsequently reclassified to net loss		
Exchange differences on translating foreign operations	192,593	190,474
Comprehensive income (loss) for the year	5,477,126	(3,371,521)
Basic and diluted income (loss) per share	0.07	(0.07)
Weighted average common shares outstanding:		
Basic	71,304,732	52,141,830
Diluted	72,673,971	52,141,830

HILLCREST PETROLEUM LTD.

Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars)

	Share Capital			Reserves			
	Number of Shares	Amount	Contributed Surplus	Warrants	Foreign Currency Translation	Deficit	Shareholders' Deficiency
		($)	($)	($)	($)	($)	($)
Balance at December 31, 2015	50,295,655	5,708,384	949,834	30,620	1,081,918	(11,728,232)	(3,957,476)
Proceeds from private placement	7,300,000	365,000	-	-	-	-	365,000
Shares issued for unsecured loan	1,000,000	30,000	-	-	-	-	30,000
Shares issued for secured loan	1,500,000	75,000	-	-	-	-	75,000
Transfer expired warrants to contributed surplus	-	-	30,620	(30,620)	-	-	-
Warrant extension	-	-	-	76,000	-	-	76,000
Net loss and comprehensive loss for the year	-	-	-	-	190,474	(3,561,995)	(3,371,521)
Balance at December 31, 2016	60,095,655	6,178,384	980,454	76,000	1,272,392	(15,290,227)	(6,782,997)
Proceeds from private placement	14,494,857	836,640	-	-	-	-	836,640
Share issuance costs	-	(5,588)	-	-	-	-	(5,588)
Shares for services	285,714	20,000	-	-	-	-	20,000
Grant of stock options	-	-	288,966	-	-	-	288,966
Transfer expired warrants to contributed surplus	-	-	76,000	(76,000)	-	-	-
Loss of control of subsidiary	-	-	-	-	(1,341,904)	-	(1,341,904)
Warrants issued for services	-	-	-	47,550	-	-	47,550
Net income and comprehensive income for the year	-	-	-	-	192,593	5,284,533	5,477,126
Balance at December 31, 2017	74,876,226	7,029,436	1,345,420	47,550	123,081	(10,005,694)	(1,460,207)

HILLCREST PETROLEUM LTD.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year Ended December 31, 2017	Year Ended December 31, 2016
	($)	($)
Net income (loss) for the year	5,284,533	(3,561,995)
Adjusted for items not involving cash:		
Accretion expense	77,578	201,898
Accrued interest expense	196,386	14,825
Change in estimate of decommissioning liability	(4,112)	321,168
Change in fair value of loan conversion liability	(31,600)	-
Depletion and depreciation	3,588	806,918
Impairment of exploration and evaluation assets	-	410,955
Impairment of oil and gas properties	-	332,865
Impairment of short-term investments	-	34,659
Gain on loss of control of HGOM	(6,887,012)	-
Gain on disposal of oil and gas properties	(66,651)	(961,134)
Share-based payments	288,966	76,000
Shares and warrants issued for services	67,550	-
Unrealized foreign exchange loss	2,251	96,434
Changes in non-cash working capital:		
Accounts receivable	28,622	197,952
Prepaid expenses	(74,000)	51,925
GST receivable	(10,949)	2,008
Accounts payable and accrued liabilities	(247,807)	1,541,112
Cash flows used in operating activities	(1,372,657)	(434,410)
Release of restricted cash	-	334,074
Proceeds from disposal of oil and gas properties	309,873	-
Exploration and evaluation expenditures	(38,264)	(323,410)
Cash disposed of due to loss of control of HGOM	(78,789)	-
Cash flows provided by investing activities	192,820	10,664
Proceeds from private placement	771,640	365,000
Share subscriptions received in advance	54,000	65,000
Share issuance costs	(5,588)	-
Proceeds from loans	523,950	360,000
Repayment of loans	(289,887)	(376,106)
Cash flows provided by financing activities	1,054,115	413,894
Change in cash	(125,722)	(9,852)
Effect of exchange rate changes on cash denominated in a foreign currency	(32)	(3,789)
Cash, beginning of the year	184,940	198,581
Cash, end of the year	59,186	184,940

Supplemental cash flow information (Note 16)

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 located in North 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 1300 – 1030 West Georgia Street, Vancouver, BC, V6E 2Y3. 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 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 reported net income for the year of $5,284,533, however all of this income related to the loss of control of a former subsidiary. Other than this the Company had a loss for the year of $1,602,479 and had a working capital deficiency of $1,155,779 as at December 31, 2017. 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 its creditors and its 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 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. Basis of Preparation

(a) Statement of Compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were authorized by the Audit Committee and Board of Directors of the Company on April 30, 2018.

2. Basis of Preparation (continued)

(b) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, with the exception of the embedded derivative in the Ballakilley loan which is recognised at fair value (Note 7), using the accrual basis of accounting, except for cash flow information.

(c) Basis of Consolidation

These consolidated financial statements include the accounts of the parent company, Hillcrest Petroleum Ltd., and its wholly-owned subsidiaries. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Name of Subsidiary	Jurisdiction of Incorporation	Principal Activity
Hillcrest Exploration Ltd. (“HEL”)	USA	Oil and Gas exploration
1084580 BC Ltd.	Canada	Oil and Gas exploration
2044573 Alberta Ltd.	Canada	Oil and Gas exploration
102031850 Saskatchewan Ltd.	Canada	Oil and Gas exploration
Hillcrest Resources (Arizona) Ltd. (“HARL”)	USA	Dormant
Hillcrest GOM Inc. (“HGOM”)	USA	Dissolved during the year

(d) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars. The functional currency of the parent, 1084580 BC Ltd., 2044573 Alberta Ltd., 102031850 Saskatchewan Ltd. and HARL is the Canadian dollar. The functional currency of HEL, HGOM and Darcy is the United States dollar.

(e) Use of Estimates and Judgements

The preparation of these consolidated 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 period. Actual results could differ from these estimates.

These consolidated 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:

2. Basis of Preparation (continued)

(e) Use of Estimates and Judgements (continued)

Depletion and Depreciation
The amounts recorded for depletion and depreciation of oil and natural gas properties and the amounts used in impairment testing are based on independent estimates of proved and probable reserves, well production rates, realized and forecast oil and natural gas prices, future development costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty. Accordingly, the impact on the consolidated financial statements for future periods may be material.

Decommissioning provisions
Restoration costs will be incurred by the Company at the end of the operating life of the Company's oil properties. The Company estimates abandonment and reclamation costs based on a combination of publicly available industry benchmarks and internal site specific information. For producing wells and facilities, the expected timing of settlement is estimated based on the period to abandonment for each field, as per an independent report. The ultimate restoration liability is uncertain and can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, or changes in the risk-free discount rate. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results (Note 9).

Income taxes
The calculation of income taxes requires judgment in applying tax laws and regulations, estimating the timing of the reversals of temporary differences, and estimating the reliability of deferred tax assets. These estimates impact current and deferred income tax assets and liabilities, and current and deferred income tax expense (recovery).

Significant judgements that management has made at the end of the reporting year are as follows:

Determination of functional currency
The functional currency of each entity is the currency of the primary economic environment in which that entity operates. The Company has determined the functional currency of the parent company, 1084580 BC Ltd., 2044573 Alberta Ltd., 102031850 Saskatchewan Ltd. and Hillcrest Resources (Arizona) Ltd. to be the Canadian dollar, and that of the remaining subsidiaries be the United States dollar. Determination of the functional currency involves certain judgments to determine the primary economic environment. The functional currency may change if there is a change in events and conditions which determine the primary economic environment.

Carrying value and the recoverability of exploration and evaluation assets
Management has determined that exploration, evaluation and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, scoping and feasibility studies, accessible facilities and existing permits.

2. Basis of Preparation (continued)

(e) Use of Estimates and Judgements (continued)

Fair value of stock options and other share-based payments
Management assesses the fair value of stock options and other share-based payments granted in accordance with the accounting policy stated in Note 3 to the consolidated financial statements. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the Company's stock options.

Fair value of embedded derivatives
Management assesses its financial instruments in order to identify whether not non-derivative instruments might contain an embedded derivative component. If such a derivative component is identified, then it must be separated from the non-derivative host contract and recorded at fair value. The fair value of the embedded derivative is measured using the Black-Scholes model, taking into account the terms and conditions upon which the derivative is granted. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the embedded derivative.

Carrying value and the recoverability of property and equipment
The Company reviews its equipment for indicators of impairment whenever there is a change in events or circumstances that indicate an asset may be impaired and at each reporting period. Reviews are undertaken to evaluate the carrying value of the property and equipment considering, among other factors: the carrying value of each type of asset and the changes in circumstances that affect the carrying value of the Company's property and equipment. If such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The determination of recoverable amount is based on fair value estimation.

Determination of cash generating units
Management must make judgements as to which oil and gas properties can be aggregated into a cash generating unit ("CGU"). The Company's oil and gas assets are aggregated into CGUs for the purpose of calculating impairment and depletion. Factors considered by management include, but are not limited to, the product produced (i.e. oil versus gas), the common infrastructure shared by individual properties, proximity of properties to each other, and planned development activities.

3. Significant Accounting Policies

(a) Foreign Currency Translation

Functional and presentation currency
The financial results of foreign operations that have a functional currency different from the Company's 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 quarter except for significant individual transactions which are translated at the rate of exchange in effect at the transaction date. All assets and liabilities, are translated at the rate of exchange ruling at the reporting date. Differences arising on translation 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 United States dollar is the functional currency of several of the Company's subsidiaries.

3. Significant Accounting Policies (continued)

(a) Foreign Currency Translation (continued)

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 net income (loss), except for the Company's net investment in its foreign subsidiaries which are recognised in other comprehensive income.

(b) 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).

(c) Property and Equipment

Cost and valuation

All costs directly associated with the development of oil and gas interests are capitalized on a CGU basis as oil and gas interests and are measured at cost less accumulated depletion and net of 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.

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 33% 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 on a prospective basis if appropriate.

3. Significant Accounting Policies (continued)

(d) Decommissioning and Restoration Costs

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of well sites is capitalized to oil and gas properties along with a corresponding increase in the restoration provision in the period incurred. The Company uses a pre-tax discount rate that reflects the time value of money to calculate the net present value of the decommissioning provisions. The restoration asset will be depreciated on the same basis as other oil and gas properties.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to oil and gas properties with a corresponding entry to the restoration provision, except when the related oil and gas property is closed. Changes in estimates of restoration costs for closed oil and gas properties are recorded in the income statement. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

The restoration provisions are accreted to full value over time through charges to finance expenses on the consolidated statement of loss and comprehensive loss.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred. The costs of restoration projects that were included in the provision are recorded against the provision as incurred.

(e) Impairment of Non-Financial Assets

At each reporting period the carrying amounts of the Company's non-financial 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 CGUs defined as the smallest identifiable group of assets that generate 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) as an impairment expense. The recoverable amount is the greater of the value in use or fair value less costs of disposal ("FVLCD"). 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 of disposal 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.

3. Significant Accounting Policies (continued)

(f) 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.

(g) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified at fair value through profit or loss) are added to, or deducted from, the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets and financial liabilities are measured subsequently as described below. The Company does not have any derivative financial instruments.

<u>Financial assets</u>
For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments; and
- Available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

- *Financial assets at fair value through profit or loss* – Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The Company currently does not hold financial assets in this category.

- *Loans and receivables* – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method less any provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash, accounts receivable, GST receivable, other receivables and restricted cash fall into this category of financial instruments.

3. Significant Accounting Policies (continued)

(g) Financial Instruments (continued)

- *Held-to-maturity investments* – Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables. Investments are classified as held-to-maturity if the Company has the intention and ability to hold them until maturity. The Company currently does not hold financial assets in this category.

- *Available-for-sale financial assets* – Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company currently does not hold financial assets in this category.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities
For the purpose of subsequent measurement, financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities upon initial recognition.

- *Financial liabilities at fair value through profit or loss* – Financial liabilities at fair value through profit or loss include financial liabilities that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Liabilities in this category are measured at fair value with gains or losses recognized in profit or loss. The embedded derivative in the Ballakilley loan falls into this category.

- *Other financial liabilities* – Other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process. The Company's accounts payable and secured and unsecured loans fall into this category of financial instruments.

A financial liability is derecognized when it is extinguished, discharged, cancelled, or expired.

(h) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax "risk-free" rate that reflects current market assessments of the time value of money. Provisions are not recognised for future operating losses.

(i) 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.

(j) 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.

3. Significant Accounting Policies (continued)

(k) Revenue Recognition

Revenue from the sale of oil and natural gas is recorded 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, and is based on volumes delivered to customers at contractual delivery points and rates. Delivery is generally at the time the petroleum enters the tank and when natural gas enters the pipeline. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded. Revenue is measured net of royalties, discounts and customs duties.

(l) 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 the services.

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 credited to share capital, adjusted for any consideration paid.

(m) 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.

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.

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.

3. Significant Accounting Policies (continued)

(m) Taxes (continued)

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.

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.

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.

(n) New Standards, Amendments and Interpretations to Existing Standards Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become mandatorily effective.

The following standards have been issued for annual periods beginning on or after January 1, 2018 but are not yet effective:

IFRS 9, Financial instruments

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. This new standard replaces International Accounting Standards ("IAS") 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces a new impairment model for financial assets and new rules for hedge accounting.

IFRS 9 requires financial assets to be classified into one of three measurement categories on initial recognition: FVTPL, fair value through OCI and amortized cost. Measurement and classification of financial assets is dependent on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The new standard retains most of the existing requirements for financial liabilities.

IFRS 9 introduces a new impairment model for financial assets. This new model may result in the earlier recognition of credit losses as it requires the Company to account for expected credit losses from the time the financial instruments are first recognized.

The adoption of this standard is not expected to have a material impact on the Company's financial statements.

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(n) New Standards, Amendments and Interpretations to Existing Standards Not Yet Effective (continued)

IFRS 15, Revenue from Contracts with Customers

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. This new standard is based on the principle that revenue should be recognized to depict the transfer of goods or services to customers at an amount that the entity expects it will be entitled to in exchange for those goods.

IFRS 15 introduces a new five step model for the recognition of revenue based on when control of a good or service transfers to a customer. The notion of control replaces the existing notion of risks and rewards and could result in changes in the timing of revenue recognition for certain contracts.

The adoption of this standard is not expected to have a material impact on the Company's financial statements.

The following standard has been issued for annual periods beginning on or after January 1, 2019 but is not yet effective:

IFRS 16, Leases

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. This new standard replaces the existing leasing guidance in IAS 17, Leases.

IFRS 16 distinguishes between leases and service contracts on the basis of whether the customer controls the asset being leased. For those contracts determined to meet the definition of a lease, IFRS 16 requires a lessee to recognize on the balance sheet a lease asset along with the associated lease liability which reflects future lease payments, similar to current finance lease accounting. There are limited exceptions for leases with a term of less than 12 months or leases of assets which have a very low value. As a result of the adoption of IFRS 16, operating leases which were previously only recognized on the consolidated statement of income (loss) will be recognized on the consolidated statement of financial position.

The Company has not yet assessed the potential impact of the application of this standard.

4. Exploration and Evaluation Assets

	Flaxcombe	Carrera Prospect	Pettit	Total
	($)	($)	($)	($)
Balance at January 1, 2016	-	87,545	-	87,545
Additions	-	4,197	319,213	323,410
Impairment	-	(91,742)	(319,213)	(410,955)
Balance at December 31, 2016	-	-	-	-
Additions	38,264	-	-	38,264
Balance at December 31, 2017	38,264	-	-	38,264

4. Exploration and Evaluation Assets (continued)

Flaxcombe - Saskatchewan

On December 14, 2017, the Company entered into a farm-in agreement with Westcore Energy Ltd. to workover two previously shut-in oil wells (16-13 and 7-13) in the Flaxcombe area of southwestern Saskatchewan. The Company is required to incur 100% of the workover costs in exchange for a 50% working interest in the wells. In accordance with an approved budget, the Company advanced $135,000 to complete the workovers of which $38,264 has been spent as at December 31, 2017.

Carrera Prospect – 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. As a result, the Company had mineral interests of up to 80% within certain parts of the Carrera Prospect area.

During the year ended December 31, 2015, the Company reviewed the carrying value of the Carerra 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.

Effective September 30, 2016, the Company terminated the Exploration Agreement with Bazmo in exchange for a cash payment of US$15,000 and the assignment of a 15% working interest in certain currently held leases in the Carrera Prospect.

As at December 31, 2016, the Company decided to discontinue exploration on the Carrera Prospect, and as a result recorded an impairment of $91,742.

Pettit Project - Louisiana

On July 29, 2016, the Company entered into a definitive agreement ("Pettit Agreement") for the right to acquire up to a 75% working interest in 6,200 acres in the state of Louisiana. The terms of the Pettit Agreement require the Company to undertake an initial six well development drilling program with a maximum commitment of US$3,000,000.

The Company paid a US$240,000 acreage fee to the vendor for the initial six wells. The Company was to pay an acreage fee of US$40,000 for each additional well drilled after the initial six well program and implement a bonus program payable in common shares of the Company, subject to TSX-V approval, for each barrel of oil reserves incrementally added to the proved, developed producing category.

As at December 31, 2016, the Company decided to discontinue exploration on the Pettit Project, and as a result recorded an impairment of $319,213.

During the year ended December 31, 2017, the Company lost all rights to the Pettit Project.

(Expressed in Canadian dollars)

5. Property and Equipment

	Computers	Oil and Gas Interests	Total
	($)	($)	($)
Cost			
At January 1, 2016	27,624	24,006,519	24,034,143
Disposals	-	(19,889,477)	(19,889,477)
Change in decommissioning estimate	-	(80,205)	(80,205)
Foreign exchange movement	(331)	(767,502)	(767,833)
At December 31, 2016	27,293	3,269,335	3,296,628
Disposals	(10,886)	(1,555,928)	(1566,814)
Foreign exchange movement	(379)	-	(379)
At December 31, 2017	16,028	1,713,407	1,729,435
Accumulated depletion and depreciation			
At January 1, 2016	18,889	4,333,057	4,351,946
Depletion and depreciation for the year	4,967	801,951	806,918
Disposals	-	(2,586,082)	(2,586,082)
Foreign exchange movement	(56)	(202,921)	(202,977)
At December 31, 2016	23,800	2,346,005	2,369,805
Depletion and depreciation for the year		3,588	3,588
Disposals	(7,510)	(1,127,729)	(1,135,239)
Foreign exchange movement	(262)	-	(262)
At December 31, 2017	16,028	1,221,864	1,237,892
Impairment			
At January 1, 2016	-	7,790,130	7,790,130
Impairment for the year	-	332,865	332,865
Disposals	-	(7,192,475)	(7,192,475)
Foreign exchange movement	-	(276,227)	(276,227)
At December 31, 2016	-	654,293	654,293
Disposals	-	(162,750)	(162,750)
At December 31, 2017	-	491,543	491,543
Carrying amounts:			
At December 31, 2016	3,493	269,037	272,530
At December 31, 2017	-	-	-

(Expressed in Canadian dollars)

5. Property and Equipment (continued)

Hartburg Project, Texas

The Company has the following working interests:

Well	Working Interest
Donner #4	48.0%
Brown #1	90.0%

During the year ended December 31, 2017, the Company sold its interest in the Donner #1 well for a cash payment of $309,873 and the release of liability for any future asset retirement obligations estimated at $12,305 on an discounted basis. As a result, the Company recorded a gain on disposal of $56,728.

As at December 31, 2017, all of the remaining wells are shut-in, and the underlying lease agreements with the land owners has terminated. The Company is currently evaluating the status of the well bores and any future plans.

Gulf of Mexico Properties

During the year ended December 31, 2017, the Company received $82,429 from its insurance carrier as a refund of historical fees related to a no claims bonus. The proceeds from the insurance refund have been recorded as a recovery of costs on the consolidated statement of income (loss).

During the year ended December 31, 2016, the Company received $832,018 from its insurance carrier for costs related to a rig incident at the Ship Shoal 271 Platform in 2013. The proceeds from the insurance claim have been recorded as a recovery of costs on the consolidated statement of income (loss).

The Company included future development costs of $Nil (2016 - $3,182,062) in property, plant and equipment costs in the calculation of depletion.

During the year ended December 31, 2016, the Company disposed of the Eugene Island offshore oil field. This portfolio of non-operated oil and gas properties located shallow offshore waters of the Gulf of Mexico were comprised of 6 leases containing 4 producing fields. It was sold to the operator of the property in exchange for the settlement of $2,218,932 in existing payables owing to the purchaser, and the release of liability for any future asset retirement obligations estimated at $7,155,239 on a discounted basis. Accordingly, the Company recorded a gain on disposal of $961,134.

During the year ended December 31, 2017, the Company completed the Chapter 7 liquidation of its wholly-owned subsidiary HGOM in the U.S. Court for the Southern District of Texas. This has resulted in the disposal of the remaining non-operated assets located shallow offshore waters of the Gulf of Mexico. (Note 19)

Impairment

As at December 31, 2017, property and equipment was fully impaired. The Company reviewed the carrying value of its oil and gas interests and determined there were no indicators of impairment reversal at year end.

During the year ended December 31, 2016, the Company reviewed the carrying value of its oil and gas interests for impairment indicators. It was determined that the carrying values of the Brown 1 and Donner 2 onshore oil wells exceeded their recoverable amounts. Accordingly, the Company recorded an impairment of $332,865.

The recoverable amount for the CGUs were based on their fair value less costs of disposal ("FVLCD"). To determine the FVCLD, the Company considered the current operational status and asset sales which occurred subsequent to the end of the year.

(Expressed in Canadian dollars)

6. Accounts Payable and Accrued Liabilities

	2017	2016
	($)	($)
Trade payables	411,652	3,196,190
Related party payables	238	386,428
Accrued liabilities	93,276	2,180,568
	505,166	5,763,186

7. Secured Loans

ASI Loan

As at December 31, 2017, the Company has $138,550 (December 31, 2016 - $259,500) outstanding on a senior secured loan facility that bears interest at a rate of 20% per annum and is currently payable on demand. As part of the consideration for the loan facility, the lenders and the arranging agent receive an aggregate 10% 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 loan.

During the year ended December 31, 2017, the Company repaid $120,950 in loan principal and incurred $36,189 (2016 - $80,210) and $Nil (2016 - $13,954) in interest expense and overriding royalty payments, respectively.

Bridge Loan

On August 10, 2016, the Company borrowed $300,000 under a secured loan agreement (the "Bridge Loan") bearing interest at 1% per month, compounded monthly, and maturing on August 9, 2017. The Bridge Loan was secured by the Company's interest in the Pettit Project leases. The Company also issued 1,500,000 common shares with a value of $75,000 as payment of arrangement fees and syndication fees incurred in connection with the Bridge Loan. The cash received under the Bridge Loan has been allocated between the fair value of the loan liability and the value of the 1,500,000 common shares. The value ascribed to the common shares as at the loan date was $75,000, and the residual amount has been allocated to the loan liability.

During the year ended December 31, 2017, the Company incurred $86,063 (2016 - $41,881) in interest expense, including $47,944 (2016 - $27,056) in accretion of the loan liability. At December 31, 2017, a total of $352,943 (2016 - $314,825) in loan principal and accrued interest remained outstanding.

Ballakilley Loan

On June 15, 2017, the Company borrowed $140,950 under a convertible loan agreement (the "Ballakilley Loan") bearing interest at 20% per annum, payable semi-annually, and maturing on May 31, 2019. The Ballakilley Loan is convertible into common shares of the Company at a price of $0.07 per share, subject to a reduction if the Company completed a private placement or issues options or warrants at a lower price, at the option of the lender. The cash received under the Ballakilley Loan has been allocated between the fair value of the loan liability and the value of the loan conversion feature which is considered an embedded derivative. The value ascribed to the loan liability as at the loan date was $35,650, and the residual amount has been allocated to the loan conversion feature.

During the year ended December 31, 2017, the Company incurred $31,379 (2016 - $Nil) in interest expense, including $16,451 (2016 - $Nil) in accretion of the loan liability. At December 31, 2017 a total of $155,878 (December 31, 2016 - $Nil) in loan principal and accrued interest remained outstanding. Additionally, the loan conversion feature has been revalued to $73,700 and the Company has recorded a gain of $31,600 on the consolidated statement of income (loss).

7. Secured Loans (continued)

Project Financing

In February 2017, the Company entered into an arrangement with a third party to provide potential debt financing of up to $2,500,000. The Company incurred standby charges at a rate of 7% per annum for the availability of this potential debt financing for the acquisition and development of oil projects located in Canada. The Company did not borrow any funds during the year ended December 31, 2017, but has incurred standby charges totalling $142,301. The actual borrowing terms are to be negotiated if and when funds are borrowed. As at December 31, 2017, the funds available have been reduced to $2,000,000.

1055328 BC Ltd. Loan

On October 6, 2017, the Company borrowed $63,000 under an unsecured loan that bears 7% interest per annum and is repayable on or before October 6, 2018.

During the year ended December 31, 2017, the Company incurred $1,039 (2016 - $Nil) in interest expense. At December 31, 2017, a total of $64,039 (2016 - $Nil) in loan principal and accrued interest remained outstanding.

8. Unsecured Loans

Shares Subscriptions

On July 29, 2016, the Company received a cash subscription of $65,000 for a proposed equity financing. As at December 31, 2016, the financing had not closed so the subscription receipt was treated as an unsecured, interest free loan that was repayable upon demand. The equity financing subsequently closed in January 2017, and the subscription receipt liability was recognized as paid in full.

During the fourth quarter of 2017, the Company received cash subscriptions of $54,000 for a proposed equity financing. As at December 31, 2017, the financing had not closed so the subscription receipts were treated as unsecured, interest free loans that were repayable upon demand. The equity financing subsequently closed in February 2018, and the subscription receipt liabilities were recognized as paid in full.

Credit Line

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 year ended December 31, 2017, the Company borrowed an additional $120,000 (2016 - $70,000) and incurred $25,951 (2016 - $26,612) in interest expense, including $12,117 (2016 - $11,767) in accretion of the loan liability. At December 31, 2017, a total of $233,393 (2016 - $282,330) in loan principal remained outstanding.

Yesnik Loan

On December 21, 2017, the Company entered into an unsecured loan with the spouse of the CEO of the Company wherein the Company borrowed $200,000 which is to be repaid over a period of five years. The loan bears interest at rate of 12% per annum in addition to 8% per annum in administrative and oversight charges calculated based on outstanding principal. The loan requires quarterly payments over which are comprised of outstanding interest, administrative and oversight charges and $10,000 of principal.

During the year ended December 31, 2017, the Company incurred $1,205 (2016 - $Nil) in interest expense. At December 31, 2017, a total of $200,000 (2016 - $Nil) in loan principal remained outstanding, and the Company has prepaid $9,863 in future interest expense.

(Expressed in Canadian dollars)

9. Decommissioning Liability

The decommissioning liability relates to the expected present value of costs of plugging and abandoning the oil and gas properties held by Hillcrest. The provision for decommissioning is estimated after taking account of inflation, years to abandonment and an appropriate discount rate. As at December 31, 2017, the oil and gas properties had estimated abandonment dates between 2018 and 2025.

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:

	Hartburg Project, Texas	Gulf of Mexico Properties	Total
	($)	($)	($)
Balance, January 1, 2016	156,384	13,483,488	13,639,872
Financing expense	2,346	160,730	163,076
Change in estimate	(90,612)	331,575	240,963
Disposal	-	(8,854,449)	(8,854,449)
Expenditures during the year	-	(1,968,586)	(1,968,586)
Foreign exchange movement	-	(453,833)	(453,833)
Balance, December 31, 2016	68,118	2,698,925	2,767,043
Financing expense	1,066	-	1,066
Change in estimate	(4,112)	-	(4,112)
Disposal	(22,228)	(2,608,160)	(2,630,388)
Foreign exchange movement	-	(90,765)	(90,765)
Balance, December 31, 2017	42,844	-	42,844
Current portion	33,893	-	33,893
Non-current portion	8,951	-	8,951
	42,844	-	42,844

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Hartburg Project is $45,132 (2016 - $75,694) as at December 31, 2017. The provision has been estimated using a risk-free discount rate of 1.98% (2016 – 1.93%) and an inflation rate of 2.00% (2016 – 2.00%).

The Company recorded $4,112 (2016 - $321,168) as a change in estimate of decommissioning liability for the year ended December 31, 2017. This is recognised in the consolidated statement of income (loss) as the associated assets have been fully impaired.

(Expressed in Canadian dollars)

10. Related Party Transactions

The following summarizes the Company's related party transactions during the years ended December 31, 2017 and 2016. Key management personnel included the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and directors and officers and companies controlled or significantly influenced by them:

Key management compensation

	2017 ($)	2016 ($)
Salary and consulting fees paid or accrued to directors, officers or corporations controlled by directors and officers of the Company	100,830	847,307
Consulting fees paid to the spouse of a director of the Company	1,750	-
Share-based payments paid to certain directors and officers of the Company in connection with the extension of the expiry date of share purchase warrants	176,590	24,856
	279,170	872,163

As at December 31, 2017, a total of $238 (2016 - $386,428) was included in accounts payable and accrued liabilities owing to the directors and officers or corporations controlled by directors and officers of the Company for unpaid wages, consulting fees and reimbursable expenses. These liabilities are non-interest bearing and payable on demand. As at December 31, 2017, the Company owed $200,000 (2016 - $Nil) to the spouse of the CEO pursuant to an unsecured loan agreement. (Refer to Note 8)

11. Share Capital

Authorized

Unlimited number of common shares without par value

Issued and outstanding

Year Ended December 31, 2017

a) The Company completed the second tranche of a non-brokered private placement wherein it issued 8,900,000 units at a price of $0.05 per unit for gross proceeds of $445,000. Each unit consisted of one common share in the capital of the Company plus one half of one common share purchase warrant. Each whole warrant of this second tranche offering will entitle the holder to purchase one additional share at a price of $0.08 until January 18, 2019. The Company paid cash costs of $5,199 in connection with the closing of the second tranche.

b) The Company completed a non-brokered private placement in two tranches wherein it issued an aggregate of 5,594,857 units at $0.07 per unit for gross proceeds of $391,640. Each unit is comprised of a common share and one half of a common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at $0.10 for a period of two years from the date of closing. The Company paid cash costs of $389 in connection with the closing of the placement.

c) The Company issued 285,714 common shares valued at $20,000 as consideration for consulting services.

11. Share Capital (continued)

Issued and outstanding (continued)

Year Ended December 31, 2016

a) The Company issued 1,000,000 common shares with a fair value of $30,000 to a lender as partial consideration for an unsecured loan.

b) The Company issued 1,200,000 common shares with a fair value of $60,000 to a lender as partial consideration for a secured loan. Furthermore, the Company issued 300,000 common shares with a fair value of $15,000 as a syndication fee in connection with the secured loan.

c) The Company completed the first tranche of a non-brokered private placement wherein it issued 7,300,000 units at $0.05 per unit for gross proceeds of $365,000. Each unit is comprised of a common share and one half of a common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at $0.08 until December 8, 2018. No finder's fees were paid in connection with this placement.

Share Purchase Warrants

Year Ended December 31, 2017

a) The Company issued 4,450,000 share purchase warrants in connection with a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at $0.08 until January 19, 2019.

b) The Company issued 1,997,429 share purchase warrants in connection with the first tranche of a non-brokered private placement of units. Each warrant entitles the holder to acquire a common share of the Company at $0.10 until July 7, 2019.

c) The Company issued 800,000 share purchase warrants in connection with the second tranche of a non-brokered private placement of units. Each warrant entitles the holder to acquire a common share of the Company at $0.10 until July 14, 2019.

d) The Company issued 1,000,000 warrants as partial compensation for services. A total of 500,000 warrants are exercisable at $0.07 per share and the remainder are exercisable at $0.10 per share. Each warrant entitles the holder to acquire a common share of the Company until August 17, 2020.

Year Ended December 31, 2016

a) The Company extended the expiry date of 5,312,500 share purchase warrants to December 30, 2017. Accordingly, the Company recorded $76,000 as a share-based payment. These warrants expired without being exercised.

b) The Company issued 3,650,000 share purchase warrants in connection with a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at $0.08 until December 8, 2018.

(Expressed in Canadian dollars)

11. Share Capital (continued)

Share Purchase Warrants (continued)

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

	Number of Warrants	Weighted Average Exercise Price
		($)
Balance, December 31, 2015	6,165,611	0.09
Expired	(853,111)	0.12
Issued	3,650,000	0.08
Balance, December 31, 2016	8,962,500	0.08
Expired	(5,312,500)	0.08
Issued	7,247,429	0.09
Balance, December 31, 2017	10,897,429	0.08

The following table summarizes the share purchase warrants outstanding as at December 31, 2017:

Number of Warrants	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
	($)		(yrs)
800,000	0.10	July 14, 2019	1.53
1,997,429	0.10	July 7, 2019	1.52
4,450,000	0.08	January 19, 2019	1.05
3,650,000	0.08	December 8, 2018	0.94
10,897,429	0.08		1.12

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.

(Expressed in Canadian dollars)

11. Share Capital (continued)

Stock Options (continued)

On February 21, 2017, the Company granted 4,500,000 stock options exercisable at $0.07 per share with a fair value of $288,966. The options were fully vested on the grant date, and the Company expensed $288,966 as share-based compensation.

The options granted during the year ended December 31, 2017 were valued using the Black-Scholes option pricing model under the following assumptions:

	2017
Risk-free interest rate	1.16%
Expected life of options	5 yrs
Volatility	154%
Expected Dividend yield	Nil
Forfeiture rate	Nil
Weighted average fair value	$0.06

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

	Number of Stock Options	Weighted Average Exercise Price
		($)
Balance, January 1, 2016	2,700,000	0.11
Expired	(800,000)	0.23
Balance, December 31, 2016	1,900,000	0.06
Granted	4,500,000	0.07
Balance, December 31, 2017	6,400,000	0.07

The following table summarizes the stock options outstanding and exercisable as at December 31, 2017:

Number of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
		($)		(yrs)
1,400,000	1,400,000	0.06	September 9, 2018	0.69
500,000	500,000	0.06	November 26, 2018	0.90
4,500,000	4,500,000	0.07	February 21, 2022	4.15
6,400,000	6,400,000	0.07		3.14

12. Commitments

a) The Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, terminating on June 15, 2020. The remaining base rent payable under the lease is $60,977 up until the lease expires. In addition to the base rent of $2,067, the Company's share of operating costs is estimated at approximately $1,608 per month.

b) HEL entered into an office rental agreement with a term of 72 months, terminating on February 28, 2023. The remaining base rent payable under the lease is US$145,289 up until the lease expires. In addition to the base rent, HEL's share of operating costs is estimated at approximately US$1,568 per month.

13. Capital Management

The Company considers its capital resources to be the shareholders' deficiency, comprising share capital, contributed surplus, reserves and deficit. 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 year ended December 31, 2017. The Company is not subject to externally imposed capital requirements.

14. Segmented Information

The Company is engaged in one business activity, being the acquisition, exploration, development and production of oil and gas reserves in Canada and the United States. For the year ended December 31, 2017 and 2016, all revenues were derived from operations in the United States.

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 loans, and unsecured loans.

The Company has classified its cash, accounts receivable, GST receivable and restricted cash as loans and receivables; and accounts payable, secured loans 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 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 remaining customers are related to the recovery of shared office rent. The Company has minimal collection risk related to these receivables and expects to collect the outstanding receivables in the normal course of operations. However, at year end there was a total of $4,518 in overdue receivables, and accordingly an allowance for doubtful debt was recorded for the full amount. At December 31, 2017, the maximum credit exposure is the carrying amount of the accounts receivable of $780 (2016 - $29,402).

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.

Market risk

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

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.

Liquidity risk
The Company's approach to managing liquidity risk is to use its best efforts to have sufficient liquid capital to meet its current liabilities as they come due. At December 31, 2017, the Company had a working capital deficiency of $1,155,779 (2016 - $6,279,346), refer to note 1 for further discussion.

As at December 31, 2017 and 2016, the Company's financial liabilities had contractual maturities as follows:

	2017	2016
	($)	($)
Less than 1 year	1,334,699	6,358,902
Between 1 – 2 years	213,741	169,113
Between 2 – 5 years	120,000	91,314
	1,668,440	6,619,328

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 foreign currency risk as at December 31, 2017 and 2016 as a result of the following financial instruments denominated in USD:

	2017	2016
	(US$)	(US$)
Cash	29,461	102,180
Accounts receivable	-	49,187
Restricted cash	-	1,521,192
Accounts payable and accrued liabilities	(39,124)	(4,136,877)
	(9,663)	(2,464,318)

The following foreign exchange rates applied for the years ended December 31, 2017 and 2016:

	2017	2016
Average USD to CAD	1.2955	1.3251
As at December 31	1.2551	1.3467

(Expressed in Canadian dollars)

16. Supplemental Cash Flow Information,

	2017	2016
	($)	($)
Non-cash investing and financing activities:		
Common shares and warrants issued for consulting services	67,550	-
Common shares issued as a bonus in connection with an unsecured loan	-	30,000
Common shares issued as a bonus and a syndication fee in connection with a secured loan	-	75,000
Warrants extended for one year	-	76,000
Increase (reduction) in oil and gas interest through change in estimate of decommissioning liabilities	-	(140,950)
Interest paid during the year	51,228	106,283
Income taxes paid during the year	-	-

17. Expenses By Nature

Office and general expenses for the years ended December 31, 2017 and 2016 are comprised of the following:

	2017	2016
	($)	($)
Administration	157,561	145,539
Bad debt (recovery) allowance	(9,562)	114,811
Investor relations and business development	283,634	106,093
Bank charges and interest	5,209	13,138
Professional fees	184,887	209,908
Rent	82,110	251,897
Transfer and filing fees	35,545	32,585
Travel	42,415	57,590
Wages and benefits	33,802	766,008
	815,601	1,697,569

Financing expenses for the years ended December 31, 2017 and 2016 are comprised of the following:

	2017	2016
	($)	($)
Accretion of decommissioning liability	1,066	163,075
Interest expense on secured loan	137,180	122,091
Interest expense on unsecured loans	186,947	26,612
Over-riding royalty interest	-	13,954
	325,193	325,732

(Expressed in Canadian dollars)

18. Income Taxes

a) Provision for Income Taxes

A reconciliation of the combined income taxes at statutory rates and the Company's effective income tax expense is as follows:

	2017	2016
	($)	($)
Income (loss) for the year	5,284,533	(3,561,995)
Expected income tax expense (recovery) at 26%	1,374,000	(926,000)
Non-deductible items	(4,000)	20,000
Difference due to overseas tax rates and foreign exchange	87,000	(81,000)
Change in unrecognized deductible temporary differences	(1,457,000)	987,000
Income tax expense	-	-

b) Deferred Income Taxes

The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consists of the following amounts:

	2017	2016
	($)	($)
Non-capital losses carry-forward	1,653,000	20,393,000
Property and equipment	673,000	796,000
Share issuance costs	16,000	29,000
Other	93,000	86,000
	2,435,000	21,304,000

Tax attributes are subject to review, and potential adjustment, by tax authorities.

(Expressed in Canadian dollars)

19. Loss of Control of HGOM

On February 3, 2017, the Company placed its wholly-owned subsidiary HGOM into a Chapter 7 liquidation in the U.S. Court for the Southern District of Texas. Consequently, the Company has lost control over all of the assets and liabilities of HGOM. In accordance with the guidance of IFRS 10, Consolidated Financial Statements, the Company derecognized the carrying value of the assets and liabilities of HGOM on the effective date.

	Amount
	($)
Cash	(78,789)
Restricted cash	(1,979,709)
Property and equipment	(3,376)
Accounts payable and accrued liabilities	4,998,822
Decommissioning liability	2,608,160
	5,545,108
Reclassification of accumulated foreign currency translation reserve	1,341,904
Gain on loss of control of HGOM	6,887,012

20. Subsequent Events

Subsequent to December 31, 2017, the Company:

a) completed a non-brokered private placement in two tranches wherein it issued an aggregate of 9,992,000 units at a price of $0.05 per unit for gross proceeds of $499,600, of which $127,000 has yet to be received. Each unit consisted of one common share in the capital of the Company plus one half of one common share purchase warrant. Each whole warrant of will entitle the holder to purchase one additional common share at a price of $0.10 for a period of two years from the date of closing.

b) issued 1,700,000 common shares at $0.05 per share to settle $85,000 of outstanding debts with certain creditors.

c) issued 300,000 stock options exercisable at $0.06 for a period of three years to Torrey Hills Capital pursuant to an investor relations contract.

Hillcrest Petroleum

Consolidated Financial Statements

Years Ended

December 31, 2018 and 2017

(Expressed in Canadian Dollars)

Independent auditor's report

To the Shareholders of Hillcrest Petroleum Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Hillcrest Petroleum Ltd. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' deficiency for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Dean Larocque.

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 30, 2019

HILLCREST PETROLEUM LTD.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	December 31, 2018	December 31, 2017
	($)	**($)**
ASSETS		
Current assets		
Cash	21,348	59,186
Receivables	38,505	15,674
Prepaid expenses	90,689	137,953
Total current assets	150,542	212,813
Non-current assets		
Exploration and evaluation assets (Note 4)	964,881	38,264
TOTAL ASSETS	1,115,423	251,077
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	1,452,044	505,166
Current portion of loans (Notes 7 and 8)	1,012,241	829,533
Embedded derivative liability (Note 7)	52,500	-
Current portion of decommissioning liability (Note 11)	34,564	33,893
Total current liabilities	2,551,349	1,368,592
Convertible debentures (Note 9)	690,646	-
Embedded derivative liability (Note 7)	-	73,700
Loans (Notes 7 and 8)	-	260,041
Other liability (Note 9)	116,000	-
Decommissioning liability (Note 11)	429,920	8,951
TOTAL LIABILITIES	3,787,915	1,711,284
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 12)	7,681,347	7,029,436
Contributed surplus (Note 12)	1,350,917	1,345,420
Reserves (Note 12)	167,473	170,631
Deficit	(11,872,229)	(10,005,694)
	(2,672,492)	(1,460,207)
TOTAL LIABILITIES & SHAREHOLDERS' DEFICIENCY	1,115,423	251,077

Nature of operations and going concern (Note 1)

Commitments (Note 13)

Subsequent events (Note 20)

On behalf of the Board of Directors:

"Michael Krzus" — Director

"Thomas Milne" — Director

HILLCREST PETROLEUM LTD.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in Canadian dollars)

	Year Ended December 31, 2018	Year Ended December 31, 2017
	($)	($)
Revenue		
Oil sales	52,263	37,973
Royalties	(4,484)	(1,674)
	47,779	36,299
Expenses		
Operating costs	261,667	75,711
Consulting fees (Note 10)	390,085	265,511
Depletion and depreciation (Note 5)	-	3,588
Office and general	624,117	815,601
Share-based payments (Note 12)	46,556	288,966
Workover costs	-	59,303
	1,322,425	1,508,680
Loss from operations	(1,274,646)	(1,472,381)
Change in estimate of decommissioning liability (Note 11)	-	4,112
Change in fair value of loan conversion liability (Note 7)	21,200	31,600
Financing expenses (Notes 7 and 8)	(404,117)	(325,193)
Gain on disposal of oil and gas properties (Note 5)	-	66,651
Gain on loss of control of HGOM (Note 18)	-	6,887,012
Impairment of oil and gas properties (Note 5)	(202,525)	-
Proceeds from insurance settlement (Note 5)	-	82,429
Foreign exchange gain	(6,447)	10,303
Net income (loss) for the period	(1,866,535)	5,284,533
Item that may be subsequently reclassified to net loss		
Exchange differences on translating foreign operations	(3,158)	192,593
Comprehensive income (loss) for the period	(1,869,693)	5,477,126
Basic and diluted income (loss) per share	(0.02)	0.07
Weighted average common shares outstanding:		
Basic	85,000,297	71,304,732
Diluted	85,000,297	72,673,971

HILLCREST PETROLEUM LTD.

Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars)

	Share Capital			Reserves			
	Number of Shares	Amount	Contributed Surplus	Warrants	Foreign Currency Translation	Deficit	Shareholders' Deficiency
		($)	($)	($)	($)	($)	($)
Balance at December 31, 2016	60,095,655	6,178,384	980,454	76,000	1,272,392	(15,290,227)	(6,782,997)
Proceeds from private placement	14,494,857	836,640	-	-	-	-	836,640
Share issuance costs	-	(5,588)	-	-	-	-	(5,588)
Shares for services	285,714	20,000	-	-	-	-	20,000
Transfer expired warrants to contributed surplus	-	-	76,000	(76,000)	-	-	-
Vesting of stock options	-	-	288,966	-	-	-	288,966
Warrants issued for services	-	-	-	47,550	-	-	47,550
Loss of control of subsidiary	-	-	-	-	(1,341,904)	-	(1,341,904)
Net income and comprehensive income for the period	-	-	-	-	192,593	5,284,533	5,477,126
Balance at December 31, 2017	74,876,226	7,029,436	1,345,420	47,550	123,081	(10,005,694)	(1,460,207)
Proceeds from private placement	9,992,000	499,600	-	-	-	-	499,600
Share issuance costs	-	(17,248)	-	-	-	-	(17,248)
Exercise of stock options	725,000	84,559	(41,059)	-	-	-	43,500
Shares issued to settle debts	1,700,000	85,000	-	-	-	-	85,000
Vesting of stock options	-	-	46,556	-	-	-	46,556
Net income and comprehensive income for the period	-	-	-	-	(3,158)	(1,866,535)	(1,869,693)
Balance at December 31, 2018	87,293,226	7,681,347	1,350,917	47,550	119,923	(11,872,229)	(2,672,492)

HILLCREST PETROLEUM LTD.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	Year Ended December 31, 2018	Year Ended December 31, 2017
	($)	**($)**
Net income (loss) for the year	(1,866,535)	5,284,533
Adjusted for items not involving cash:		
Accretion expense	59,725	77,578
Accrued interest expense	131,687	196,386
Financing cost of retained profit interest	116,000	-
Change in estimate of decommissioning liability	-	(4,112)
Change in fair value of loan conversion liability	(21,200)	(31,600)
Depletion and depreciation	-	3,588
Impairment of oil and gas properties	202,525	-
Gain on loss of control of HGOM	-	(6,887,012)
Gain on disposal of oil and gas properties	-	(66,651)
Share-based payments	46,556	288,966
Shares and warrants issued for services	-	67,550
Unrealized foreign exchange loss	(3,189)	2,251
Changes in non-cash working capital:		
Prepaid expenses	111,533	(74,000)
Receivables	(22,831)	17,673
Accounts payable and accrued liabilities	679,559	(247,807)
Cash flows used in operating activities	(566,170)	(1,372,657)
Proceeds from disposal of oil and gas properties	-	309,873
Exploration and evaluation expenditures	(483,635)	(38,264)
Cash disposed of due to loss of control of HGOM	-	(78,789)
Cash flows provided by investing activities	(483,635)	192,820
Proceeds from private placement	445,600	771,640
Proceeds from convertible debentures	625,000	-
Proceeds from exercise of stock options	43,500	-
Share subscriptions received in advance	-	54,000
Share issuance costs	(17,249)	(5,588)
Proceeds from loans	282,000	523,950
Repayment of loans	(366,915)	(289,887)
Cash flows provided by financing activities	1,011,936	1,054,115
Change in cash	(37,869)	(125,722)
Effect of exchange rate changes on cash denominated in a foreign currency	31	(32)
Cash, beginning of the year	59,186	184,940
Cash, end of the year	21,348	59,186

Supplemental cash flow information (Note 17)

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 located in North America. The Company's registered office is suite 1300 – 1030 West Georgia Street, Vancouver, BC, V6E 2Y3. The Company's shares are listed for trading on the TSX Venture Exchange ("TSXV") under the symbol "HRH" and on the OTC pink sheets 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 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 recorded a net loss of $1,866,535 (2017 – net income of $5,284,533 and net loss of $1,602,479 adjusted for gain on loss of control of HGOM), an accumulated deficit of $11,872,229 (2017 - $10,005,694) and had a working capital deficiency of $2,400,807 (2017 - $1,155,779) as at and for the year ended December 31, 2018. The Company is currently in default on the Bridge Loan (December 31, 2018 - $358,027), 1055328 BC Ltd. Loan (December 31, 2018 - $111,871), ASI Loan (December 31, 2018 - $138,550), Credit Line (December 31, 2018 - $266,478) and the Ballakilley Loan (December 31, 2018 - $170,550), but continues to accrue interest in accordance with the terms of the agreements (Note 7). 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 its creditors and its 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 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. BASIS OF PREPARATION

(a) Statement of Compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were approved by the Audit Committee and the Board of Directors of the Company on April 30, 2019.

2. BASIS OF PREPARATION (continued)

(b) Statement of Compliance

The consolidated financial statements have been prepared on a historical cost basis, with the exception of the embedded derivatives in the Ballakilley loan and the Convertible debentures which are recognised at fair value (Notes 7 and 9), using the accrual basis of accounting, except for cash flow information.

(c) Basis of Consolidation

These consolidated financial statements include the accounts of the parent company, Hillcrest Petroleum Ltd., and its wholly-owned subsidiaries. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Name of Subsidiary	Jurisdiction of Incorporation	Principal Activity
Hillcrest Exploration Ltd. ("HEL")	USA	Oil and Gas exploration
1084580 BC Ltd.	Canada	Oil and Gas exploration
2044573 Alberta Ltd.	Canada	Oil and Gas exploration
102031850 Saskatchewan Ltd.	Canada	Oil and Gas exploration
Hillcrest Resources (Arizona) Ltd. ("HARL")	USA	Dormant
Hillcrest GOM Inc. ("HGOM")	USA	Dissolved in 2017

(d) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars. The functional currency of the parent, 1084580 BC Ltd., 2044573 Alberta Ltd., 102031850 Saskatchewan Ltd. and HARL is the Canadian dollar. The functional currency of HEL is the United States dollar.

(e) Use of Estimates and Judgements

The preparation of these consolidated 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 period. Actual results could differ from these estimates.

These consolidated 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:

2. BASIS OF PREPARATION (continued)

(e) Use of Estimates and Judgements (continued)

Depletion and Depreciation

The amounts recorded for depletion and depreciation of oil and natural gas properties and the amounts used in impairment testing are based on independent estimates of proved and probable reserves, well production rates, realized and forecast oil and natural gas prices, future development costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty. Accordingly, the impact on the consolidated financial statements for future periods may be material.

Decommissioning provisions

Restoration costs will be incurred by the Company at the end of the operating life of the Company's oil properties. The Company estimates abandonment and reclamation costs based on a combination of publicly available industry benchmarks and internal site specific information. For producing wells and facilities, the expected timing of settlement is estimated based on the period to abandonment for each field, as per an independent report. The ultimate restoration liability is uncertain and can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, or changes in the risk-free discount rate. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Income taxes

The calculation of income taxes requires judgment in applying tax laws and regulations, estimating the timing of the reversals of temporary differences, and estimating the reliability of deferred tax assets. These estimates impact current and deferred income tax assets and liabilities, and current and deferred income tax expense (recovery).

Significant judgements that management has made at the end of the reporting period are as follows:

Carrying value and the recoverability of exploration and evaluation assets

Management has determined that exploration, evaluation and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, scoping and feasibility studies, accessible facilities and existing permits.

Fair value of stock options and other share-based payments

Management assesses the fair value of stock options and other share-based payments granted in accordance with the accounting policy stated in Note 3 to the consolidated financial statements. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the Company's stock options.

Going concern

In order to assess whether it is appropriate for the Company to be reported as a going concern, the Directors apply judgement, having undertaken appropriate inquiries and having considered the business activities and the Company's principal risks. Management estimates future cash flows, including the timing of future capital expenditures and equity funding.

2. BASIS OF PREPARATION (continued)

(e) Use of Estimates and Judgements (continued)

Fair value of embedded derivatives and other liability
Management assesses its financial instruments in order to identify whether or not non-derivative instruments might contain an embedded derivative component. If such a derivative component is identified, then it must be separated from the non-derivative host contract and recorded at fair value. The fair value of the embedded derivative is measured using the Black-Scholes model, taking into account the terms and conditions upon which the derivative is granted. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the embedded derivative. Fair value of the other liability is measured using a market based approach.

Carrying value and the recoverability of property and equipment
The Company reviews its equipment for indicators of impairment whenever there is a change in events or circumstances that indicate an asset may be impaired and at each reporting period. Reviews are undertaken to evaluate the carrying value of the property and equipment considering, among other factors: the carrying value of each type of asset and the changes in circumstances that affect the carrying value of the Company's property and equipment. If such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or a CGU is the greater of its value in use ("VIU") and its fair value less costs to dispose ("FVLCD"). The FVLCD is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, and willing parties, less the costs of disposal or in the case of lack of comparable transactions, based upon discounted cash after tax cash flow. VIU is determined by estimating the pre-tax present value of the future net cash flows expected to be derived from the continued use of the asset of CGU.

Determination of cash generating units
Management must make judgements as to which oil and gas properties can be aggregated into a cash generating unit ("CGU"). The Company's oil and gas assets are aggregated into CGUs for the purpose of calculating impairment and depletion. Factors considered by management include, but are not limited to, the product produced (i.e. oil versus gas), the common infrastructure shared by individual properties, proximity of properties to each other, and planned development activities.

3. Significant Accounting Policies

(a) Foreign Currency Translation

Functional and presentation currency
The financial results of foreign operations that have a functional currency different from the Company's 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 quarter except for significant individual transactions which are translated at the rate of exchange in effect at the transaction date. All assets and liabilities are translated at the rate of exchange ruling at the reporting date. Differences arising on translation are recognized as other comprehensive income.

When the settlement of a monetary 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 United States dollar is the functional currency of several of the Company's subsidiaries.

3. Significant Accounting Policies (continued)

(a) Foreign Currency Translation (continued)

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 net income (loss), except for the Company's net investment in its foreign subsidiaries which are recognised in other comprehensive income.

(b) 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).

(c) Property and Equipment

Cost and valuation

All costs directly associated with the development of oil and gas interests are capitalized on a CGU basis as oil and gas interests and are measured at cost less accumulated depletion and net of 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.

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 33% 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 on a prospective basis if appropriate.

3. Significant Accounting Policies (continued)

(d) Decommissioning and Restoration Costs

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of well sites is capitalized to oil and gas properties along with a corresponding increase in the restoration provision in the period incurred. The Company uses a risk-free discount rate that reflects the time value of money to calculate the net present value of the decommissioning provisions. The restoration asset will be depreciated on the same basis as other oil and gas properties.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to oil and gas properties with a corresponding entry to the restoration provision, except when the related oil and gas property is closed. Changes in estimates of restoration costs for closed oil and gas properties are recorded in the income statement. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

The restoration provisions are accreted to full value over time through charges to finance expenses on the consolidated statement of loss and comprehensive loss.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred. The costs of restoration projects that were included in the provision are recorded against the provision as incurred.

(e) Impairment of Non-Financial Assets

At each reporting period the carrying amounts of the Company's non-financial 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 CGUs defined as the smallest identifiable group of assets that generate 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) as an impairment expense. The recoverable amount is the greater of the value in use or fair value less costs of disposal ("FVLCD"). 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 of disposal 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.

3. Significant Accounting Policies (continued)

(f) 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.

(g) Financial Instruments

Effective January 1, 2018, Hillcrest retrospectively adopted IFRS 9. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). There were no adjustments to the amounts recognized in Hillcrest's consolidated financial statements for the year ended December 31, 2018. The adoption of IFRS 9 has resulted in changes to the classification of some of the Company's financial assets but did not change the classification of the Company's financial liabilities. There is no difference in the measurement of these instruments under IFRS 9.

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified at fair value through profit or loss) are added to, or deducted from, the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified at fair value through profit or loss are recognized immediately in profit or loss.

The following table summarizes the classification categories for Hillcrest's financial assets and liabilities.

Financial Assets	**IAS 39**	**IFRS 9**
Cash	Held-for-trading (FVTPL)	Amortized costs
Accounts receivable	Loans and receivables (Amortized cost)	Amortized costs
Financial Liabilities	**IAS 39**	**IFRS 9**
Accounts payable and accrued liabilities	Other financial liabilities (Amortized cost)	Amortized costs
Embedded derivative liability	Held-for-trading (FVTPL)	FVTPL
Loans and convertible debentures	Other financial liabilities (Amortized cost)	Amortized costs

(h) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax "risk-free" rate that reflects current market assessments of the time value of money. Provisions are not recognised for future operating losses.

(i) 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.

3. Significant Accounting Policies (continued)

(j) Convertible Debentures

The convertible debenture is a compound financial instrument as it contains a host debt component and an equity conversion feature. Accordingly, each part of the instrument is examined separately. The host debt component is classified as a financial liability in its entirety since a contractual obligation exists to deliver cash that the Company cannot avoid if the conversion right is not exercised. Furthermore, on a stand-alone basis there is no feature in the host debt component that is similar to equity.

The conversion feature is then assessed on a stand-alone basis. There is no contractual obligation to pay cash that the issuer cannot avoid on the conversion feature. The equity conversion feature can only be settled through the issue of common shares. However, the feature does not qualify as equity as it does not satisfy the "fixed for fixed" requirement. Consequently, the conversion feature is classified as a derivative liability.

Therefore, the embedded derivative liability and other liability is determined first and the residual value is assigned to the host debt component. The embedded derivative is fair valued with the initial carrying amount of the host contract being the residual. Any transaction costs are split on a pro-rata basis between the derivative and the debt. The embedded derivative liability and other liability is treated as FVTPL and is re-measured at each reporting period with any changes in fair value going through the income statement. The debt component is accounted for at amortized cost.

(k) Revenue Recognition

Effective January 1, 2018, the Company has adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). The Company adopted IFRS 15 using the modified retrospective approach. The Company elected to use the following practical expedient: IFRS 15 was only applied retrospectively to contracts which were not completed as at January 1, 2018. The Company generates revenue solely from the sale of crude oil in Canada therefore has not added enhanced disclosure upon adoption of the new standard.

Hillcrest principally generates revenue from the sale of crude oil. Revenue associated with the sale of oil is recognized when control is transferred from Hillcrest to its customers. Hillcrest's oil sale contracts represent a series of distinct transactions. Hillcrest considers its performance obligations to be satisfied and control to be transferred when all of the following conditions are satisfied:

- Hillcrest has transferred title and physical possession of the commodity to the buyer;
- Hillcrest has transferred the significant risks and rewards of ownership of the commodity to the buyer; and
- Hillcrest has the present right to payment.

Revenue represents Hillcrest's share of oil sales net of royalty obligations to governments and other mineral interest owners. Hillcrest sells its production pursuant to variable priced contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed upon transaction price, whereby any variability in revenue is related specifically to the Company's efforts to deliver production. Therefore, the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of Hillcrest's variable revenue is considered to be constrained.

Payment terms for Hillcrest's oil sales contracts are on the 25th of the month following delivery. Hillcrest does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year and therefore Hillcrest does not adjust its revenue transactions for the time value of money.

3. Significant Accounting Policies (continued)

(l) 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 the services.

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 credited to share capital, adjusted for any consideration paid.

(m) 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.

(n) 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.

<u>Current income tax</u>
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.

<u>Deferred income tax</u>
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.

3. Significant Accounting Policies (continued)

(n) Taxes (continued)

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.

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.

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.

(o) New Standards, Amendments and Interpretations to Existing Standards Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become mandatorily effective.

The following standard has been issued for annual periods beginning on or after January 1, 2019 but is not yet effective:

IFRS 16, Leases

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. This new standard replaces the existing leasing guidance in IAS 17, Leases.

IFRS 16 distinguishes between leases and service contracts on the basis of whether the customer controls the asset being leased. For those contracts determined to meet the definition of a lease, IFRS 16 requires a lessee to recognize on the balance sheet a lease asset along with the associated lease liability which reflects future lease payments, similar to current finance lease accounting. There are limited exceptions for leases with a term of less than 12 months or leases of assets which have a very low value. As a result of the adoption of IFRS 16, operating leases which were previously only recognized on the consolidated statement of income (loss) will be recognized on the consolidated statement of financial position.

The Company is still assessing the potential impact that this standard will have on its financial statements.

(Expressed in Canadian dollars)

4. EXPLORATION AND EVALUATION ASSETS

	Flaxcombe	West Hazel	Total
	($)	($)	($)
Balance at January 1, 2017	-	-	-
Additions	38,264	-	38,264
Balance at December 31, 2017	38,264	-	38,264
Additions	114,163	595,181	709,344
ARO	50,098	369,700	419,798
Reclassification	(202,525)	-	(202,525)
Balance at December 31, 2018	-	964,881	964,881

On December 14, 2017, the Company entered into a farm-in agreement with Westcore Energy Ltd. ("Westcore") to workover two previously shut-in oil wells (16-13 and 7-13) in the Flaxcombe area of southwestern Saskatchewan. The Company was required to incur 100% of the workover costs in exchange for a 50% working interest in the wells. In accordance with an approved budget, the Company incurred $152,427 to complete the workovers. Both wells were completed and reactivated in the first quarter of 2018, and as a result were reclassified to property and equipment.

West Hazel Project, Saskatchewan

On October 4, 2017, the Company entered into a joint venture agreement with Charterhouse Co. ("Charterhouse"), a private Alberta corporation, to workover four previously shut-in oil wells in southeastern Saskatchewan. The Company was required to incur 100% of the workover costs in exchange for a 75% working interest in the wells before of recovery of all reactivation costs incurred ("Payout") and a 50% working interest after Payout.

If after the work program obligations have been completed for the West Hazel project (the "WH Property"), but prior to Payout for the WH Property, average total daily oil production from the WH Property over any calendar month, is less than 200 barrels per day and the Company's working interest revenue from the WH Property is insufficient to cover the minimum financing costs related to that work program, then the Company may, at its sole discretion, retain net Charterhouse's working interest revenue from the WH Property sufficient to meet the minimum financing cost for that month. Any retained Charterhouse revenue would be credited in Payout account calculations.

As at December 31, 2018, the Company incurred $595,181 in exploration and evaluation expenditures on the WH Property.

(Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT

	Computers	Oil and Gas Interests	Total
	($)	**($)**	**($)**
Cost			
At January 1, 2017	27,293	3,269,335	3,296,628
Disposals	(10,886)	(1,555,928)	(1566,814)
Foreign exchange movement	(379)	-	(379)
At December 31, 2017	16,028	1,713,407	1,729,435
Additions	-	202,525	202,525
At December 31, 2018	**16,028**	**1,915,932**	**1,931,960**
Accumulated depletion and depreciation			
At January 1, 2017	23,800	2,346,005	2,369,805
Depletion and depreciation for the year		3,588	3,588
Disposals	(7,510)	(1,127,729)	(1,135,239)
Foreign exchange movement	(262)	-	(262)
At December 31, 2017 and 2018	**16,028**	**1,221,864**	**1,237,892**
Impairment			
At January 1, 2017	-	654,293	654,293
Disposals	-	(162,750)	(162,750)
At December 31, 2017	-	491,543	491,543
Additions	-	202,525	202,525
At December 3, 2018	**-**	**694,068**	**694,068**
Carrying amounts:			
At December 31, 2017	-	-	-
At December 31, 2018	**-**	**-**	**-**

(Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT (continued)

Flaxcombe, Saskatchewan

In January 2018, Well 16-13 and Well 07-13 under the Westcore farm-in agreement were reactivated, and as a result the Company reclassified the associated costs from exploration and evaluation assets to property and equipment on the consolidated statement of financial position.

Hartburg Project, Texas

During the year ended December 31, 2017, the Company sold its interest in the Donner #1 well for a cash payment of $309,873 and the release of liability for any future asset retirement obligations estimated at $12,305 on a discounted basis. As a result, the Company recorded a gain on disposal of $56,728.

As at December 31, 2017, all of the remaining wells are shut-in, and the underlying lease agreements with the land owners terminated.

Gulf of Mexico Properties

During the year ended December 31, 2017, the Company completed the Chapter 7 liquidation of its wholly-owned subsidiary HGOM in the U.S. Court for the Southern District of Texas. This has resulted in the disposal of the remaining non-operated assets located shallow offshore waters of the Gulf of Mexico. (Note 18)

Impairment

During the year ended December 31, 2018, the Company reviewed the carrying value of its oil and gas interests and determined there were indicators of impairment with respect to the performance and operating costs of the Flaxcombe wells. As a result, the Company conducted an impairment test using the FVLCD method to determine the recoverable value. The Company has recorded an impairment charge of $202,525, which relates to the entire carrying value of the Flaxcombe property CGU, on the consolidated statement of income (loss) and comprehensive income (loss) after management determined the Flaxcombe assets to not be technically or economically viable.

The recoverable amount for the CGUs were based on their fair value less costs of disposal (“FVLCD”). To determine the FVCLD, the Company considered the current operational status and profitability during the year.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	**2017**
	($)	**($)**
Trade payables	900,553	411,652
Related party payables (Note 10)	318,478	238
Accrued liabilities	233,013	93,276
	1,452,044	505,166

7. SECURED LOANS

ASI Loan

As at December 31, 2018, the Company has $138,550 (December 31, 2017 - $138,550) outstanding on a senior secured loan facility that bears interest at a rate of 20% per annum and is currently payable on demand. As part of the consideration for the loan facility, the lenders and the arranging agent receive an aggregate 10% 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 loan. The Company has fully impaired these Hartburg assets and they are no longer producing (refer to Note 5).

During the year ended December 31, 2018, the Company repaid $Nil (2017 - $120,950) in loan principal and incurred $27,710 (2017 - $36,189) in interest expense.

Bridge Loan

On August 10, 2016, the Company borrowed $300,000 under a secured loan agreement (the "Bridge Loan") bearing interest at 1% per month, compounded monthly, and maturing on August 9, 2017. The Bridge Loan is secured by the Company's interest in the Pettit Project leases. The Company also issued 1,500,000 common shares with a value of $75,000 as payment of arrangement fees and syndication fees incurred in connection with the Bridge Loan. The cash received under the Bridge Loan has been allocated between the fair value of the loan liability and the value of the 1,500,000 common shares. The value ascribed to the common shares as at the loan date was $75,000, and the residual amount has been allocated to the loan liability.

During the year ended December 31, 2018, the Company incurred $41,083 (2017 - $86,063) in interest expense, including $Nil (2017 - $47,944) in accretion of the loan liability, and paid $36,000 (2017 - $Nil) in accrued interest through the issuance of 720,000 common shares. At December 31, 2018 a total of $358,027 (December 31, 2017 - $352,943) in loan principal and accrued interest remained outstanding.

Ballakilley Loan

On June 15, 2017, the Company borrowed $140,950 under a convertible loan agreement (the "Ballakilley Loan") bearing interest at 20% per annum, payable semi-annually, and maturing on May 31, 2019. The Ballakilley Loan is convertible into common shares of the Company at a price of $0.05 per share, due to the Company's 2018 private placement. The conversion price is subject to a reduction if the Company completed a private placement or issues options or warrants at a lower price, at the option of the lender. The cash received under the Ballakilley Loan has been allocated between the fair value of the loan liability and the value of the loan conversion feature which is considered an embedded derivative. The value ascribed to the loan liability as at the loan date was $35,650, and the residual amount has been allocated to the loan conversion feature.

During the year ended December 31, 2018, the Company incurred $81,628 (2017 - $31,379) in interest expense, including $52,028 (2017 - $16,451) in accretion of the loan liability. At December 31, 2018 a total of $170,550 (December 31, 2017 - $155,878) in loan principal and accrued interest remained outstanding. Additionally, the loan conversion feature has been revalued to $52,500 (2017 - $73,700), and the Company has recorded a gain of $21,200 (2017 - $31,600) on the consolidated statement of income (loss).

7. SECURED LOANS (continued)

Project Financing

In February 2017, the Company entered into an arrangement with a third party to provide potential debt financing of up to $2,500,000. The Company incurred standby charges at a rate of 7% per annum for the availability of this potential debt financing for the acquisition and development of oil projects located in Canada. Upon making a draw down under the facility additional fees would be incurred resulting in an effective borrowing rate of 20% per annum. The Company did not borrow any funds, but has incurred standby charges totalling $71,515 (2017 - $142,301) during the year ended December 31, 2018. The arrangement is still currently in place but there are no funds currently incurring standby charges as at December 31, 2018.

1055328 BC Ltd. Loan

On October 6, 2017, the Company borrowed $63,000 under an unsecured loan that bears 12% interest per annum and is repayable on or before October 6, 2018. On June 6, 2018, the Company borrowed an additional $37,000 under the same terms.

During the year ended December 31, 2018, the Company incurred $10,832 (2017 - $1,039) in interest expense. At December 31, 2018, a total of $111,871 (December 31, 2017 - $64,039) in loan principal and accrued interest remained outstanding.

The loan is in default but the Company continues to accrue interest in accordance with the agreement.

8. UNSECURED LOANS

Credit Line

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 has a maximum capacity of $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 year ended December 31, 2018, the Company borrowed $200,000 (2017 - $120,000) and incurred $19,437 (2017 - $25,951) in interest expense, including $5,452 (2017 - $12,117) in accretion of the loan liability. At December 31, 2018, a total of $266,478 (December 31, 2017 - $233,393) in loan principal and accrued interest remained outstanding.

Yesnik Loan

On December 21, 2017, the Company entered into an unsecured loan with the spouse of the CEO of the Company wherein the Company borrowed $200,000 which is to be repaid over a period of five years. The loan bears interest at a rate of 12% per annum in addition to 8% per annum in administrative and oversight charges calculated based on the outstanding principal. The loan requires quarterly payments over which are comprised of outstanding interest, administrative and oversight charges and $10,000 of principal.

During the year ended December 31, 2018, the Company repaid the loan in full and incurred $19,863 (2017 - $1,205) in financing expense. At December 31, 2018, a total of $Nil (December 31, 2017 - $200,000) in loan principal remained outstanding.

(Expressed in Canadian dollars)

9. CONVERTIBLE DEBENTURES

During the year ended December 31, 2018, the Company borrowed a total of $695,000 under convertible debenture agreements (the "Convertible Debentures") bearing interest at 15% per annum, payable quarterly, and maturing two years from the date of advance. A total of $600,000 of the Convertible Debentures were issued to the CEO of the Company.

The Convertible Debentures are secured by the West Hazel property and are convertible into common shares of the Company at a price equal to market price of the common shares of the Company in the first twelve months or the greater of $0.10 and market price thereafter. In addition, should the West Hazel property be sold prior to the first anniversary of the advance date of the Convertible Debentures, then the Company will pay an amount equal to one full year of interest, the loan principal and 15% of any profit realized on the sale above the original reactivation costs. Should the West Hazel property be sold subsequent to the first anniversary of the advance date and prior to maturity of the Convertible Debentures, then the Company will pay an amount equal to the loan principal and 15% of any profit realized on the sale above the original reactivation costs.

The cash received under the Convertible Debentures has been allocated between the fair value of the loan liability and the conversion feature. The value ascribed to the loan liability, net of transaction costs of $5,731, as at the loan date was $689,269, and the conversion feature was determined to have no value. In addition, the 20% retained profit interest which was attached to the Convertible Debentures and takes effect upon full loan repayment, and is applicable only to specific zones of the four original reactivation wells, was determined to have a fair value of $116,000 which was recorded as financing expense during the year ended December 31, 2018.

During the year ended December 31, 2018, the Company incurred $13,996 (2017 - $Nil) in interest and accretion expense. At December 31, 2018 a total of $690,646 (2017 - $Nil) in loan principal and accrued interest remained outstanding.

10. RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the years ended December 31, 2018 and 2017. Key management personnel included the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and directors and officers and companies controlled or significantly influenced by them:

Key management compensation

	2018 ($)	2017 ($)
Salary and consulting fees paid or accrued to directors, officers or corporations controlled by directors and officers of the Company	365,850	100,830
Consulting fees paid to the spouse of a director of the Company	-	1,750
Share-based payments paid to certain directors and officers of the Company in connection with the extension of the expiry date of share purchase warrants	35,400	176,590
	401,250	279,170

a) As at December 31, 2018, a total of $318,478 (2017 - $238) was included in accounts payable and accrued liabilities owing to the directors and officers or corporations controlled by directors and officers of the Company for unpaid consulting fees and reimbursable expenses. These liabilities are non-interest bearing and payable on demand.

b) As at December 31, 2018, a total of $Nil (2017 - $200,000) was included in loans payable owing to the spouse of the CEO. (Refer to Note 8)

c) As at December 31, 2018, a total of $600,000 (2017 - $Nil) was included in convertible debentures owing to the CEO. A total of $57,353 has been paid in advance for future interest payments and is recorded as prepaids on the consolidated statement of financial position. (Refer to Note 9)

(Expressed in Canadian dollars)

11. 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 December 31, 2018, the oil and gas properties had estimated abandonment dates between 2018 and 2028.

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:

	Hartburg, Texas	Gulf of Mexico Properties	West Hazel and Flaxcombe, Saskatchewan	Total
	($)	($)		($)
Balance, January 1, 2017	68,118	2,698,925	-	2,767,043
Financing expense	1,066	-	-	1,066
Change in estimate	(4,112)	-	-	(4,112)
Disposal	(22,228)	(2,608,160)	-	(2,630,388)
Foreign exchange movement	-	(90,765)	-	(90,765)
Balance, December 31, 2017	42,844	-	-	42,844
Accretion	850	-	992	1,842
Additions	-	-	419,798	419,798
Balance, December 31, 2018	43,694	-	420,790	464,484
Current portion	34,564	-	-	34,564
Non-current portion	9,130	-	420,790	429,920
	43,694	-	420,790	464,484

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Hartburg Project is $46,358 (December 31, 2017 - $45,132) as at December 31, 2018. The provision has been estimated using a risk-free discount rate of 1.93% (December 31, 2017 – 1.98%) and an inflation rate of 2.00% (December 31, 2017 – 2.00%).

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Flaxcombe Project is $60,950 as at December 31, 2018. The provision has been estimated using a risk-free discount rate of 1.93% and an inflation rate of 2.00%.

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the West Hazel Project is $415,854 as at December 31, 2018. The provision has been estimated using a risk-free discount rate of 1.93% and an inflation rate of 2.00%.

12. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value

Issued and outstanding

Year Ended December 31, 2018

a) The Company issued 1,700,000 common shares to settle $85,000 in outstanding debts.

b) The Company completed a non-brokered private placement in two tranches wherein it issued an aggregate of 9,992,000 units at $0.05 per unit for gross proceeds of $499,600. Each unit is comprised of a common share and one half of a common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at $0.10 for two years from the date of closing of the placement. The Company used the residual method to determine the value of the warrants issued as part of the private placement. It was determined that the warrants issued as part of the private placement do not have any value. The Company incurred $17,248 in share issuance costs in connection with this private placement.

c) The Company issued 725,000 common shares due to the exercise of stock options at $0.06 per share for gross proceeds of $43,500. The fair value of the options was determined to be $41,059, and accordingly the amount has been transferred from contributed surplus to share capital.

Year Ended December 31, 2017

a) The Company completed the second tranche of a non-brokered private placement wherein it issued 8,900,000 units at a price of $0.05 per unit for gross proceeds of $445,000. Each unit consisted of one common share in the capital of the Company plus one half of one common share purchase warrant. Each whole warrant of this second tranche offering will entitle the holder to purchase one additional share at a price of $0.08 until January 18, 2019. The Company paid cash costs of $5,199 in connection with the closing of the second tranche.

b) The Company completed a non-brokered private placement in two tranches wherein it issued an aggregate of 5,594,857 units at $0.07 per unit for gross proceeds of $391,640. Each unit is comprised of a common share and one half of a common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at $0.10 for a period of two years from the date of closing. The Company paid cash costs of $389 in connection with the closing of the placement.

c) The Company issued 285,714 common shares valued at $20,000 as consideration for consulting services.

Share Purchase Warrants

Year Ended December 31, 2018

a) The Company issued 4,396,000 share purchase warrants in connection with the first tranche of a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at $0.10 until February 27, 2020.

b) The Company issued 600,000 share purchase warrants in connection with the second tranche a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at $0.10 until March 23, 2020.

(Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)

Year Ended December 31, 2017

a) The Company issued 4,450,000 share purchase warrants in connection with a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at $0.08 until January 19, 2019.

b) The Company issued 1,997,429 share purchase warrants in connection with the first tranche of a non-brokered private placement of units. Each warrant entitles the holder to acquire a common share of the Company at $0.10 until July 7, 2019.

c) The Company issued 800,000 share purchase warrants in connection with the second tranche of a non-brokered private placement of units. Each warrant entitles the holder to acquire a common share of the Company at $0.10 until July 14, 2019.

d) The Company issued 1,000,000 warrants as partial compensation for services. A total of 500,000 warrants are exercisable at $0.07 per share and the remainder are exercisable at $0.10 per share. Each warrant entitles the holder to acquire a common share of the Company until August 17, 2020.

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

	Number of Warrants	Weighted Average Exercise Price
		($)
Balance, January 1, 2017	8,962,500	0.08
Issued	8,247,429	0.09
Expired	(5,312,500)	0.08
Balance, December 31, 2017	11,897,429	0.08
Issued	4,996,000	0.10
Expired	(3,650,000)	0.08
Balance, December 31, 2018	13,243,429	0.09

The following table summarizes the share purchase warrants outstanding as at December 31, 2018:

Number of Warrants	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
	($)		(yrs)
500,000	0.07	August 17, 2020	1.63
500,000	0.10	August 17, 2020	1.63
600,000	0.10	March 23, 2020	1.23
4,396,000	0.10	February 27, 2020	1.16
800,000	0.10	July 14, 2019	0.54
1,997,429	0.10	July 7, 2019	0.52
4,450,000	0.08	January 18, 2019	0.05
13,243,429	0.09		0.69

(Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)

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 TSXV, 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, 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 unexercised options granted under the plan will expire no later than five years from the date of grant.

The Company granted an aggregate of 950,000 stock options during the year ended December 31, 2018. The options vest over different time periods, and the Company expensed $41,598 as share-based compensation.

On February 21, 2017, the Company granted 4,500,000 stock options with a fair value of $231,400. The options were fully vested on the grant date, and the Company expensed $231,400 as share-based compensation.

The options granted were valued using the Black-Scholes option pricing model under the following weighted average assumptions:

	2018	**2017**
Risk-free interest rate	2.11%	1.16%
Expected life of options	3.7 yrs	5 yrs
Volatility	149%	98%
Expected Dividend yield	Nil	Nil
Forfeiture rate	Nil	Nil
Weighted average fair value	$0.05	$0.05

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

	Number of Options	**Weighted Average Exercise Price**
		($)
Balance, January 1, 2017	1,900,000	0.06
Issued	4,500,000	0.07
Balance, December 31, 2017	6,400,000	0.07
Issued	950,000	0.06
Exercised	(725,000)	0.06
Expired	(1,700,000)	0.06
Balance, December 31, 2018	4,925,000	0.07

(Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)

The following table summarizes the stock options outstanding and exercisable as at December 31, 2018:

Number of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
		($)		(yrs)
300,000	75,000	0.06	April 3, 2021	2.26
3,975,000	3,975,000	0.07	February 21, 2022	3.15
300,000	300,000	0.06	May 1, 2022	3.34
350,000	350,000	0.065	June 13, 2022	3.45
4,925,000	4,700,000	0.07		3.12

13. COMMITMENTS

a) The Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, terminating on June 15, 2020. The remaining base rent payable under the lease is $36,173 up until the lease expires. In addition to the base rent of $2,067, the Company's share of operating costs is estimated at approximately $1,598 per month.

b) HEL entered into an office rental agreement with a term of 72 months, terminating on February 28, 2023. The landlord issued a notice of termination to the Company effective January 31, 2019 and has sent a demand for payment of $43,961 (US$32,245) representing unpaid rental charges under the rental agreement. The Company has recognized the full liability as at December 31, 2018.

14. GEOGRAPHICAL SEGMENTED INFORMATION

The Company is engaged in one business activity, being the acquisition, exploration, development and production of oil and gas reserves in Canada and the United States. For the year ended December 31, 2018, all revenues were derived from operations in Canada and all non-current assets were located in Canada (2017 - all revenues were derived from operations in the United States and all non-current assets were located in United States).

15. 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 year ended December 31, 2018. The Company is not subject to externally imposed capital requirements.

16. 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, receivables, accounts payable and accrued liabilities and loans.

The fair value of cash, receivables and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments. The carrying amounts of the 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. The fair value of the convertible debentures has been determined after deducting transaction costs and allocating the portion of the proceeds applicable to the retained profit interest.

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 remaining customers are related to the recovery of shared office rent and share subscription proceeds. The Company has minimal collection risk related to these receivables and expects to collect the outstanding receivables in the normal course of operations. At December 31, 2018, the maximum credit exposure is the carrying amount of Receivables of $38,505 (December 31, 2017 - $15,674).

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.

Market risk
Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company's primary commodity is heavy oil which is closely tied to the price of Western Canadian Select.

Interest rate risk
The Company is exposed to interest rate risk. The Company has an unsecured loan associated with a CIBC line of credit which has a variable interest rate, recalculated quarterly. A 1% change in market interest rates would result in an increase/decrease of $2,880 on the Company's net loss.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 December 31, 2018, the Company had a working capital deficiency of $2,400,807 (December 31, 2017 - $1,155,779). The Company finances its operations through a combination of cash, loans, equity and convertible debentures. The Company's ability to continue as a going concern is dependent upon the ongoing support from its lenders and its ability to fund the repayment of its debt by generating positive cash flows from operations, securing funding from additional debt, equity financing, disposing of assets or making other arrangements. Refer to Note 1 for further discussion.
.

The Company's financial liabilities had contractual maturities as follows:

	2018	2017
	($)	($)
Less than 1 year	2,616,800	1,334,699
Between 1 – 2 years	594,686	213,741
Between 2 – 5 years	-	120,000
	3,211,486	1,668,440

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 sales are denominated in Canadian dollars. As a result, the Company has minimal exposure to foreign exchange risk.

17. SUPPLEMENTAL CASH FLOW INFORMATION

	2018	2017
	($)	($)
Non-cash investing and financing activities:		
Recognition of the estimated asset retirement obligation for the Flaxcombe and West Hazel properties	419,798	-
Common shares and warrants issued for consulting services	-	67,550
Common shares issued to settle outstanding liabilities	85,000	-
Exploration and evaluation assets reclassified to property and equipment	152,427	-
Interest paid during the year	60,705	51,228
Income taxes paid during the year	-	-

(Expressed in Canadian dollars)

18. INCOME TAXES

a) Provision for Income Taxes

A reconciliation of the combined income taxes at statutory rates and the Company's effective income tax expense is as follows:

	2018	2017
	($)	($)
Income (loss) for the year	(1,866,535)	5,284,533
Expected income tax expense (recovery) at 27%	(504,000)	1,374,000
Non-deductible items	(3,000)	(4,000)
Difference due to overseas tax rates and foreign exchange	13,000	87,000
Change in unrecognized deductible temporary differences	494,000	(1,457,000)
Income tax expense	-	-

b) Deferred Income Taxes

The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consists of the following amounts:

	2018	2017
	($)	($)
Non-capital losses carry-forward	2,433,000	1,653,000
Property and equipment	547,000	673,000
Share issuance costs	5,000	16,000
Other	84,000	93,000
	3,069,000	2,435,000

Tax attributes are subject to review, and potential adjustment, by tax authorities.

(Expressed in Canadian dollars)

19. LOSS OF CONTROL OF HGOM

On February 3, 2017, the Company placed its wholly-owned subsidiary HGOM into a Chapter 7 liquidation in the U.S. Court for the Southern District of Texas. Consequently, the Company has lost control over all of the assets and liabilities of HGOM. In accordance with the guidance of IFRS 10, Consolidated Financial Statements, the Company derecognized the carrying value of the assets and liabilities of HGOM on the effective date.

	Amount
	($)
Cash	(111,764)
Restricted cash	(1,979,709)
Equipment	(3,376)
Accounts payable	4,993,662
Asset retirement obligations	2,608,160
	5,506,973
Reclassification of foreign currency balances	1,340,577
Gain on loss of control of HGOM	6,847,550

20. SUBSEQUENT EVENTS

Subsequent to December 31, 2018:

a) the Company completed the final tranche of its private placement offering of convertible debentures for additional proceeds of $50,000, net of $5,000 in interest prepayments.

b) the Company disposed of one third of its operating profit interest from re-activated wells in the West Hazel property in exchange for a cash payment of $170,000.

c) a total of 4,450,000 share purchase warrants expired without being exercised.

Hillcrest Petroleum

Consolidated Financial Statements

Years Ended

December 31, 2019 and 2018

(Expressed in Canadian Dollars)

DeVISSER GRAY LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

401-905 West Pender St
Vancouver BC V6C 1L6
t 604.687.5447
f 604.687.6737

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hillcrest Petroleum Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Hillcrest Petroleum Ltd., which comprise the consolidated statement of financial position as at December 31, 2019 and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Hillcrest Petroleum Ltd. as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Hillcrest Petroleum Ltd. in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that Hillcrest Petroleum Ltd. incurred a net loss of $1,201,929 during the year ended December 31, 2019 and has accumulated losses of $13,073,487 since inception. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on Hillcrest Petroleum Ltd.'s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in "Management's Discussion and Analysis" but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing Hillcrest Petroleum Ltd.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Hillcrest Petroleum Ltd. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Hillcrest Petroleum Ltd.'s financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hillcrest Petroleum Ltd.'s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Hillcrest Petroleum Ltd.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Hillcrest Petroleum Ltd. to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Matter

The financial statements of Hillcrest Petroleum Ltd. for the year ended December 31, 2018 were audited by another auditor which expressed an unmodified opinion on those financial statements in its report to the shareholders dated April 30, 2019.

The engagement partner on the audit resulting in this independent auditor's report is James D. Gray.

De Visser Gray LLP

Chartered Professional Accountants

Vancouver, BC, Canada
June 15, 2020

HILLCREST PETROLEUM LTD.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	December 31, 2019	December 31, 2018
	($)	($)
ASSETS		
Current assets		
Cash	41,749	21,348
Receivables	87,919	38,505
Prepaid expenses	37,627	90,689
Right-of-use asset (Notes 3(n) and 19)	12,532	-
Total current assets	179,827	150,542
Non-current assets		
Exploration and evaluation assets (Note 4)	-	964,881
Property and equipment (Note 5)	684,071	-
TOTAL ASSETS	863,898	1,115,423
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	1,411,071	1,452,044
Loans (Notes 7, 8 and 10)	1,234,542	1,012,241
Embedded derivative liabilities (Notes 7 and 9)	91,439	52,500
Lease liability (Notes 3(n) and 19)	11,265	-
Current portion of convertible debentures (Note 9)	76,657	-
Current portion of decommissioning liability (Note 11)	-	34,564
Total current liabilities	2,824,974	2,551,349
Convertible debentures (Note 9)	39,763	690,646
Other liability (Note 9)	116,000	116,000
Decommissioning liability (Note 11)	373,187	429,920
TOTAL LIABILITIES	3,353,924	3,787,915
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 12)	8,980,016	7,681,347
Contributed surplus (Note 12)	1,357,361	1,350,917
Reserves (Note 12)	246,084	167,473
Deficit	(13,073,487)	(11,872,229)
	(2,490,026)	(2,672,492)
TOTAL LIABILITIES & SHAREHOLDERS' DEFICIENCY	863,898	1,115,423

Nature of operations and going concern (Note 1)

Commitments (Note 13)

Subsequent events (Note 20)

On behalf of the Board of Directors:

"Michael Krzus" — Director

"Thomas Milne" — Director

HILLCREST PETROLEUM LTD.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Year Ended December 31, 2019	Year Ended December 31, 2018
	($)	**($)**
Revenue and costs		
Oil sales	1,042,327	52,263
Royalties	(279,327)	(4,484)
Operating costs	(673,914)	(261,667)
Depletion and depreciation (Note 5)	(169,403)	-
	(80,317)	(213,888)
General and administrative expenses		
Management and consulting fees (Note 10)	534,223	390,085
Office and general	522,653	624,117
Share-based payments (Note 12)	6,444	46,556
	1,063,320	1,060,758
Loss from operations	(1,143,637)	(1,274,646)
Change in fair value of loan and convertible debenture conversion liabilities (Notes 7 and 9)	(11,280)	21,200
Financing expenses (Notes 7, 8 and 19)	(332,990)	(404,117)
Impairment of oil and gas properties (Note 5)	-	(202,525)
Foreign exchange gain	3,916	(6,447)
Gain on disposal of equipment	46,212	-
Loss for the year before other item	(1,437,779)	(1,866,535)
Other item		
Forgiveness of debt (Note 10(d))	235,850	-
Net loss	(1,201,929)	(1,866,535)
Item that may be subsequently reclassified to net loss		
Exchange differences on translating foreign operations	(3,389)	(3,158)
Comprehensive loss for the year	(1,205,318)	(1,869,693)
Basic and diluted loss per share	(0.01)	(0.02)
Weighted average common shares outstanding:		
Basic	91,461,993	85,000,297
Diluted	91,461,993	85,000,297

HILLCREST PETROLEUM LTD.

Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars)

	Share Capital			Reserves			
	Number of Shares	Amount	Contributed Surplus	Warrants	Foreign Currency Translation	Deficit	Shareholders' Deficiency
		($)	($)	($)	($)	($)	($)
Balance at December 31, 2017	74,876,226	7,029,436	1,345,420	47,550	123,081	(10,005,694)	(1,460,207)
Proceeds from private placement	9,992,000	499,600	-	-	-	-	499,600
Share issuance costs	-	(17,248)	-	-	-	-	(17,248)
Exercise of stock options	725,000	84,559	(41,059)	-	-	-	43,500
Shares issued to settle debts	1,700,000	85,000	-	-	-	-	85,000
Vesting of stock options	-	-	46,556	-	-	-	46,556
Comprehensive loss for the period	-	-	-	-	(3,158)	(1,866,535)	(1,869,693)
Balance at December 31, 2018	87,293,226	7,681,347	1,350,917	47,550	119,923	(11,872,229)	(2,672,492)
Impact on adopting IFRS 16 (Notes 3(n) and 19)	-	-	-	-	-	671	671
Restated opening balances under IFRS 16	87,293,226	7,681,347	1,350,917	47,550	119,923	(11,871,558)	(2,671,821)
Proceeds from private placements	24,844,446	823,333	-	-	-	-	823,333
Value of warrants issued pursuant to private placements		(78,000)	-	78,000	-	-	-
Conversion of convertible debentures	11,541,627	577,081	-	-	-	-	577,081
Share issuance costs	-	(23,745)	-	4,000	-	-	(19,745)
Vesting of stock options	-	-	6,444	-	-	-	6,444
Comprehensive loss for the period	-	-	-	-	(3,389)	(1,201,929)	(1,205,318)
Balance at December 31, 2019	123,679,299	8,980,016	1,357,361	129,550	116,534	(13,073,487)	(2,490,026)

HILLCREST PETROLEUM LTD.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	Year Ended December 31, 2019	Year Ended December 31, 2018
	($)	**($)**
Net loss for the period	(1,201,929)	(1,866,535)
Adjusted for items not involving cash:		
Accretion expense	60,580	59,725
Accrued interest expense	263,934	131,687
Financing cost of retained profit interest	-	116,000
Change in fair value of loan conversion liability	11,280	(21,200)
Depletion and depreciation	169,403	-
Impairment of oil and gas properties	-	202,525
Bad debt expense	(143,203)	-
Share-based payments	6,444	46,556
Gain on disposal of equipment	(46,212)	-
Unrealized foreign exchange loss	(3,389)	(3,189)
Changes in non-cash working capital:		
Prepaid expenses	78,062	111,533
Receivables	68,789	(22,831)
Accounts payable and accrued liabilities	254,137	679,559
Cash flows used in operating activities	(482,104)	(566,170)
Proceeds from disposal of oil and gas property interest	170,000	-
Property and equipment expenditures	(101,132)	(483,635)
Cash flows provided by (used in) investing activities	68,868	(483,635)
Proceeds from private placements	823,333	445,600
Proceeds from loans	60,000	282,000
Proceeds from convertible debentures	55,000	625,000
Proceeds from exercise of stock options	-	43,500
Share issuance costs	(2,146)	(17,249)
Repayment of lease liability	(23,732)	-
Repayment of loan principal and interest	(327,711)	(366,915)
Repayment of convertible debenture principal and interest	(151,107)	-
Cash flows provided by financing activities	433,637	1,011,936
Change in cash	20,401	(37,869)
Effect of exchange rate changes on cash denominated in a foreign currency	-	31
Cash, beginning of the period	21,348	59,186
Cash, end of the period	41,749	21,348

Supplemental cash flow information (Note 17)

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 located in North America. The Company's registered office is Suite 1300 – 1030 West Georgia Street, Vancouver, BC, V6E 2Y3. The Company's shares are listed for trading on the TSX Venture Exchange ("TSXV") under the symbol "HRH" and on the OTC pink sheets 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 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 recorded a net loss of $1,201,929 (2018: $1,866,535), an accumulated deficit of $13,073,487 (2018 - $11,872,229) and had a working capital deficiency of $2,645,147 (2018 - $2,400,807) as at and for the year ended December 31, 2019. The Company is currently in default on the Bridge Loan (December 31, 2019 - $403,433), 1055328 BC Ltd. Loan (December 31, 2019 - $123,871), ASI Loan (December 31, 2019 - $138,550), Credit Line (December 31, 2019 - $95,859) and the Ballakilley Loan (December 31, 2019 - $206,771), but continues to accrue interest in accordance with the terms of the agreements (Note 7). 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 its creditors and its 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 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. BASIS OF PREPARATION

(a) Statement of Compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were approved by the Audit Committee and the Board of Directors of the Company on June 15, 2020.

(b) Statement of Compliance

The consolidated financial statements have been prepared on a historical cost basis, with the exception of the embedded derivatives in the Ballakilley loan and the convertible debentures which are recognised at fair value (Notes 7 and 9), using the accrual basis of accounting, except for cash flow information.

2. BASIS OF PREPARATION (continued)

(c) Basis of Consolidation

These consolidated financial statements include the accounts of the parent company, Hillcrest Petroleum Ltd., and its wholly-owned subsidiaries. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Name of Subsidiary	Jurisdiction of Incorporation	Principal Activity
Hillcrest Exploration Ltd. ("HEL")	USA	Oil and Gas exploration
1084580 BC Ltd.	Canada	Oil and Gas exploration
2044573 Alberta Ltd.	Canada	Oil and Gas exploration
102031850 Saskatchewan Ltd.	Canada	Oil and Gas exploration
Hillcrest Resources (Arizona) Ltd. ("HARL")	USA	Dormant

(d) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars. The functional currency of the parent, 1084580 BC Ltd., 2044573 Alberta Ltd., 102031850 Saskatchewan Ltd. and HARL is the Canadian dollar. The functional currency of HEL is the United States dollar.

(e) Use of Estimates and Judgments

The preparation of these consolidated 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 period. Actual results could differ from these estimates.

These consolidated 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:

<u>Depletion and Depreciation</u>
The amounts recorded for depletion and depreciation of oil and natural gas properties and the amounts used in impairment testing are based on independent estimates of proved and probable reserves, well production rates, realized and forecast oil and natural gas prices, future development costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty. Accordingly, the impact on the consolidated financial statements for future periods may be material.

2. BASIS OF PREPARATION (continued)

(e) Use of Estimates and Judgments (continued)

Decommissioning provisions
Restoration costs will be incurred by the Company at the end of the operating life of the Company's oil properties. The Company estimates abandonment and reclamation costs based on a combination of publicly available industry benchmarks and internal site-specific information. For producing wells and facilities, the expected timing of settlement is estimated based on the period to abandonment for each field, as per an independent report. The ultimate restoration liability is uncertain and can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, or changes in the risk-free discount rate. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Income taxes
The calculation of income taxes requires judgment in applying tax laws and regulations, estimating the timing of the reversals of temporary differences, and estimating the reliability of deferred tax assets. These estimates impact current and deferred income tax assets and liabilities, and current and deferred income tax expense (recovery).

Significant judgments that management has made at the end of the reporting period are as follows:

Carrying value and the recoverability of exploration and evaluation assets
Management has determined that exploration, evaluation and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, scoping and feasibility studies, accessible facilities and existing permits.

Fair value of stock options and other share-based payments
Management assesses the fair value of stock options and other share-based payments granted in accordance with the accounting policy stated in Note 3 to the consolidated financial statements. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the Company's stock options.

Going concern
In order to assess whether it is appropriate for the Company to be reported as a going concern, the Directors apply judgment, having undertaken appropriate inquiries and having considered the business activities and the Company's principal risks. Management estimates future cash flows, including the timing of future capital expenditures and equity funding.

Fair value of embedded derivatives and other liability
Management assesses its financial instruments in order to identify whether or not non-derivative instruments might contain an embedded derivative component. If such a derivative component is identified, then it must be separated from the non-derivative host contract and recorded at fair value. The fair value of the embedded derivative is measured using the Black-Scholes model, taking into account the terms and conditions upon which the derivative is granted. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the embedded derivative. Fair value of the other liability is measured using a market-based approach.

2. BASIS OF PREPARATION (continued)

(e) Use of Estimates and Judgments (continued)

Carrying value and the recoverability of property and equipment
The Company reviews its equipment for indicators of impairment whenever there is a change in events or circumstances that indicate an asset may be impaired and at each reporting period. Reviews are undertaken to evaluate the carrying value of the property and equipment considering, among other factors: the carrying value of each type of asset and the changes in circumstances that affect the carrying value of the Company's property and equipment. If such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or a CGU is the greater of its value in use ("VIU") and its fair value less costs to dispose ("FVLCD"). The FVLCD is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, and willing parties, less the costs of disposal or in the case of lack of comparable transactions, based upon discounted cash after tax cash flow. VIU is determined by estimating the pre-tax present value of the future net cash flows expected to be derived from the continued use of the asset of CGU.

Determination of cash generating units
Management must make judgments as to which oil and gas properties can be aggregated into a cash generating unit ("CGU"). The Company's oil and gas assets are aggregated into CGUs for the purpose of calculating impairment and depletion. Factors considered by management include, but are not limited to, the product produced (i.e. oil versus gas), the common infrastructure shared by individual properties, proximity of properties to each other, and planned development activities.

Right-of-Use Asset/Lease Liability
The incremental rate of borrowing used in the measurement of the lease liability was based on the interest rate of the Credit Line. See Notes 3 (n) and 19.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign Currency Translation

Functional and presentation currency
The financial results of foreign operations that have a functional currency different from the Company's 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 quarter except for significant individual transactions which are translated at the rate of exchange in effect at the transaction date. All assets and liabilities are translated at the rate of exchange ruling at the reporting date. Differences arising on translation are recognized as other comprehensive income.

When the settlement of a monetary 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 United States dollar is the functional currency of several of the Company's subsidiaries.

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 net income (loss), except for the Company's net investment in its foreign subsidiaries which are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) 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).

(b) Property and Equipment

<u>Cost and valuation</u>
All costs directly associated with the development of oil and gas interests are capitalized on a CGU basis as oil and gas interests and are measured at cost less accumulated depletion and net of 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.

<u>Depletion and depreciation</u>
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 33% 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 on a prospective basis if appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Decommissioning and Restoration Costs

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of well sites is capitalized to oil and gas properties along with a corresponding increase in the restoration provision in the period incurred. The Company uses a risk-free discount rate that reflects the time value of money to calculate the net present value of the decommissioning provisions. The restoration asset will be depreciated on the same basis as other oil and gas properties.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to oil and gas properties with a corresponding entry to the restoration provision, except when the related oil and gas property is closed. Changes in estimates of restoration costs for closed oil and gas properties are recorded in the income statement. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

The restoration provisions are accreted to full value over time through charges to finance expenses on the consolidated statement of loss and comprehensive loss.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred. The costs of restoration projects that were included in the provision are recorded against the provision as incurred.

(d) Impairment of Non-Financial Assets

At each reporting period the carrying amounts of the Company's non-financial 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 CGUs defined as the smallest identifiable group of assets that generate 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) as an impairment expense. The recoverable amount is the greater of the value in use or fair value less costs of disposal ("FVLCD"). 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 of disposal 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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.

(f) Financial Instruments

Effective January 1, 2018, Hillcrest retrospectively adopted IFRS 9. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). There were no adjustments to the amounts recognized in Hillcrest's consolidated financial statements for the year ended December 31, 2019 and December 31, 2018. The adoption of IFRS 9 has resulted in changes to the classification of some of the Company's financial assets but did not change the classification of the Company's financial liabilities. There is no difference in the measurement of these instruments under IFRS 9.

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified at fair value through profit or loss) are added to, or deducted from, the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified at fair value through profit or loss are recognized immediately in profit or loss.

The following table summarizes the classification categories for Hillcrest's financial assets and liabilities.

Financial Assets	**IAS 39**	**IFRS 9**
Cash	Held-for-trading (FVTPL)	Amortized costs
Accounts receivable	Loans and receivables (Amortized cost)	Amortized costs
Financial Liabilities	**IAS 39**	**IFRS 9**
Accounts payable and accrued liabilities	Other financial liabilities (Amortized cost)	Amortized costs
Embedded derivative liability	Held-for-trading (FVTPL)	FVTPL
Lease liability	N/A	Amortized costs
Loans and convertible debentures	Other financial liabilities (Amortized cost)	Amortized costs

(g) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax "risk-free" rate that reflects current market assessments of the time value of money. Provisions are not recognised for future operating losses.

(h) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Convertible Debentures

The convertible debenture is a compound financial instrument as it contains a host debt component and an equity conversion feature. Accordingly, each part of the instrument is examined separately. The host debt component is classified as a financial liability in its entirety since a contractual obligation exists to deliver cash that the Company cannot avoid if the conversion right is not exercised. Furthermore, on a stand-alone basis there is no feature in the host debt component that is similar to equity.

The conversion feature is then assessed on a stand-alone basis. There is no contractual obligation to pay cash that the issuer cannot avoid on the conversion feature. The equity conversion feature can only be settled through the issue of common shares. However, the feature does not qualify as equity as it does not satisfy the "fixed for fixed" requirement. Consequently, the conversion feature is classified as a derivative liability.

Therefore, the embedded derivative liability and other liability is determined first and the residual value is assigned to the host debt component. The embedded derivative is fair valued with the initial carrying amount of the host contract being the residual. Any transaction costs are split on a pro-rata basis between the derivative and the debt. The embedded derivative liability and other liability is treated as FVTPL and is re-measured at each reporting period with any changes in fair value going through the income statement. The debt component is accounted for at amortized cost.

(j) Revenue Recognition

Effective January 1, 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). The Company adopted IFRS 15 using the modified retrospective approach. The Company elected to use the following practical expedient: IFRS 15 was only applied retrospectively to contracts which were not completed as at January 1, 2018. The Company generates revenue solely from the sale of crude oil in Canada therefore has not added enhanced disclosure upon adoption of the new standard.

Hillcrest principally generates revenue from the sale of crude oil. Revenue associated with the sale of oil is recognized when control is transferred from Hillcrest to its customers. Hillcrest's oil sale contracts represent a series of distinct transactions. Hillcrest considers its performance obligations to be satisfied and control to be transferred when all of the following conditions are satisfied:

- Hillcrest has transferred title and physical possession of the commodity to the buyer;
- Hillcrest has transferred the significant risks and rewards of ownership of the commodity to the buyer; and
- Hillcrest has the present right to payment.

Revenue represents Hillcrest's share of oil sales net of royalty obligations to governments and other mineral interest owners. Hillcrest sells its production pursuant to variable priced contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed upon transaction price, whereby any variability in revenue is related specifically to the Company's efforts to deliver production. Therefore, the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of Hillcrest's variable revenue is considered to be constrained.

Payment terms for Hillcrest's oil sales contracts are on the 25th of the month following delivery. Hillcrest does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year and therefore Hillcrest does not adjust its revenue transactions for the time value of money.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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 the services.

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 credited to share capital, adjusted for any consideration paid.

(l) Joint Venture Activities and Joint Controlled Operations

Joint control is defined as the contractually agreed sharing of control over an economic activity, and exists only when the strategic, financial and operating decisions essential to the relevant activities require the unanimous consent of the parties sharing control. When the Company enters into agreements that provide for specific percentage interests in exploration properties, a portion of the Company's exploration activities is conducted jointly with others, without establishment of a corporation, partnership or other entity.

Under IFRS 11 "Joint Arrangements", this type of joint control of exploration assets and joint exploration and/or development activities is considered as a joint operation, which is defined as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. In these financial statements, the Company recognizes the following in relation to its interests in joint operations:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output of the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

(m) 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.

<u>Current income tax</u>
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.

<u>Deferred income tax</u>
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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Taxes (continued)

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.

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.

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; and

- 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.

(n) Adoption of IFRS 16 Leases

The Company has adopted the requirements of IFRS 16 Leases ("IFRS 16") as of January 1, 2019. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize right-of-use assets and liabilities for leases. The Company elected to apply IFRS 16 using a modified retrospective approach; therefore, the comparative information has not been restated and continues to be reported under IAS 17, Leases. The details of the new accounting policy and the impact of the policy change are described below.

At inception of a contract, the Company must assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset over a period of time in exchange for consideration. The Company must assess whether the contract involves the use of an identified asset, whether it has the right to obtain substantially all of the economic benefits from the use of the asset during the term of the contract and if it has the right to direct the use of the asset.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease.

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Adoption of IFRS 16 Leases (continued)

Right-of-use asset

The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made and any initial direct costs incurred at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently amortized from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease liability

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted by the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

Lease payments included in the measurement of the lease liability comprise: fixed payments; variable lease payments that depend on an index or a rate; amounts expected to be payable under any residual value guarantee; the exercise price under any purchase option that the Company would be reasonably certain to exercise; lease payments in any optional renewal period if the Company is reasonably certain to exercise an extension option; and penalties for any early termination of a lease unless the Company is reasonably certain not to terminate early. The Company has elected to exclude non-lease components related to premises leases in the determination of the lease liability.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to income on a straight-line basis over the lease term.

The reconciliation of the lease liability as at January 1, 2019 is as follows:

	$
Future aggregate minimum lease payments	36,173
Effect of discounting at the incremental rate of borrowing	(1,176)
Lease liability as at January 1, 2019	34,997

See Note 19.

4. EXPLORATION AND EVALUATION ASSETS

	Flaxcombe	**West Hazel**	**Total**
	($)	**($)**	**($)**
Balance at January 1, 2018	38,264	-	38,264
Additions	114,163	595,181	709,344
ARO	50,098	369,700	419,798
Reclassification	(202,525)	-	(202,525)
Balance at December 31, 2018	-	964,881	964,881
Additions	-	101,132	101,132
Disposals	-	(170,000)	(170,000)
Reclassification	-	(896,013)	(896,013)
Balance at December 31, 2019	-	-	-

4. EXPLORATION AND EVALUATION ASSETS (continued)

Flaxcombe Project, Saskatchewan

On December 14, 2017, the Company entered into a farm-in agreement with Westcore Energy Ltd. ("Westcore") to workover two previously shut-in oil wells (16-13 and 7-13) in the Flaxcombe area of southwestern Saskatchewan. The Company was required to incur 100% of the workover costs in exchange for a 50% working interest in the wells. In accordance with an approved budget, the Company incurred $152,427 to complete the workovers. Both wells were completed and reactivated in the first quarter of 2018, and as a result were reclassified to property and equipment.

West Hazel Project, Saskatchewan

On October 4, 2017, the Company entered into a joint venture agreement with Charterhouse Co. ("Charterhouse"), a private Alberta corporation, to workover four previously shut-in oil wells in southeastern Saskatchewan. The Company was required to incur 100% of the workover costs in exchange for a 75% working interest in the wells before of recovery of all reactivation costs incurred ("Payout") and a 50% working interest after Payout.

If after the work program obligations have been completed for the West Hazel project (the "WH Property"), but prior to Payout for the WH Property, average total daily oil production from the WH Property over any calendar month, is less than 200 barrels per day and the Company's working interest revenue from the WH Property is insufficient to cover the minimum financing costs related to that work program, then the Company may, at its sole discretion, retain net Charterhouse's working interest revenue from the WH Property sufficient to meet the minimum financing cost for that month. Any retained Charterhouse revenue would be credited in Payout account calculations.

From the joint venture agreement date through February 2019, the Company completed $878,040 in required workover costs to earn the 75% pre-Payout working interest. In February 2019, the Company sold 17% of its interest in the West Hazel project for cash proceeds of $170,000, reducing its pre-Payout interest to 62.25% and its post-Payout interest to 41.5%. In addition, the Company completed the reactivation of three wells, and as a result the West Hazel project costs were reclassified to property and equipment.

(Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT

	Computers	Oil and Gas Interests	Total
	($)	($)	($)
Cost			
At January 1, 2018	16,028	1,713,407	1,729,435
Additions	-	202,525	202,525
At December 31, 2018	16,028	1,915,932	1,931,960
Reclassification from exploration and evaluation assets	-	896,013	896,013
Revaluation of decommissioning liabilities	-	(65,675)	(65,675)
At December 31, 2019	**16,028**	**2,746,270**	**2,762,298**
Accumulated depletion and depreciation			
At January 1, 2018	16,028	1,221,864	1,237,892
Depletion and depreciation for the year	-	-	-
At December 31, 2018	16,028	1,221,864	1,237,892
Depletion and depreciation for the year	-	146,267	146,267
At December 31, 2019	**16,028**	**1,368,131**	**1,384,159**
Impairment			
At January 1, 2018	-	491,543	491,543
Additions	-	202,525	202,525
At December 31, 2018 and December 31, 2019	**-**	**694,068**	**694,068**
Carrying amounts:			
At December 31, 2018	-	-	-
At December 31, 2019	**-**	**684,071**	**684,071**

West Hazel, Saskatchewan

In February 2019, three wells under the West Hazel farm-in agreement (see Note 4) were reactivated, and as a result the Company reclassified the associated costs from exploration and evaluation assets to property and equipment on the consolidated statement of financial position. The Company is the joint venture operator with its working interest of 62.25%. The owners of the other working interests are:

- 2042870 Alberta Ltd. (Charterhouse subsidiary): 25%;
- KFG Resources Ltd: 11.25%; and
- Geronimo Corp.: 1.5%

Flaxcombe, Saskatchewan

In January 2018, Well 16-13 and Well 07-13 under the Westcore farm-in agreement (see Note 4) were reactivated, and as a result the Company reclassified the associated costs from exploration and evaluation assets to property and equipment on the consolidated statement of financial position.

(Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT (continued)

Impairment

The Company's oil production assets were assessed for impairment against the proved and probable reserves within the Company's producing wells. The valuation determined that the pre-tax net present value of oil and gas reserves at a discount rate of 10% is $4.525 million.

Proved reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Probable reserves are defined as those which have a better than 50% chance of being technically and economically recoverable.

At December 31, 2019, the Company's estimated total Proven and Probable Reserves were 282.4 Mboe. Assumptions for the fair value calculation included heavy oil prices ranging from $54 – 63 bbl (2020 – 2026) and an inflation rate of 2%.

During the year ended December 31, 2019, the Company reviewed the carrying value of its oil and gas interests and determined there were no indicators of impairment with respect to the performance and operating costs of the West Hazel wells. For the year ended December 31, 2019, the Company recorded an impairment charge of $Nil (2018: $202,525).

The impairment charge for the year ended December 31, 2018 relates to the entire carrying value of the Flaxcombe property CGU, on the consolidated statement of income (loss) and comprehensive income (loss) after management determined the Flaxcombe assets to not be technically or economically viable.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2019	December 31, 2018
	($)	($)
Trade payables	885,655	900,553
Related party payables (Note 10)	69,431	318,478
Accrued liabilities	443,941	233,013
GST payable	12,044	-
	1,411,071	1,452,044

7. SECURED LOANS

ASI Loan

As at December 31, 2019, the Company has $138,550 (December 31, 2018 - $138,550) outstanding on a senior secured loan facility that bears interest at a rate of 20% per annum and is currently payable on demand. As part of the consideration for the loan facility, the lenders and the arranging agent receive an aggregate 10% 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 loan. The Company has fully impaired these Hartburg assets and they are no longer producing.

During year ended December 31, 2019, the Company repaid $Nil (2018 - $Nil) in loan principal and incurred $27,710 (2018 - $27,710) in interest expense.

Bridge Loan

On August 10, 2016, the Company borrowed $300,000 under a loan agreement (the "Bridge Loan") bearing interest at 1% per month, compounded monthly, and maturing on August 9, 2017. The Company also issued 1,500,000 common shares with a value of $75,000 as payment of arrangement fees and syndication fees incurred in connection with the Bridge Loan. The cash received under the Bridge Loan has been allocated between the fair value of the loan liability and the value of the 1,500,000 common shares. The value ascribed to the common shares as at the loan date was $75,000, and the residual

7. SECURED LOANS (continued)

amount has been allocated to the loan liability.

During the year ended December 31, 2019, the Company incurred $45,406 (2018 - $41,083) in interest expense and paid $Nil (2018 - $36,000) in accrued interest. At December 31, 2019 a total of $403,433 (December 31, 2018 - $358,027) in loan principal and accrued interest remained outstanding.

The loan is in default, but the Company continues to accrue interest in accordance with the agreement.

Ballakilley Loan

On June 15, 2017, the Company borrowed $140,950 under a convertible loan agreement (the "Ballakilley Loan") bearing interest at 20% per annum, payable semi-annually, and maturing on May 31, 2019. The Ballakilley Loan is convertible into common shares of the Company at a price of $0.07 per share, subject to a reduction if the Company completes a private placement or issues options or warrants at a lower price, at the option of the lender. The cash received under the Ballakilley Loan was allocated between the fair value of the loan liability and the value of the loan conversion feature which is considered an embedded derivative. The value ascribed to the loan liability as at the loan date was $35,650, and the residual amount has been allocated to the loan conversion feature.

During the year ended December 31, 2019, the Company incurred $36,221 (2018 - $29,600) in interest expense and $36,820 (2018 - $52,028) in accretion of the loan liability. At December 31, 2019 a total of $206,771 (December 31, 2018 - $170,550) in loan principal and accrued interest remained outstanding. Additionally, on the basis of the private placement completed by the Company in December 2019 at $0.03 per share, the loan conversion feature has been revalued to $84,000 (2018 - $52,500), and the Company has recorded a loss of $31,500 (2018 – gain of $21,200) on the consolidated statement of loss and comprehensive loss.

The loan is in default, but the Company continues to accrue interest in accordance with the agreement**.**

Project Financing

In February 2017, the Company entered into an arrangement with a third party to provide potential debt financing of up to $2,500,000. The Company incurred standby charges at a rate of 7% per annum for the availability of this potential debt financing for the acquisition and development of oil projects located in Canada. Upon making a draw down under the facility additional fees would be incurred resulting in an effective borrowing rate of 20% per annum. The Company did not borrow any funds but has incurred standby charges totalling $13,531 during the year ended December 31, 2019 (2018 - $71,515). The arrangement is still currently in place but there are no funds currently incurring standby charges as at December 31, 2019. At December 31, 2019, a total of $154,154 (2018 - $260,623) in standby charges and interest on standby charges remained outstanding.

1055328 BC Ltd. Loan

On October 6, 2017, the Company borrowed $63,000 under a secured loan that bears 12% interest per annum and is repayable on or before October 6, 2018. On June 6, 2018, the Company borrowed an additional $37,000 under the same terms.

During the year ended December 31, 2019 the Company incurred $12,000 (2018 - $10,832) in interest expense. At December 31, 2019, a total of $123,871 (2018 - $111,871) in loan principal and accrued interest remained outstanding.

The loan is in default, but the Company continues to accrue interest in accordance with the agreement.

8. UNSECURED LOANS

Significant unsecured loans are as follows:

Credit Line

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

8. UNSECURED LOANS (continued)

line has a term of 30 months, and it has a maximum capacity of $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 year ended December 31, 2019, the Company incurred $10,156 (2018 - $19,437) in interest expense, including $Nil (2018 - $5,452) in accretion of the loan liability. At December 31, 2019, a total of $95,859 (2018 - $266,478) in loan principal and accrued interest remained outstanding.

Proactive Advance

On December 16, 2019, the Company received $60,000 from Proactive Investors. This advance bears interest at 4% per annum and is intended to be applied towards a future private placement.

During the year ended December 31, 2019, the Company incurred $99 (2018 - $Nil) in interest expense. At December 31, 2019, a total of $60,099 (2018 - $Nil) in advance principal and interest remained outstanding.

9. CONVERTIBLE DEBENTURES

During the year ended December 31, 2019, the Company borrowed a total of $55,000 under convertible debenture agreements (the "2019 Convertible Debentures") bearing interest at 15% per annum, payable quarterly, and maturing two years from the dates of advance.

The cash received under the 2019 Convertible Debentures has been allocated between the fair value of the loan liability and the conversion feature. The value ascribed to the loan liability as at the loan date was $27,341, and the value ascribed to the conversion feature was $27,659. Additionally, the loan conversion feature was revalued to $7,439 at December 31, 2019 (2018 - $Nil), and the Company has recorded a gain of $20,220 (2018 –$Nil) on the consolidated statement of loss and comprehensive loss.

During the year ended December 31, 2018, the Company borrowed a total of $695,000 under convertible debenture agreements (the "2018 Convertible Debentures") bearing interest at 15% per annum, payable quarterly, and maturing two years from the dates of advance. A total of $600,000 of the Convertible Debentures were issued to the CEO of the Company.

The cash received under the 2018 Convertible Debentures has been allocated between the fair value of the loan liability and the conversion feature. The value ascribed to the loan liability, net of transaction costs of $5,731, as at the loan date was $689,269, and the conversion feature was determined to have no value. In addition, the 20% retained profit interest which was attached to the Convertible Debentures and takes effect upon full loan repayment, and is applicable only to specific zones of the four original reactivation wells, was determined to have a fair value of $116,000 which was recorded as financing expense during the year ended December 31, 2018.

The Convertible Debentures are secured by the West Hazel property and are convertible into common shares of the Company at a price equal to market price of the common shares of the Company in the first twelve months or the greater of $0.10 and market price thereafter. In addition, should the West Hazel property be sold prior to the first anniversary of the advance date of the Convertible Debentures, then the Company will pay an amount equal to one full year of interest, the loan principal and 15% of any profit realized on the sale above the original reactivation costs. Should the West Hazel property be sold subsequent to the first anniversary of the advance date and prior to maturity of the Convertible Debentures, then the Company will pay an amount equal to the loan principal and 15% of any profit realized on the sale above the original reactivation costs.

During the year ended December 31, 2019, debenture holders converted $577,081 (2018 - $Nil) of debenture principal and interest payable via the issuance of 11,541,627 common shares, including $557,081 payable to the CEO of the Company via the issuance of 11,141,627 common shares, and the Company repaid $43,833 of debenture principal and $107,274 of debenture interest. During the year ended December 31, 2019, the Company incurred $126,622 (2018 - $13,996) in interest and accretion expense. At December 31, 2019 a total of $131,656 (December 31, 2018 - $690,646) in loan principal and accrued interest remained outstanding.

(Expressed in Canadian dollars)

10. RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the years ended December 31, 2019 and 2018. Key management personnel included the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and directors and officers and companies controlled or significantly influenced by them:

Key management compensation

	2019 ($)	2018 ($)
Management and consulting fees paid or accrued to directors, officers or corporations controlled by directors and officers of the Company*	271,350	365,850
Share-based payments paid to certain directors and officers of the Company in connection with the extension of the expiry dates of share purchase warrants and amendment of exercise prices of share purchase options	5,700	35,400
	277,050	401,250

*For the year ended December 31, 2019, $289,406 in gross management and consulting were billed by or accrued to related parties, with $18,056 of management and consulting fees allocated to other West Hazel joint venture partners.

a) As at December 31, 2019, a total of $69,431 (December 31, 2018 - $318,478) was included in accounts payable and accrued liabilities owing to the directors and officers or corporations controlled by directors and officers of the Company for unpaid consulting fees and reimbursable expenses. These liabilities are non-interest bearing and payable on demand.

b) As at December 31, 2019, a total of $Nil (December 31, 2018 - $600,000) was included in convertible debentures owing to the CEO. A total of $Nil (December 31, 201 - $57,353) was paid in advance for future interest payments and was recorded as prepaids on the consolidated statement of financial position (see Note 9).

c) As at December 31, 2019, the Company owed a total of $51,805 (December 31, 2018 - $45,055) in loan principal and interest to the Chairman of the Company pursuant to a December 27, 2018 loan agreement where the Company borrowed $45,000 from the Chairman. The loan bears interest at 15% and is repayable on demand.

d) During the year ended December 31, 2019, related parties forgave a net amount of $235,850 (2018 - $Nil) in unpaid management and consulting fees accrued in prior years.

11. 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 December 31, 2019, the oil and gas properties had estimated abandonment dates between 2024 and 2028.

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.

(Expressed in Canadian dollars)

11. DECOMMISSIONING LIABILITY (continued)

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

	Hartburg, Texas	West Hazel, Saskatchewan	Flaxcombe, Saskatchewan	Total
	($)	($)		($)
Balance, January 1, 2018	42,844	-	-	42,844
Accretion	850	-	992	1,842
Additions	-	369,700	50,098	419,798
Balance, December 31, 2018	43,694	369,700	51,090	464,484
Change in estimate	-	(65,675)	-	(65,675)
Accretion	867	7,320	1,012	9,199
Disposal	(35,249)	-	-	(35,249)
Foreign exchange movement	428	-	-	428
Balance, December 31, 2019	9,740	311,345	52,102	373,187
Current portion	-	-	-	-
Non-current portion	9,740	311,345	52,102	373,187
	9,740	311,345	52,102	373,187

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Hartburg Project was $10,957 (US$8,436) (December 31, 2018 - $46,358 (US$35,976)) as at December 31, 2019. The provision has been estimated using a risk-free discount rate of 1.98% (December 31, 2018 – 1.93%) and an inflation rate of 2.00% (December 31, 2018 – 2.00%).

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Flaxcombe Project was $60,950 (December 31, 2018 - $60,950) at December 31, 2019. The provision has been estimated using a risk-free discount rate of 1.98% (December 31, 2018 – 1.93%) and an inflation rate of 2.00% (December 31, 2018 – 2.00%).

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the West Hazel Project was $338,391 (December 31, 2018 - $415,854) at December 31, 2019. The provision has been estimated using a risk-free discount rate of 1.68% (December 31, 2018 – 1.93%) and an inflation rate of 2.00% (December 31, 2018 – 2.00%).

12. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value

Issued and outstanding

Year Ended December 31, 2019

a) The Company completed a non-brokered private placement wherein it issued an aggregate of 3,900,000 units at $0.05 per unit for gross proceeds of $195,000. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant entitled the holder to acquire an additional common share at $0.10 for two years from the date of closing of the placement. In September 2019, these exercise price of these warrants was repriced to $0.05 per share. The Company used the residual method to determine the value of the warrants issued as part of the private placement. It was determined that the warrants issued as part of the private placement had a value of $78,000.

   The Company incurred $2,146 in cash share issuance costs and issued 272,000 finder's warrants valued at $1,891 and exercisable on the same terms as the private placement warrants in connection with the private placement. $15,000 of the proceeds from this private placement remained unreceived as at December 31, 2019 and were written off from accounts receivable during the year ended December 31, 2019.

b) The Company issued 400,000 common shares in connection with the conversion of a $20,000 portion of the outstanding Convertible Debentures at $0.05 per share.

c) The Company issued 11,141,627 common shares in connection with the conversion of a $557,081 portion of the outstanding Convertible Debentures at $0.05 per share.

d) The Company completed a non-brokered private placement wherein it issued an aggregate of 20,944,446 units at $0.03 per unit for gross proceeds of $628,333. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at $0.05 for one year from the date of closing of the placement. The Company used the residual method to determine the value of the warrants issued as part of the private placement. It was determined that the warrants issued as part of the private placement had a value of $Nil.

   The Company incurred $17,600 in cash share issuance costs and issued 586,666 finder's warrants valued at $2,109 and exercisable on the same terms as the private placement warrants in connection with the private placement. Each finder's warrant entitles the holder to acquire an additional common share at $0.05 for one year from the date of closing of the placement.

e) The Company repriced a total of 6,140,600 existing share purchase warrants to $0.05 per warrant, including:

   - 3,636,887 share purchase warrants expiring February 27, 2020 from $0.10 per warrant;
   - 553,713 share purchase warrants expiring March 23, 2020 from $0.10 per warrant; and
   - 1,950,000 share purchase warrants expiring May 10, 2021 from $0.10 per warrant.

f) The Company repriced a total of 2,600,000 existing stock options to $0.05 per option, including:

   - 1,950,000 stock options expiring February 21, 2022 from $0.07 per option;
   - 300,000 stock options expiring May 1, 2022 from $0.06 per option; and
   - 350,000 stock options expiring June 13, 2022 from $0.065 per option.

12. SHARE CAPITAL (continued)

Year Ended December 31, 2018

a) The Company issued 1,700,000 common shares to settle $85,000 in outstanding debts.

b) The Company completed a non-brokered private placement in two tranches wherein it issued an aggregate of 9,992,000 units at $0.05 per unit for gross proceeds of $499,600. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at $0.10 for two years from the date of closing of the placement. The Company used the residual method to determine the value of the warrants issued as part of the private placement. It was determined that the warrants issued as part of the private placement do not have any value. The Company incurred $17,248 in share issuance costs in connection with this private placement.

c) The Company issued 725,000 common shares due to the exercise of stock options at $0.06 per share for gross proceeds of $43,500. The fair value of the options was determined to be $41,059, and accordingly the amount has been transferred from contributed surplus to share capital.

Share Purchase Warrants

Year Ended December 31, 2019

a) The Company issued 1,950,000 share purchase warrants in connection with a non-brokered private placement. Each warrant originally entitled the holder to acquire a common share of the Company at $0.10 per share until May 10, 2021. In September 2019, the exercise price of these warrants was repriced to $0.05 per share. Pursuant to the same private placement, the Company also issued 272,000 finder's share purchase warrants exercisable on the same terms as the private placement warrants.

b) The Company issued 20,944,446 share purchase warrants in connection with a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at $0.05 per share until December 4, 2020. Pursuant to the same private placement, the Company also issued 586,666 finder's share purchase warrants exercisable on the same terms as the private placement warrants.

Year Ended December 31, 2018

c) The Company issued 4,396,000 share purchase warrants in connection with the first tranche of a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at $0.10 per share until February 27, 2020.

d) The Company issued 600,000 share purchase warrants in connection with the second tranche a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at $0.10 per share until March 23, 2020.

(Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)

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

	Number of Warrants	Weighted Average Exercise Price
		($)
Balance, January 1, 2018	11,897,429	0.08
Issued	4,996,000	0.10
Expired	(3,650,000)	0.08
Balance, December 31, 2018	13,243,429	0.09
Issued	23,753,112	0.05
Repriced – original prices	(6,140,600)	0.10
Repriced – amended prices	6,140,600	0.05
Expired	(7,247,429)	0.09
Balance, December 31, 2019	29,749,112	0.05

The following table summarizes the share purchase warrants outstanding as at December 31, 2019:

Number of Warrants	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
	($)		(yrs)
1,950,000	0.05	May 10, 2021	1.36
272,000*	0.10	May 10, 2021	1.36
20,944,446	0.05	December 4, 2020	0.93
586,666*	0.05	December 4, 2020	0.93
500,000	0.07	August 17, 2020	0.63
500,000	0.10	August 17, 2020	0.63
46,287	0.10	March 23, 2020	0.23
553,713	0.05	March 23, 2020	0.23
759,113	0.10	February 27, 2020	0.16
3,636,887	0.05	February 27, 2020	0.16
29,749,112	0.05		0.82

*Finder's warrants

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 TSXV, 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, 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 unexercised options granted under the plan will expire no later than five years from the date of grant.

The Company granted an aggregate of 950,000 stock options during the year ended December 31, 2018. The options vest over different time periods, and the Company expensed $41,598 as share-based compensation. The Company expensed an additional $744 during the year ended December 31, 2019 in connection with the 2018 option grants.

(Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)

The options granted were valued using the Black-Scholes option pricing model under the following weighted average assumptions:

	2018
Risk-free interest rate	2.11%
Expected life of options	3.7 years
Volatility	149%
Expected Dividend yield	Nil
Forfeiture rate	Nil
Weighted average fair value	$0.05

During the year ended December 31, 2019, the Company expensed $5,700 as share-based compensation for the incremental value of repricing 2,600,000 stock options with prices originally ranging from $0.06 to $0.07 per option to amended prices of $0.05 per option. The incremental value was determined using the Black-Scholes option pricing model under the following weighted average assumptions:

	2019
Risk-free interest rate	1.62%
Expected life of options	2.43-2.73 years
Volatility	83-87%
Expected Dividend yield	Nil
Forfeiture rate	Nil
Weighted average fair value	$0.002

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

	Number of Options	**Weighted Average Exercise Price**
		($)
Balance, January 1, 2018	6,400,000	0.07
Issued	950,000	0.06
Exercised	(725,000)	0.06
Expired	(1,700,000)	0.06
Balance, December 31, 2018	4,925,000	0.07
Repriced – original prices	(2,600,000)	0.07
Repriced – amended prices	2,600,000	0.05
Cancelled	(275,000)	0.07
Balance, December 31, 2019	4,650,000	0.06

(Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)

The following table summarizes the stock options outstanding and exercisable as at December 31, 2019:

Number of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
		($)		**(yrs)**
300,000	300,000	0.05	April 3, 2021	1.26
1,750,000	1,750,000	0.07	February 21, 2022	2.15
1,950,000	1,950,000	0.05	February 21, 2022	2.15
300,000	300,000	0.05	May 1, 2022	2.33
350,000	350,000	0.05	June 13, 2022	2.45
4,650,000	4,650,000	0.06		2.12

13. COMMITMENTS

The Company had the following commitments as at December 31, 2019:

a) The Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, terminating on June 15, 2020. The remaining base rent payable under the lease is $13,436 up until the lease expires. In addition to the base rent of $2,067 per month, the Company's share of operating costs is estimated at approximately $1,598 per month.

b) HEL entered into an office rental agreement with a term of 72 months, terminating on February 28, 2023. The landlord issued a notice of termination to the Company effective January 31, 2019 and has sent a demand for payment of $43,961 (US$32,245) representing unpaid rental charges under the rental agreement. The Company has recognized the full liability as at December 31, 2019.

See Note 20.

14. GEOGRAPHICAL SEGMENTED INFORMATION

The Company is engaged in one business activity, being the acquisition, exploration, development and production of oil and gas reserves in Canada and the United States. For the year ended December 31, 2019, all revenues were derived from operations in Canada and all non-current assets were located in Canada (2018 - all revenues were derived from operations in Canada and all non-current assets were located in Canada).

15. 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.

15. CAPITAL MANAGEMENT (continued)

There were no changes in the Company's approach to capital management during the year ended December 31, 2019. The Company is not subject to externally imposed capital requirements.

16. 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, receivables, accounts payable and accrued liabilities and loans.

The fair value of cash, receivables and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments. The carrying amounts of the 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. The fair value of the convertible debentures has been determined after deducting transaction costs and allocating the portion of the proceeds applicable to the retained profit interest.

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 remaining customers are related to the recovery of shared office rent and share subscription proceeds. The Company has minimal collection risk related to these receivables and expects to collect the outstanding receivables in the normal course of operations. At December 31, 2019, the maximum credit exposure is the carrying amount of Receivables of $87,919 (December 31, 2018 - $38,505).

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.

Market risk
Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company's primary commodity is heavy oil which is closely tied to the price of Western Canadian Select.

Interest rate risk
The Company is exposed to interest rate risk. The Company has an unsecured loan associated with a CIBC line of credit which has a variable interest rate, recalculated quarterly. A 1% change in market interest rates would result in an increase/decrease of $1,948 on the Company's net loss.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 December 31, 2019, the Company had a working capital deficiency of $2,645,147 (December 31, 2018 - $2,400,807). The Company finances its operations through a combination of cash, loans, equity and convertible debentures. The Company's ability to continue as a going concern is dependent upon the ongoing support from its lenders and its ability to fund the repayment of its debt by generating positive cash flows from operations, securing funding from additional debt, equity financing, disposing of assets or making other arrangements. Refer to Note 1 for further discussion.

The Company's financial liabilities had contractual maturities as follows:

	2019	2018
	($)	**($)**
Less than 1 year	2,824,974	2,616,800
Between 1 – 2 years	39,763	594,686
Between 2 – 5 years	-	-
	2,864,737	3,211,486

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 sales are denominated in Canadian dollars. As a result, the Company has minimal exposure to foreign exchange risk.

17. SUPPLEMENTAL CASH FLOW INFORMATION

	2019	2018
	($)	**($)**
Non-cash investing and financing activities:		
Recognition of the estimated asset retirement obligation for the Flaxcombe and West Hazel properties	-	419,798
Change in estimate of asset retirement obligation for the West Hazel property	65,675	-
Common shares issued upon the conversion of convertible debentures	577,081	-
Common shares issued to settle outstanding liabilities	-	85,000
Exploration and evaluation assets reclassified to property and equipment	896,013	152,427
Interest paid during the year	263,714	60,705
Income taxes paid during the year	-	-

Also see Note 19.

(Expressed in Canadian dollars)

18. INCOME TAXES

a) Provision for Income Taxes

A reconciliation of the combined income taxes at statutory rates and the Company's effective income tax expense is as follows:

	2019	2018
	($)	($)
Income (loss) for the year	(1,201,929)	(1,866,535)
Expected income tax expense (recovery) at 27%	(325,000)	(504,000)
Non-deductible items	-	(3,000)
Difference due to overseas tax rates and foreign exchange	(46,000)	13,000
Change in unrecognized deductible temporary differences	371,000	494,000
Income tax expense	-	-

b) Deferred Income Taxes

The components of the Company's deferred income tax asset balances are as follows:

	2019	2018
	($)	($)
Non-capital losses carry-forwards	2,759,000	2,433,000
Property and equipment	364,000	547,000
Share issuance costs	9,000	5,000
Other	57,000	84,000
	3,189,000	3,069,000

Tax attributes are subject to review, and potential adjustment, by tax authorities.

c) Unrecognized Deductible Temporary Differences and Unused Tax Losses

The Company's unrecognized deductible temporary differences and unused tax losses consist of the following:

	2019	2018
	($)	($)
Non-capital losses carry-forwards	10,249,000	9,200,000
Property and equipment	1,348,000	2,015,000
Share issuance costs	32,000	17,000
Other	211,000	211,000

(Expressed in Canadian dollars)

19. RIGHT-OF-USE ASSET/LEASE LIABILITY

On June 15, 2017, the Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, terminating on June 15, 2020. Pursuant to this agreement, the Company has a commitment to lease office space at a base rent rate of $24,804 per annum, plus common costs and taxes.

a) Right-of-use asset

As at December 31, 2019, the right-of-use asset recorded for the Company's office premises was as follows:

	2019 **$**
As at December 31, 2018	-
IFRS 16 adoption	35,668
Amortization	(23,136)
As at December 31, 2019	12,532

b) Lease liability

Minimum lease payments in respect of lease liabilities and the effect of discounting as at December 31, 2019 are as follows:

	2019 **$**
Undiscounted minimum lease payments:	
Less than one year	11,369
Effect of discounting	(104)
Present value of minimum lease payments	11,265

c) Lease liability continuity

The net change in the Company's lease liability during the year ended December 31, 2019 was as follows:

	2019 **$**
As at December 31, 2018	-
IFRS 16 adoption	34,997
Principal payments	(23,732)
As at December 31, 2019	11,265

Interest of $1,072 for the year ended December 31, 2019 (2018 – $nil) is included in financing expenses.

See Note 3(n).

20. SUBSEQUENT EVENTS

Subsequent to December 31, 2019:

a) The Company issued 900,000 common shares in connection with the conversion of a portion of the outstanding Convertible Debentures at $0.05 per share.

b) A total of 4,396,000 share purchase warrants exercisable at $0.05 expired unexercised on February 27, 2020.

c) A total of 600,000 share purchase warrants exercisable at $0.10 expired unexercised on March 23, 2020.

d) The Company entered into a non-binding memorandum of intent with Oropass Ltd. ("Oropass") to form and invest in a joint venture with Oropass on a 50% basis each to license and market certain intellectual property in the United States ("USA Licensing Rights MOI"). Under the USA Licensing Rights MOI, the Company paid $10,000 of an initial $15,000 deposit payable, with Oropass paying the other $5,000, to a third party that originally licensed the intellectual property to Oropass. Formation of a joint venture is subject to the Company securing $500,000 of joint venture seed funding and entry of the Company and Oropass into a joint venture shareholders' agreement.

e) The Company entered into a non-binding memorandum of intent with Oropass to form and invest in a joint venture with Oropass on a 50% basis each to license and market certain intellectual property in the European Union ("EU Licensing Rights MOI"). Under the EU Licensing Rights MOI, the Company paid an initial $10,000 deposit payable to a third party that originally licensed the intellectual property to Oropass. Formation of a joint venture is subject to the Company securing joint venture seed funding, the submission of European Union patent applications on or before August 1, 2020 and entry of the Company and Oropass into a joint venture shareholders' agreement.

f) On May 6, 2020, the Company extended its existing office rental agreement in Vancouver, British Columbia, originally set to terminate June 15, 2020, to November 30, 2020. Under the extension agreement, the Company will pay base rent of $2,385 per month, plus common costs and taxes, from June to November 2020.

g) The outbreak of the novel strain of coronavirus ("COVID-19") has resulted in governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused an economic slowdown and material disruption to business. Government has reacted with interventions intended to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial performance and financial position of the Company in future periods.

Hillcrest Petroleum

Condensed Interim Consolidated Financial Statements

Three Month Period Ended

March 31, 2020

(Unaudited)

(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of the Company and all information contained in the first quarter 2020 report have been prepared by and are the responsibility of the Company's management.

The Audit Committee of the Board of Directors has reviewed the condensed interim consolidated financial statements and related financial reporting matters.

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

HILLCREST PETROLEUM LTD.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	March 31, 2020 ($)	December 31, 2019 ($)
ASSETS		
Current assets		
Cash	39,554	41,749
Receivables	22,396	87,919
Prepaid expenses	44,208	37,627
Right-of-use asset (Note 17)	6,748	12,532
Total current assets	112,906	179,827
Non-current assets		
Property and equipment (Note 4)	637,712	684,071
TOTAL ASSETS	750,618	863,898
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	1,492,216	1,411,071
Loans (Notes 6, 7 and 9)	1,266,650	1,234,542
Embedded derivative liabilities (Note 6 and 8)	91,439	91,439
Lease liability (Note 17)	5,089	11,265
Current portion of convertible debentures (Note 8)	49,289	76,657
Total current liabilities	2,904,683	2,824,974
Convertible debentures (Note 8)	39,763	39,763
Other liability (Note 8)	116,000	116,000
Decommissioning liability (Note 10)	375,717	373,187
TOTAL LIABILITIES	3,436,163	3,353,924
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 11)	9,010,016	8,980,016
Contributed surplus (Note 11)	1,357,361	1,357,361
Reserves (Note 11)	252,795	246,084
Deficit	(13,305,717)	(13,073,487)
Total shareholders' deficiency	(2,685,545)	(2,490,026)
TOTAL LIABILITIES & SHAREHOLDERS' DEFICIENCY	750,618	863,898

Nature of operations and going concern (Note 1)

Commitments (Note 12)

Subsequent events (Note 18)

On behalf of the Board of Directors:

"Michael Krzus" — Director

"Thomas Milne" — Director

HILLCREST PETROLEUM LTD.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Three Month Period Ended	
	March 31, 2020	**March 31, 2019**
	($)	**($)**
Revenue and costs		
Oil sales	136,244	133,389
Royalties	(29,104)	(23,041)
Operating costs	(126,865)	(99,774)
Depletion and depreciation (Note 4)	(56,206)	(30,568)
	(75,931)	(19,994)
General and administrative expenses		
Management and consulting fees (Note 9)	30,176	107,443
Office and general	84,884	96,875
Share-based payments (Note 11)	-	744
	115,060	205,062
Loss from operations	(190,991)	(225,056)
Financing expenses (Notes 6, 7 and 17)	(41,137)	(82,437)
Foreign exchange gain	(102)	2,444
Net loss	(232,230)	(305,049)
Item that may be subsequently reclassified to net loss		
Exchange differences on translating foreign operations	1,110	(7)
Comprehensive loss for the period	(231,120)	(305,056)
Basic and diluted loss per share	(0.00)	(0.00)
Weighted average common shares outstanding:		
Basic	124,101,277	87,293,226
Diluted	124,101,277	87,293,226

HILLCREST PETROLEUM LTD.

Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars)

	Share Capital			Reserves			
	Number of Shares	Amount	Contributed Surplus	Warrants	Foreign Currency Translation	Deficit	Shareholders' Deficiency
		($)	($)	($)	($)	($)	($)
Balance at December 31, 2018	87,293,226	7,681,347	1,350,917	47,550	119,923	(11,872,229)	(2,672,492)
Vesting of stock options	-	-	744	-	-	-	744
Net loss and comprehensive loss for the period	-	-	-	-	(7)	(305,049)	(305,056)
Balance at March 31, 2019	87,293,226	7,681,347	1,351,661	47,550	119,916	(12,177,278)	(2,976,804)
Balance at December 31, 2019	123,679,299	8,980,016	1,357,361	129,550	116,534	(13,073,487)	(2,490,026)
Conversion of convertible debentures (Note 11)	600,000	30,000	-	5,601	-	-	35,601
Net loss and comprehensive loss for the period	-	-	-	-	1,110	(232,230)	(231,120)
Balance at March 31, 2020	124,279,299	9,010,016	1,357,361	135,151	117,644	(13,305,717)	(2,685,545)

HILLCREST PETROLEUM LTD.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	Three Month Period Ended	
	March 31, 2020	**March 31, 2019**
	($)	**($)**
Net loss for the period	(232,230)	(305,049)
Adjusted for items not involving cash:		
Accretion expense	6,008	22,415
Accrued interest expense	31,846	11,639
Depletion and depreciation	56,206	30,568
Share-based payments	-	744
Unrealized foreign exchange loss	-	135
Changes in non-cash working capital:		
Prepaid expenses	(6,581)	(60,138)
Receivables	65,523	(161,344)
Accounts payable and accrued liabilities	52,532	240,313
Cash flows used in operating activities	(26,696)	(220,717)
Proceeds from disposal of oil and gas property interest	-	170,000
Property and equipment expenditures	(4,063)	(106,132)
Cash flows provided by (used in) investing activities	(4,063)	63,868
Proceeds from convertible debentures	-	55,000
Share subscriptions received in advance	-	180,000
Repayment of lease liability	(6,176)	-
Repayment of loan principal and interest	32,108	(42,113)
Repayment of convertible debenture principal and interest	2,632	-
Cash flows provided by financing activities	28,564	192,887
Change in cash	(2,195)	36,038
Effect of exchange rate changes on cash denominated in a foreign currency	-	(143)
Cash, beginning of the period	41,749	21,348
Cash, end of the period	39,554	57,243

Supplemental cash flow information (Note 16)

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 located in North America. The Company's registered office is Suite 1300 – 1030 West Georgia Street, Vancouver, BC, V6E 2Y3. The Company's shares are listed for trading on the TSX Venture Exchange ("TSXV") under the symbol "HRH" and on the OTC pink sheets 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 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'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 its creditors and its 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 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. BASIS OF PREPARATION

(a) Statement of Compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were approved by the Audit Committee and the Board of Directors of the Company on July 13, 2020.

(b) Statement of Compliance

The consolidated financial statements have been prepared on a historical cost basis, with the exception of the embedded derivatives in the Ballakilley loan and the convertible debentures which are recognised at fair value (Notes 6 and 8), using the accrual basis of accounting, except for cash flow information.

2. BASIS OF PREPARATION (continued)

(c) Basis of Consolidation

These consolidated financial statements include the accounts of the parent company, Hillcrest Petroleum Ltd., and its wholly-owned subsidiaries. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Name of Subsidiary	Jurisdiction of Incorporation	Principal Activity
Hillcrest Exploration Ltd. ("HEL")	USA	Oil and Gas exploration
1084580 BC Ltd.	Canada	Oil and Gas exploration
2044573 Alberta Ltd.	Canada	Oil and Gas exploration
102031850 Saskatchewan Ltd.	Canada	Oil and Gas exploration
Hillcrest Resources (Arizona) Ltd. ("HARL")	USA	Dormant

(d) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars. The functional currency of the parent, 1084580 BC Ltd., 2044573 Alberta Ltd., 102031850 Saskatchewan Ltd. and HARL is the Canadian dollar. The functional currency of HEL is the United States dollar.

(e) Use of Estimates and Judgments

The preparation of these consolidated 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 period. Actual results could differ from these estimates.

These consolidated 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:

Depletion and Depreciation
The amounts recorded for depletion and depreciation of oil and natural gas properties and the amounts used in impairment testing are based on independent estimates of proved and probable reserves, well production rates, realized and forecast oil and natural gas prices, future development costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty. Accordingly, the impact on the consolidated financial statements for future periods may be material.

2. BASIS OF PREPARATION (continued)

(e) Use of Estimates and Judgments (continued)

Decommissioning provisions
Restoration costs will be incurred by the Company at the end of the operating life of the Company's oil properties. The Company estimates abandonment and reclamation costs based on a combination of publicly available industry benchmarks and internal site-specific information. For producing wells and facilities, the expected timing of settlement is estimated based on the period to abandonment for each field, as per an independent report. The ultimate restoration liability is uncertain and can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, or changes in the risk-free discount rate. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Income taxes
The calculation of income taxes requires judgment in applying tax laws and regulations, estimating the timing of the reversals of temporary differences, and estimating the reliability of deferred tax assets. These estimates impact current and deferred income tax assets and liabilities, and current and deferred income tax expense (recovery).

Significant judgments that management has made at the end of the reporting period are as follows:

Carrying value and the recoverability of exploration and evaluation assets
Management has determined that exploration, evaluation and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, scoping and feasibility studies, accessible facilities and existing permits.

Fair value of stock options and other share-based payments
Management assesses the fair value of stock options and other share-based payments granted in accordance with the accounting policy stated in Note 3 to the consolidated financial statements. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the Company's stock options.

Going concern
In order to assess whether it is appropriate for the Company to be reported as a going concern, the Directors apply judgment, having undertaken appropriate inquiries and having considered the business activities and the Company's principal risks. Management estimates future cash flows, including the timing of future capital expenditures and equity funding.

Fair value of embedded derivatives and other liability
Management assesses its financial instruments in order to identify whether or not non-derivative instruments might contain an embedded derivative component. If such a derivative component is identified, then it must be separated from the non-derivative host contract and recorded at fair value. The fair value of the embedded derivative is measured using the Black-Scholes model, taking into account the terms and conditions upon which the derivative is granted. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the embedded derivative. Fair value of the other liability is measured using a market-based approach.

2. BASIS OF PREPARATION (continued)

(e) Use of Estimates and Judgments (continued)

Carrying value and the recoverability of property and equipment
The Company reviews its equipment for indicators of impairment whenever there is a change in events or circumstances that indicate an asset may be impaired and at each reporting period. Reviews are undertaken to evaluate the carrying value of the property and equipment considering, among other factors: the carrying value of each type of asset and the changes in circumstances that affect the carrying value of the Company's property and equipment. If such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or a CGU is the greater of its value in use ("VIU") and its fair value less costs to dispose ("FVLCD"). The FVLCD is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, and willing parties, less the costs of disposal or in the case of lack of comparable transactions, based upon discounted cash after tax cash flow. VIU is determined by estimating the pre-tax present value of the future net cash flows expected to be derived from the continued use of the asset of CGU.

Determination of cash generating units
Management must make judgments as to which oil and gas properties can be aggregated into a cash generating unit ("CGU"). The Company's oil and gas assets are aggregated into CGUs for the purpose of calculating impairment and depletion. Factors considered by management include, but are not limited to, the product produced (i.e. oil versus gas), the common infrastructure shared by individual properties, proximity of properties to each other, and planned development activities.

Right-of-Use Asset/Lease Liability
The incremental rate of borrowing used in the measurement of the lease liability was based on the interest rate of the Credit Line. See Note 17.

3. 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"). The accounting policies applied in these condensed interim financial statements are consistent with those stated in the Company's most recent annual audited financial statements, except for any new standards and amendments adopted (Note 3). Accordingly, these condensed interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2019.

(Expressed in Canadian dollars)

4. PROPERTY AND EQUIPMENT

	Computers	Oil and Gas Interests	Total
	($)	($)	($)
At December 31, 2018	16,028	1,915,932	1,931,960
Reclassification from exploration and evaluation assets	-	896,013	896,013
Revaluation of decommissioning liabilities	-	(65,675)	(65,675)
At December 31, 2019	**16,028**	**2,746,270**	**2,762,298**
Additions	-	4,063	4,063
At March 31, 2020	**16,028**	**2,750,333**	**2,766,361**
Accumulated depletion and depreciation			
At December 31, 2018	16,028	1,221,864	1,237,892
Depletion and depreciation for the year	-	146,267	146,267
At December 31, 2019	**16,028**	**1,368,131**	**1,384,159**
Depletion and depreciation for the period	**-**	**50,422**	**50,422**
At March 31, 2020	**16,028**	**1,418,553**	**1,434,581**
Impairment			
At January 1, 2018	-	491,543	491,543
Additions	-	202,525	202,525
At December 31, 2019 and March 31, 2020	**-**	**694,068**	**694,068**
Carrying amounts:			
At December 31, 2019	-	684,071	684,071
At March 31, 2020	**-**	**637,712**	**637,712**

West Hazel, Saskatchewan

In February 2019, three wells under the West Hazel farm-in agreement (see Note 4) were reactivated, and as a result the Company reclassified the associated costs from exploration and evaluation assets to property and equipment on the consolidated statement of financial position. The Company is the joint venture operator with its working interest of 62.25%. The owners of the other working interests are:

- 2042870 Alberta Ltd. (Charterhouse subsidiary): 25%;
- KFG Resources Ltd: 11.25%; and
- Geronimo Corp.: 1.5%

Flaxcombe, Saskatchewan

In January 2018, Well 16-13 and Well 07-13 under the Westcore farm-in agreement (see Note 4) were reactivated, and as a result the Company reclassified the associated costs from exploration and evaluation assets to property and equipment on the consolidated statement of financial position.

(Expressed in Canadian dollars)

4. PROPERTY AND EQUIPMENT (continued)

Impairment

The Company's oil production assets were assessed for impairment against the proved and probable reserves. The valuation determined that the pre-tax net present value of oil and gas reserves at a discount rate of 10% is $4.525 million.

Proved reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Probable reserves are defined as those which have a better than 50% chance of being technically and economically recoverable.

At March 31, 2020, the Company's estimated total Proven and Probable Reserves were 282.4 Mboe. Assumptions for the fair value calculation included heavy oil prices ranging from $54 – 63 bbl (2020 – 2026) and an inflation rate of 2%.

During the period ended March 31, 2020, the Company reviewed the carrying value of its oil and gas interests and determined there were no indicators of impairment with respect to the performance and operating costs of the West Hazel wells. For the year ended December 31, 2019, the Company recorded an impairment charge of $Nil (2018: $202,525).

The impairment charge for the year ended December 31, 2018 relates to the entire carrying value of the Flaxcombe property CGU, on the consolidated statement of income (loss) and comprehensive income (loss) after management determined the Flaxcombe assets to not be technically or economically viable.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2020	March 31, 2019
	($)	($)
Trade payables	928,685	995,389
Related party payables (Note 10)	69,431	417,679
Accrued liabilities	485,307	183,404
GST payable	8,883	-
	1,492,216	1,452,044

6. SECURED LOANS

ASI Loan

As at March 31, 2020, the Company has $138,550 (March 31, 2019 - $138,550) outstanding on a senior secured loan facility that bears interest at a rate of 20% per annum and is currently payable on demand. As part of the consideration for the loan facility, the lenders and the arranging agent receive an aggregate 10% 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 loan. The Company has fully impaired these Hartburg assets and they are no longer producing.

During the period ended March 31, 2020, the Company repaid $Nil (2019 - $Nil) in loan principal and incurred $6,833 (2019 - $6,833) in interest expense.

Bridge Loan

On August 10, 2016, the Company borrowed $300,000 under a loan agreement (the "Bridge Loan") bearing interest at 1% per month, compounded monthly, and maturing on August 9, 2017. The Company also issued 1,500,000 common shares with a value of $75,000 as payment of arrangement fees and syndication fees incurred in connection with the Bridge Loan. The cash received under the Bridge Loan has been allocated between the fair value of the loan liability and the value of the 1,500,000 common shares. The value ascribed to the common shares as at the loan date was $75,000, and it has a

6. SECURED LOANS (continued)

amount has been allocated to the loan liability.

During the period ended March 31, 2020, the Company incurred $12,190 (2019 - $10,698) in interest expense and paid $Nil (2019 - $Nil) in accrued interest. At March 31, 2020 a total of $411,430 (March 31, 2019 - $368,725) in loan principal and accrued interest remained outstanding.

The loan is in default, but the Company continues to accrue interest in accordance with the agreement.

Ballakilley Loan

On June 15, 2017, the Company borrowed $140,950 under a convertible loan agreement (the "Ballakilley Loan") bearing interest at 20% per annum, payable semi-annually, and maturing on May 31, 2019. The Ballakilley Loan is convertible into common shares of the Company at a price of $0.07 per share, subject to a reduction if the Company completes a private placement or issues options or warrants at a lower price, at the option of the lender. The cash received under the Ballakilley Loan was allocated between the fair value of the loan liability and the value of the loan conversion feature which is considered an embedded derivative. The value ascribed to the loan liability as at the loan date was $35,650, and the residual amount has been allocated to the loan conversion feature.

During the period ended March 31, 2020, the Company incurred $7,028 (March 31, 2019 - $8,457) in interest expense and $3,883 (March 31, 2019 - $19,411) in accretion of the loan liability. At March 31, 2020, a total of $213,799 (March 31, 2019 - $177,957) in loan principal and accrued interest remained outstanding. Additionally, on the basis of the private placement completed by the Company in December 2019 at $0.03 per share, the loan conversion feature has been revalued to $84,000 (2018 - $52,500), and the Company has recorded a loss of $31,500 (2018 – gain of $21,200) on the consolidated statement of loss and comprehensive loss.

The loan is in default, but the Company continues to accrue interest in accordance with the agreement**.**

Project Financing

In February 2017, the Company entered into an arrangement with a third party to provide potential debt financing of up to $2,500,000. The Company incurred standby charges at a rate of 7% per annum for the availability of this potential debt financing for the acquisition and development of oil projects located in Canada. Upon making a draw down under the facility additional fees would be incurred resulting in an effective borrowing rate of 20% per annum. The Company did not borrow any funds but has incurred standby charges totalling $13,531 during the year ended December 31, 2019 (2018 - $71,515). The arrangement is still currently in place but there are no funds currently incurring standby charges as at December 31, 2019. At March 31, 2020, a total of $154,154 (2018 - $260,623) in standby charges and interest on standby charges remained outstanding.

1055328 BC Ltd. Loan

On October 6, 2017, the Company borrowed $63,000 under a secured loan that bears 12% interest per annum and is repayable on or before October 6, 2018. On June 6, 2018, the Company borrowed an additional $37,000 under the same terms.

During the year ended December 31, 2019 the Company incurred $12,000 (2018 - $10,832) in interest expense. At March 31, 2020, a total of $129,855 (March 31, 2019 - $114,830) in loan principal and accrued interest remained outstanding.

The loan is in default, but the Company continues to accrue interest in accordance with the agreement.

7. UNSECURED LOANS

Significant unsecured loans are as follows:

Credit Line

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

7. UNSECURED LOANS (continued)

maximum capacity of $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 year ended December 31, 2019, the Company incurred $10,156 (2018 - $19,437) in interest expense, including $Nil (2018 - $5,452) in accretion of the loan liability. At March 31, 2020, a total of $96,414 (March 31, 2019 - $224,365) in loan principal and accrued interest remained outstanding.

Proactive Advance

On December 16, 2019, the Company received $60,000 from Proactive Investors. This advance bears interest at 4% per annum and is intended to be applied towards a future private placement.

During the year ended December 31, 2019, the Company incurred $99 (2018 - $Nil) in interest expense. At March 31, 2020, a total of $60,598 (March 31, 2019 - $Nil) in advance principal and interest remained outstanding.

8. CONVERTIBLE DEBENTURES

During the year ended December 31, 2019, the Company borrowed a total of $55,000 under convertible debenture agreements (the "2019 Convertible Debentures") bearing interest at 15% per annum, payable quarterly, and maturing two years from the dates of advance.

The cash received under the 2019 Convertible Debentures has been allocated between the fair value of the loan liability and the conversion feature. The value ascribed to the loan liability as at the loan date was $27,341, and the value ascribed to the conversion feature was $27,659. Additionally, the loan conversion feature was revalued to $7,439 at December 31, 2019 (2018 - $Nil), and the Company has recorded a gain of $20,220 (2018 –$Nil) on the consolidated statement of loss and comprehensive loss.

During the year ended December 31, 2018, the Company borrowed a total of $695,000 under convertible debenture agreements (the "2018 Convertible Debentures") bearing interest at 15% per annum, payable quarterly, and maturing two years from the dates of advance. A total of $600,000 of the Convertible Debentures were issued to the CEO of the Company.

The cash received under the 2018 Convertible Debentures has been allocated between the fair value of the loan liability and the conversion feature. The value ascribed to the loan liability, net of transaction costs of $5,731, as at the loan date was $689,269, and the conversion feature was determined to have no value. In addition, the 20% retained profit interest which was attached to the Convertible Debentures and takes effect upon full loan repayment, and is applicable only to specific zones of the four original reactivation wells, was determined to have a fair value of $116,000 which was recorded as financing expense during the year ended December 31, 2018.

The Convertible Debentures are secured by the West Hazel property and are convertible into common shares of the Company at a price equal to market price of the common shares of the Company in the first twelve months or the greater of $0.10 and market price thereafter. In addition, should the West Hazel property be sold prior to the first anniversary of the advance date of the Convertible Debentures, then the Company will pay an amount equal to one full year of interest, the loan principal and 15% of any profit realized on the sale above the original reactivation costs. Should the West Hazel property be sold subsequent to the first anniversary of the advance date and prior to maturity of the Convertible Debentures, then the Company will pay an amount equal to the loan principal and 15% of any profit realized on the sale above the original reactivation costs.

During the year ended December 31, 2019, debenture holders converted $577,081 (2018 - $Nil) of debenture principal and interest payable via the issuance of 11,541,627 common shares, including $557,081 payable to the CEO of the Company via the issuance of 11,141,627 common shares, and the Company repaid $43,833 of debenture principal and $107,274 of debenture interest. During the year ended December 31, 2019, the Company incurred $126,622 (2018 - $13,996) in interest and accretion expense. At March 31, 2020 a total of $89,052 (March 31, 2019 - $750,028) in loan principal and accrued interest remained outstanding.

(Expressed in Canadian dollars)

9. RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the period ended March 31, 2020 and 2019. Key management personnel included the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and directors and officers and companies controlled or significantly influenced by them:

Key management compensation

	March 31, 2020 ($)	March 31, 2019 ($)
Management and consulting fees paid or accrued to directors, officers or corporations controlled by directors and officers of the Company	30,176	91,300
	30,176	91,300

a) As at March 31, 2020, a total of $69,431 (March 31, 2019 - $417,679) was included in accounts payable and accrued liabilities owing to the directors and officers or corporations controlled by directors and officers of the Company for unpaid consulting fees and reimbursable expenses. These liabilities are non-interest bearing and payable on demand.

b) As at March 31, 2020, a total of $Nil (March 31, 2019 - $600,000) was included in convertible debentures owing to the CEO. A total of $Nil (December 31, 2018 - $57,353) was paid in advance for future interest payments and was recorded as prepaids on the consolidated statement of financial position (see Note 9).

c) As at March 31, 2020, the Company owed a total of $53,488 (March 31, 2019 - $46,720) in loan principal and interest to the Chairman of the Company pursuant to a December 27, 2018 loan agreement where the Company borrowed $45,000 from the Chairman. The loan bears interest at 15% and is repayable on demand.

d) During the year ended December 31, 2019, related parties forgave a net amount of $235,850 (2018 - $Nil) in unpaid management and consulting fees accrued in prior years.

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, 2020, the oil and gas properties had estimated abandonment dates between 2024 and 2028.

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.

(Expressed in Canadian dollars)

10. DECOMMISSIONING LIABILITY (continued)

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

	Hartburg, Texas	West Hazel, Saskatchewan	Flaxcombe, Saskatchewan	Total
	($)	**($)**		**($)**
Balance, January 1, 2018	42,844	-	-	42,844
Accretion	850	-	992	1,842
Additions	-	369,700	50,098	419,798
Balance, December 31, 2018	43,694	369,700	51,090	464,484
Change in estimate	-	(65,675)	-	(65,675)
Accretion	867	7,320	1,012	9,199
Disposal	(35,249)	-	-	(35,249)
Foreign exchange movement	428	-	-	428
Balance, December 31, 2019	9,740	311,345	52,102	373,187
Accretion	201	2,125	204	2,530
Balance, March 31, 2020	9,941	313,470	52,306	375,717
Current portion	-	-	-	-
Non-current portion	9,941	313,470	52,306	375,717
	9,941	313,470	52,306	375,717

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Hartburg Project was $10,957 (US$8,436) (December 31, 2018 - $46,358 (US$35,976)) as at December 31, 2019. The provision has been estimated using a risk-free discount rate of 1.98% (December 31, 2018 – 1.93%) and an inflation rate of 2.00% (December 31, 2018 – 2.00%).

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Flaxcombe Project was $60,950 (March 31, 2019 - $60,950) at March 31, 2020. The provision has been estimated using a risk-free discount rate of 1.98% (March 31, 2019 – 1.93%) and an inflation rate of 2.00% (March 31, 2020 – 2.00%).

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the West Hazel Project was $338,391 (March 31, 2019 - $415,854) at March 31, 2020. The provision has been estimated using a risk-free discount rate of 1.68% (March 31, 2019 – 1.93%) and an inflation rate of 2.00% (March 31, 2019 – 2.00%).

11. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value

Issued and outstanding

Three Month Period Ended March 31, 2020

a) The Company issued 600,000 common shares in connection with the conversion of a $30,000 portion of the outstanding Convertible Debentures at $0.05 per share.

Year Ended December 31, 2019

a) The Company completed a non-brokered private placement wherein it issued an aggregate of 3,900,000 units at $0.05 per unit for gross proceeds of $195,000. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant entitled the holder to acquire an additional common share at $0.10 for two years from the date of closing of the placement. In September 2019, these exercise price of these warrants was repriced to $0.05 per share. The Company used the residual method to determine the value of the warrants issued as part of the private placement. It was determined that the warrants issued as part of the private placement had a value of $78,000.

   The Company incurred $2,146 in cash share issuance costs and issued 272,000 finder's warrants valued at $1,891 and exercisable on the same terms as the private placement warrants in connection with the private placement. $15,000 of the proceeds from this private placement remained unreceived as at December 31, 2019 and were written off from accounts receivable during the year ended December 31, 2019.

b) The Company issued 400,000 common shares in connection with the conversion of a $20,000 portion of the outstanding Convertible Debentures at $0.05 per share.

c) The Company issued 11,141,627 common shares in connection with the conversion of a $557,081 portion of the outstanding Convertible Debentures at $0.05 per share.

d) The Company completed a non-brokered private placement wherein it issued an aggregate of 20,944,446 units at $0.03 per unit for gross proceeds of $628,333. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at $0.05 for one year from the date of closing of the placement. The Company used the residual method to determine the value of the warrants issued as part of the private placement. It was determined that the warrants issued as part of the private placement had a value of $Nil.

   The Company incurred $17,600 in cash share issuance costs and issued 586,666 finder's warrants valued at $2,109 and exercisable on the same terms as the private placement warrants in connection with the private placement. Each finder's warrant entitles the holder to acquire an additional common share at $0.05 for one year from the date of closing of the placement.

e) The Company repriced a total of 6,140,600 existing share purchase warrants to $0.05 per warrant, including:

   - 3,636,887 share purchase warrants expiring February 27, 2020 from $0.10 per warrant;
   - 553,713 share purchase warrants expiring March 23, 2020 from $0.10 per warrant; and
   - 1,950,000 share purchase warrants expiring May 10, 2021 from $0.10 per warrant.

11. SHARE CAPITAL (continued)

f) The Company repriced a total of 2,600,000 existing stock options to $0.05 per option, including:

- 1,950,000 stock options expiring February 21, 2022 from $0.07 per option;
- 300,000 stock options expiring May 1, 2022 from $0.06 per option; and
- 350,000 stock options expiring June 13, 2022 from $0.065 per option.

Year Ended December 31, 2018

a) The Company issued 1,700,000 common shares to settle $85,000 in outstanding debts.

b) The Company completed a non-brokered private placement in two tranches wherein it issued an aggregate of 9,992,000 units at $0.05 per unit for gross proceeds of $499,600. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at $0.10 for two years from the date of closing of the placement. The Company used the residual method to determine the value of the warrants issued as part of the private placement. It was determined that the warrants issued as part of the private placement do not have any value. The Company incurred $17,248 in share issuance costs in connection with this private placement.

c) The Company issued 725,000 common shares due to the exercise of stock options at $0.06 per share for gross proceeds of $43,500. The fair value of the options was determined to be $41,059, and accordingly the amount has been transferred from contributed surplus to share capital.

Share Purchase Warrants

Three Month Period Ended March 31, 2020

a) A total of 4,396,000 share purchase warrants exercisable at $0.05 expired unexercised on February 27, 2020.

b) A total of 600,000 share purchase warrants exercisable at $0.10 expired unexercised on March 23, 2020.

Year Ended December 31, 2019

a) The Company issued 1,950,000 share purchase warrants in connection with a non-brokered private placement. Each warrant originally entitled the holder to acquire a common share of the Company at $0.10 per share until May 10, 2021. In September 2019, the exercise price of these warrants was repriced to $0.05 per share. Pursuant to the same private placement, the Company also issued 272,000 finder's share purchase warrants exercisable on the same terms as the private placement warrants.

b) The Company issued 20,944,446 share purchase warrants in connection with a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at $0.05 per share until December 4, 2020. Pursuant to the same private placement, the Company also issued 586,666 finder's share purchase warrants exercisable on the same terms as the private placement warrants.

Year Ended December 31, 2018

c) The Company issued 4,396,000 share purchase warrants in connection with the first tranche of a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at $0.10 per share until February 27, 2020.

d) The Company issued 600,000 share purchase warrants in connection with the second tranche a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at $0.10 per share until March 23, 2020.

(Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

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

	Number of Warrants	Weighted Average Exercise Price
		($)
Balance, January 1, 2018	11,897,429	0.08
Issued	4,996,000	0.10
Expired	(3,650,000)	0.08
Balance, December 31, 2018	13,243,429	0.09
Issued	23,753,112	0.05
Repriced – original prices	(6,140,600)	0.10
Repriced – amended prices	6,140,600	0.05
Expired	(7,247,429)	0.09
Balance, December 31, 2019	29,749,112	0.05
Expired	(4,996,000)	0.05
Balance, March 31, 2020	24,753,112	0.05

The following table summarizes the share purchase warrants outstanding as at December 31, 2019:

Number of Warrants	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
	($)		(yrs)
1,950,000	0.05	May 10, 2021	1.11
272,000*	0.10	May 10, 2021	1.11
20,944,446	0.05	December 4, 2020	0.68
586,666*	0.05	December 4, 2020	0.68
500,000	0.07	August 17, 2020	0.38
500,000	0.10	August 17, 2020	0.38
24,753,112	0.05		0.71

*Finder's warrants

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 TSXV, 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, 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 unexercised options granted under the plan will expire no later than five years from the date of grant.

The Company granted an aggregate of 950,000 stock options during the year ended December 31, 2018. The options vest over different time periods, and the Company expensed $41,598 as share-based compensation. The Company expensed an additional $744 during the year ended December 31, 2019 in connection with the 2018 option grants.

(Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

The options granted were valued using the Black-Scholes option pricing model under the following weighted average assumptions:

	2018
Risk-free interest rate	2.11%
Expected life of options	3.7 years
Volatility	149%
Expected Dividend yield	Nil
Forfeiture rate	Nil
Weighted average fair value	$0.05

During the year ended December 31, 2019, the Company expensed $5,700 as share-based compensation for the incremental value of repricing 2,600,000 stock options with prices originally ranging from $0.06 to $0.07 per option to amended prices of $0.05 per option. The incremental value was determined using the Black-Scholes option pricing model under the following weighted average assumptions:

	2019
Risk-free interest rate	1.62%
Expected life of options	2.43-2.73 years
Volatility	83-87%
Expected Dividend yield	Nil
Forfeiture rate	Nil
Weighted average fair value	$0.002

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

	Number of Options	**Weighted Average Exercise Price**
		($)
Balance, January 1, 2018	6,400,000	0.07
Issued	950,000	0.06
Exercised	(725,000)	0.06
Expired	(1,700,000)	0.06
Balance, December 31, 2018	4,925,000	0.07
Repriced – original prices	(2,600,000)	0.07
Repriced – amended prices	2,600,000	0.05
Cancelled	(275,000)	0.07
Balance, December 31, 2019 and March 31, 2020	4,650,000	0.06

(Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

The following table summarizes the stock options outstanding and exercisable as at March 31, 2020:

Number of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
		($)		(yrs)
300,000	300,000	0.05	April 3, 2021	1.01
1,750,000	1,750,000	0.07	February 21, 2022	1.90
1,950,000	1,950,000	0.05	February 21, 2022	1.90
300,000	300,000	0.05	May 1, 2022	2.08
350,000	350,000	0.05	June 13, 2022	2.20
4,650,000	4,650,000	0.06		1.87

12. COMMITMENTS

The Company had the following commitments as at March 31, 2020:

a) The Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, terminating on June 15, 2020. The remaining base rent payable under the lease is $6,673 up until the lease expires. In addition to the base rent of $2,067 per month, the Company's share of operating costs is estimated at approximately $1,598 per month.

b) HEL entered into an office rental agreement with a term of 72 months, terminating on February 28, 2023. The landlord issued a notice of termination to the Company effective January 31, 2019 and has sent a demand for payment of $43,961 (US$32,245) representing unpaid rental charges under the rental agreement. The Company has recognized the full liability as at March 31, 2020.

See Note 18.

13. GEOGRAPHICAL SEGMENTED INFORMATION

The Company is engaged in one business activity, being the acquisition, exploration, development and production of oil and gas reserves in Canada and the United States. For the year ended December 31, 2019 and March 31, 2020, all revenues were derived from operations in Canada and all non-current assets were located in Canada (March 31, 2019 - all revenues were derived from operations in Canada and all non-current assets were located in Canada).

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.

14. CAPITAL MANAGEMENT (continued)

There were no changes in the Company's approach to capital management during the period ended March 31, 2020. 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, receivables, accounts payable and accrued liabilities and loans.

The fair value of cash, receivables and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments. The carrying amounts of the 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. The fair value of the convertible debentures has been determined after deducting transaction costs and allocating the portion of the proceeds applicable to the retained profit interest.

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 remaining customers are related to the recovery of shared office rent and share subscription proceeds. 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, 2020, the maximum credit exposure is the carrying amount of Receivables of $22,296 (March 31, 2019 - $199,849).

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.

Market risk
Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company's primary commodity is heavy oil which is closely tied to the price of Western Canadian Select.

Interest rate risk
The Company is exposed to interest rate risk. The Company has an unsecured loan associated with a CIBC line of credit which has a variable interest rate, recalculated quarterly. A 1% change in market interest rates would result in an increase/decrease of $1,602 on the Company's net loss.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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, 2020, the Company had a working capital deficiency of $2,791,777 (March 31, 2019 - $2,553,628). The Company finances its operations through a combination of cash, loans, equity and convertible debentures. The Company's ability to continue as a going concern is dependent upon the ongoing support from its lenders and its ability to fund the repayment of its debt by generating positive cash flows from operations, securing funding from additional debt, equity financing, disposing of assets or making other arrangements. Refer to Note 1 for further discussion.

The Company's financial liabilities had contractual maturities as follows:

	March 31, 2020	March 31, 2019
	($)	($)
Less than 1 year	2,904,683	2,496,873
Between 1 – 2 years	39,763	745,402
Between 2 – 5 years	-	-
	2,944,446	3,692,275

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 sales are denominated in Canadian dollars. As a result, the Company has minimal exposure to foreign exchange risk.

16. SUPPLEMENTAL CASH FLOW INFORMATION

	March 31, 2020	March 31, 2019
	($)	($)
Non-cash investing and financing activities:		
Common shares issued upon the conversion of convertible debentures	30,000	-
Common shares issued to settle outstanding liabilities	-	-
Exploration and evaluation assets reclassified to property and equipment	-	-
Interest paid during the period	3,275	36,912
Income taxes paid during the period	-	-

(Expressed in Canadian dollars)

17. RIGHT-OF-USE ASSET/LEASE LIABILITY

On June 15, 2017, the Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, terminating on June 15, 2020. Pursuant to this agreement, the Company has a commitment to lease office space at a base rent rate of $24,804 per annum, plus common costs and taxes.

a) Right-of-use asset

As at December 31, 2019, the right-of-use asset recorded for the Company's office premises was as follows:

	$
As at December 31, 2018	-
IFRS 16 adoption	35,668
Amortization	(23,136)
As at December 31, 2019	12,532
Amortization	(5,784)
As at March 31, 2020	6,748

b) Lease liability

Minimum lease payments in respect of lease liabilities and the effect of discounting as at March 31, 2020 are as follows:

	$
Undiscounted minimum lease payments:	
Less than one year	5,127
Effect of discounting	(38)
Present value of minimum lease payments	5,089

c) Lease liability continuity

The net change in the Company's lease liability during the year ended March 31, 2020 was as follows:

	$
As at December 31, 2018	-
IFRS 16 adoption	34,997
Principal payments	(23,732)
As at December 31, 2019	11,265
Principal payments	(6,176)
	5,089

Interest of $197 for the three month period ended March 31, 2020 (March 31, 2019 – $nil) is included in financing expenses.

18. SUBSEQUENT EVENTS

Subsequent to March 31, 2020:

a) The Company issued 300,000 common shares in connection with the conversion of a portion of the outstanding Convertible Debentures at $0.05 per share.

b) The Company entered into a non-binding memorandum of intent with Oropass to form and invest in a joint venture with Oropass on a 50% basis each to market certain intellectual property in the European Union ("EU Licensing Rights MOI"). Under the EU Marketing Rights MOI, the Company paid an initial $10,000 deposit payable to a third party that originally licensed the intellectual property to Oropass. Formation of a joint venture is subject to the Company securing joint venture seed funding on or before August 1, 2020 and execution of a joint venture shareholders' agreement between the Company and Oropass.

c) The Company entered into a non-binding memorandum of intent with Oropass to form and invest in a joint venture with Oropass on a 50% basis each to license and market certain intellectual property in the European Union ("EU Licensing Rights MOI"). Under the EU Licensing Rights MOI, the Company paid an initial $10,000 deposit payable to a third party that originally licensed the intellectual property to Oropass. Formation of a joint venture is subject to the Company securing joint venture seed funding on or before August 1, 2020 and execution of a joint venture shareholders' agreement between the Company and Oropass.

d) On May 6, 2020, the Company extended its existing office rental agreement in Vancouver, British Columbia, originally set to terminate June 15, 2020, to November 30, 2020. Under the extension agreement, the Company will pay base rent of $2,385 per month, plus common costs and taxes, from June to November 2020.

e) On July 13, 2020, the Company announced that it will make an application to the TSX Venture Exchange for approval of the implementation of an early warrant exercise incentive program intended to encourage the early exercise of up to 24,166,466 outstanding common share purchase warrants of the Company held by warrant holders.

f) The outbreak of the novel strain of coronavirus ("COVID-19") has resulted in governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused an economic slowdown and material disruption to business. Government has reacted with interventions intended to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial performance and financial position of the Company in future periods.

Hillcrest Petroleum

Condensed Interim Consolidated Financial Statements

Six Month Period Ended

June 30, 2020

(Unaudited)

(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of the Company and all information contained in the second quarter 2020 report have been prepared by and are the responsibility of the Company's management.

The Audit Committee of the Board of Directors has reviewed the condensed interim consolidated financial statements and related financial reporting matters.

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

HILLCREST PETROLEUM LTD.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	June 30, 2020	December 31, 2019
	($)	($)
ASSETS		
Current assets		
Cash	47,651	41,749
Receivables	97,641	87,919
Prepaid expenses	43,474	37,627
License	15,000	-
Right-of-use asset (Note 17)	78,974	12,532
Total current assets	282,740	179,827
Non-current assets		
Property and equipment (Note 4)	627,005	684,071
TOTAL ASSETS	909,745	863,898
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	1,617,577	1,411,071
Loans (Notes 6, 7 and 9)	1,293,749	1,234,542
Embedded derivative liabilities (Note 6 and 8)	91,439	91,439
Lease liability (Note 17)	79,003	11,265
Current portion of convertible debentures (Note 8)	34,289	76,657
Total current liabilities	3,116,057	2,824,974
Convertible debentures (Note 8)	39,763	39,763
Other liability (Note 8)	116,000	116,000
Decommissioning liability (Note 10)	375,717	373,187
TOTAL LIABILITIES	3,647,537	3,353,924
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 11)	9,025,016	8,980,016
Contributed surplus (Note 11)	1,357,361	1,357,361
Subscriptions received	50,000	-
Reserves (Note 11)	252,757	246,084
Deficit	(13,422,926)	(13,073,487)
Total shareholders' deficiency	(2,737,792)	(2,490,026)
TOTAL LIABILITIES & SHAREHOLDERS' DEFICIENCY	909,745	863,898

Nature of operations and going concern (Note 1)

Commitments (Note 12)

Subsequent events (Note 19)

On behalf of the Board of Directors:

"Michael Krzus"
Director

"Thomas Milne"
Director

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

HILLCREST PETROLEUM LTD.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Three Month Period Ended June 30,			Six Month Period Ended June 30,	
	2020	**2019**		**2020**	**2019**
	($)	**($)**		**($)**	**($)**
Revenue and costs					
Oil sales	110,158	205,819		246,402	339,208
Royalties	(18,509)	(60,551)		(47,613)	(83,592)
Operating costs	(53,641)	(105,969)		(180,506)	(205,743)
Depletion and depreciation (Note 4)	(31,306)	(43,263)		(87,512)	(73,831)
	6,702	(3,964)	-	(69,229)	(23,958)
General and administrative expenses					
Management and consulting fees (Note 9)	21,039	79,629		51,215	187,072
Office and general	64,527	136,302		149,411	233,177
Share-based payments (Note 11)	-	-		-	744
	85,566	215,931	-	200,626	420,993
Loss from operations	(78,864)	(219,895)		(269,855)	(444,951)
Financing expenses (Notes 6, 7 and 17)	(36,572)	(81,393)		(77,709)	(163,830)
Foreign exchange gain	(1,773)	80		(1,875)	2,524
Net loss	(117,209)	(301,208)	-	(349,439)	(606,257)
Item that may be subsequently reclassified to net loss					
Exchange differences on translating foreign operations	(38)	(6)		1,072	(13)
Comprehensive loss for the period	(117,247)	(301,214)	-	(348,367)	(606,270)
Basic and diluted loss per share	(0.00)	(0.00)		(0.00)	(0.01)
Weighted average common shares outstanding:					
Basic	124,616,784	89,521,797		124,530,862	88,413,668
Diluted	124,616,784	89,521,797		124,530,862	88,413,668

HILLCREST PETROLEUM LTD.

Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars)

	Share Capital			Reserves				
	Number of Shares	**Amount**	**Share subscriptions**	**Contributed Surplus**	**Warrants**	**Foreign Currency Translation**	**Deficit**	**Shareholders' Deficiency**
		($)	**($)**	**($)**	**($)**	**($)**	**($)**	**($)**
Balance at December 31, 2018	87,293,226	7,681,347	-	1,350,917	47,550	119,923	(11,872,229)	(2,672,492)
Proceeds from private placement	3,900,000	113,000	-	-	82,000	-	-	195,000
Share issuance costs	-	(2,146)	-	-	-	-	-	(2,146)
Vesting of stock options	-	-	-	744	-	-	-	744
Net loss and comprehensive loss for the period	-	-	-	-	-	(13)	(606,257)	(606,270)
Balance at June 30, 2019	91,193,226	7,792,201	-	1,351,661	129,550	119,910	(12,478,486)	(3,085,164)
Balance at December 31, 2019	123,679,299	8,980,016	-	1,357,361	129,550	116,534	(13,073,487)	(2,490,026)
Conversion of convertible debentures (Note 11)	900,000	45,000	-	-	5,601	-	-	50,601
Share subscriptions received	-	-	50,000	-	-	-	-	50,000
Net loss and comprehensive loss for the period	-	-		-	-	1,072	(349,439)	(348,367)
Balance at June 30, 2020	124,579,299	9,025,016	50,000	1,357,361	135,151	117,606	(13,422,926)	(2,737,792)

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

HILLCREST PETROLEUM LTD.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	Six Month Period Ended	
	June 30, 2020	**June 30, 2019**
	($)	**($)**
Net loss for the period	(349,439)	(606,257)
Adjusted for items not involving cash:		
Accretion expense	6,008	42,836
Accrued interest expense	58,922	48,083
Depletion and depreciation	104,253	73,831
Share-based payments	-	744
Unrealized foreign exchange loss	-	(2)
Changes in non-cash working capital:		
Prepaid expenses	(5,847)	(90,573)
Receivables	(9,722)	(101,679)
License payments	(15,000)	-
Accounts payable and accrued liabilities	135,372	436,374
Cash flows used in operating activities	(75,453)	(196,643)
Proceeds from disposal of oil and gas property interest	-	170,000
Property and equipment expenditures	(30,446)	(106,132)
Cash flows provided by (used in) investing activities	(30,446)	63,868
Proceeds from convertible debentures	-	55,000
Proceeds from private placement	-	195,000
Share issuance costs	-	(2,146)
Share subscriptions received in advance	50,000	-
Repayment of lease liability	-	-
Repayment of loan principal and interest	59,207	(84,722)
Repayment of convertible debenture principal and interest	2,632	-
Cash flows provided by financing activities	111,839	163,132
Change in cash	5,940	30,357
Effect of exchange rate changes on cash denominated in a foreign currency	(38)	(12)
Cash, beginning of the period	41,749	21,348
Cash, end of the period	47,651	51,693

Supplemental cash flow information (Note 16)

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 located in North America. The Company's registered office is Suite 1300 – 1030 West Georgia Street, Vancouver, BC, V6E 2Y3. The Company's shares are listed for trading on the TSX Venture Exchange ("TSXV") under the symbol "HRH" and on the OTC pink sheets 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 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'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 its creditors and its 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 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. BASIS OF PREPARATION

(a) Statement of Compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were approved by the Audit Committee and the Board of Directors of the Company on August 31, 2020.

(b) Statement of Compliance

The consolidated financial statements have been prepared on a historical cost basis, with the exception of the embedded derivatives in the Ballakilley loan and the convertible debentures which are recognised at fair value (Notes 6 and 8), using the accrual basis of accounting, except for cash flow information.

2. BASIS OF PREPARATION (continued)

(c) Basis of Consolidation

These consolidated financial statements include the accounts of the parent company, Hillcrest Petroleum Ltd., and its wholly-owned subsidiaries. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Name of Subsidiary	Jurisdiction of Incorporation	Principal Activity
Hillcrest Exploration Ltd. ("HEL")	USA	Oil and Gas exploration
1084580 BC Ltd.	Canada	Oil and Gas exploration
2044573 Alberta Ltd.	Canada	Oil and Gas exploration
102031850 Saskatchewan Ltd.	Canada	Oil and Gas exploration
Hillcrest Resources (Arizona) Ltd. ("HARL")	USA	Dormant

(d) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars. The functional currency of the parent, 1084580 BC Ltd., 2044573 Alberta Ltd., 102031850 Saskatchewan Ltd. and HARL is the Canadian dollar. The functional currency of HEL is the United States dollar.

(e) Use of Estimates and Judgments

The preparation of these consolidated 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 period. Actual results could differ from these estimates.

These consolidated 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:

Depletion and Depreciation
The amounts recorded for depletion and depreciation of oil and natural gas properties and the amounts used in impairment testing are based on independent estimates of proved and probable reserves, well production rates, realized and forecast oil and natural gas prices, future development costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty. Accordingly, the impact on the consolidated financial statements for future periods may be material.

2. BASIS OF PREPARATION (continued)

(e) Use of Estimates and Judgments (continued)

Decommissioning provisions
Restoration costs will be incurred by the Company at the end of the operating life of the Company's oil properties. The Company estimates abandonment and reclamation costs based on a combination of publicly available industry benchmarks and internal site-specific information. For producing wells and facilities, the expected timing of settlement is estimated based on the period to abandonment for each field, as per an independent report. The ultimate restoration liability is uncertain and can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, or changes in the risk-free discount rate. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Income taxes
The calculation of income taxes requires judgment in applying tax laws and regulations, estimating the timing of the reversals of temporary differences, and estimating the reliability of deferred tax assets. These estimates impact current and deferred income tax assets and liabilities, and current and deferred income tax expense (recovery).

Significant judgments that management has made at the end of the reporting period are as follows:

Carrying value and the recoverability of exploration and evaluation assets
Management has determined that exploration, evaluation and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, scoping and feasibility studies, accessible facilities and existing permits.

Fair value of stock options and other share-based payments
Management assesses the fair value of stock options and other share-based payments granted in accordance with the accounting policy stated in Note 3 to the consolidated financial statements. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the Company's stock options.

Going concern
In order to assess whether it is appropriate for the Company to be reported as a going concern, the Directors apply judgment, having undertaken appropriate inquiries and having considered the business activities and the Company's principal risks. Management estimates future cash flows, including the timing of future capital expenditures and equity funding.

Fair value of embedded derivatives and other liability
Management assesses its financial instruments in order to identify whether or not non-derivative instruments might contain an embedded derivative component. If such a derivative component is identified, then it must be separated from the non-derivative host contract and recorded at fair value. The fair value of the embedded derivative is measured using the Black-Scholes model, taking into account the terms and conditions upon which the derivative is granted. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the embedded derivative. Fair value of the other liability is measured using a market-based approach.

2. BASIS OF PREPARATION (continued)

(e) Use of Estimates and Judgments (continued)

Carrying value and the recoverability of property and equipment
The Company reviews its equipment for indicators of impairment whenever there is a change in events or circumstances that indicate an asset may be impaired and at each reporting period. Reviews are undertaken to evaluate the carrying value of the property and equipment considering, among other factors: the carrying value of each type of asset and the changes in circumstances that affect the carrying value of the Company's property and equipment. If such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or a CGU is the greater of its value in use ("VIU") and its fair value less costs to dispose ("FVLCD"). The FVLCD is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, and willing parties, less the costs of disposal or in the case of lack of comparable transactions, based upon discounted cash after tax cash flow. VIU is determined by estimating the pre-tax present value of the future net cash flows expected to be derived from the continued use of the asset of CGU.

Determination of cash generating units
Management must make judgments as to which oil and gas properties can be aggregated into a cash generating unit ("CGU"). The Company's oil and gas assets are aggregated into CGUs for the purpose of calculating impairment and depletion. Factors considered by management include, but are not limited to, the product produced (i.e. oil versus gas), the common infrastructure shared by individual properties, proximity of properties to each other, and planned development activities.

Right-of-Use Asset/Lease Liability
The incremental rate of borrowing used in the measurement of the lease liability was based on the interest rate of the Credit Line. See Note 17.

3. 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"). The accounting policies applied in these condensed interim financial statements are consistent with those stated in the Company's most recent annual audited financial statements, except for any new standards and amendments adopted (Note 3). Accordingly, these condensed interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2019.

(Expressed in Canadian dollars)

4. PROPERTY AND EQUIPMENT

	Computers	Oil and Gas Interests	Total
	($)	**($)**	**($)**
At December 31, 2018	16,028	1,915,932	1,931,960
Reclassification from exploration and evaluation assets	-	896,013	896,013
Revaluation of decommissioning liabilities	-	(65,675)	(65,675)
At December 31, 2019	**16,028**	**2,746,270**	**2,762,298**
Additions	-	30,446	24,662
At June 30, 2020	**16,028**	**2,776,716**	**2,770,932**
Accumulated depletion and depreciation			
At December 31, 2018	16,028	1,221,864	1,237,892
Depletion and depreciation for the year	-	146,267	146,267
At December 31, 2019	**16,028**	**1,368,131**	**1,384,159**
Depletion and depreciation for the period	**-**	**87,512**	**87,512**
At June 30, 2020	**16,028**	**1,455,643**	**1,455,643**
Impairment			
At January 1, 2018	-	491,543	491,543
Additions	-	202,525	202,525
At December 31, 2019 and June 30, 2020	**-**	**694,068**	**694,068**
Carrying amounts:			
At December 31, 2019	-	684,071	684,071
At June 30, 2020	**-**	**627,005**	**627,005**

West Hazel, Saskatchewan

In February 2019, three wells under the West Hazel farm-in agreement (see Note 4) were reactivated, and as a result the Company reclassified the associated costs from exploration and evaluation assets to property and equipment on the consolidated statement of financial position. The Company is the joint venture operator with its working interest of 62.25%. The owners of the other working interests are:

- 2042870 Alberta Ltd. (Charterhouse subsidiary): 25%;
- KFG Resources Ltd: 11.25%; and
- Geronimo Corp.: 1.5%

Flaxcombe, Saskatchewan

In January 2018, Well 16-13 and Well 07-13 under the Westcore farm-in agreement (see Note 4) were reactivated, and as a result the Company reclassified the associated costs from exploration and evaluation assets to property and equipment on the consolidated statement of financial position.

(Expressed in Canadian dollars)

4. PROPERTY AND EQUIPMENT (continued)

Impairment

The Company's oil production assets were assessed for impairment against the proved and probable reserves. The valuation determined that the pre-tax net present value of oil and gas reserves at a discount rate of 10% is $4.525 million.

Proved reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Probable reserves are defined as those which have a better than 50% chance of being technically and economically recoverable.

At June 30, 2020, the Company's estimated total Proven and Probable Reserves were 282.4 Mboe. Assumptions for the fair value calculation included heavy oil prices ranging from $54 – 63 bbl (2020 – 2026) and an inflation rate of 2%.

During the period ended June 30, 2020, the Company reviewed the carrying value of its oil and gas interests and determined there were no indicators of impairment with respect to the performance and operating costs of the West Hazel wells. For the year ended December 31, 2019, the Company recorded an impairment charge of $Nil (2018: $202,525).

The impairment charge for the year ended December 31, 2018 relates to the entire carrying value of the Flaxcombe property CGU, on the consolidated statement of income (loss) and comprehensive income (loss) after management determined the Flaxcombe assets to not be technically or economically viable.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2020	June 30, 2019
	($)	($)
Trade payables	1,133,054	1,119,449
Related party payables (Note 10)	65,201	496,144
Accrued liabilities	412,306	176,940
GST payable	7,016	-
	1,617,577	1,792,533

6. SECURED LOANS

ASI Loan

As at June 30, 2020, the Company has $138,550 (June 30, 2019 - $138,550) outstanding on a senior secured loan facility that bears interest at a rate of 20% per annum and is currently payable on demand. As part of the consideration for the loan facility, the lenders and the arranging agent receive an aggregate 10% 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 loan. The Company has fully impaired these Hartburg assets and they are no longer producing.

During the period ended June 30, 2020, the Company repaid $Nil (2019 - $Nil) in loan principal and incurred $13,741 (2019 - $13,741) in interest expense.

Bridge Loan

On August 10, 2016, the Company borrowed $300,000 under a loan agreement (the "Bridge Loan") bearing interest at 1% per month, compounded monthly, and maturing on August 9, 2017. The Company also issued 1,500,000 common shares with a value of $75,000 as payment of arrangement fees and syndication fees incurred in connection with the Bridge Loan. The cash received under the Bridge Loan has been allocated between the fair value of the loan liability and the value of the 1,500,000 common shares. The value ascribed to the common shares as at the loan date was $75,000, and a amount has been allocated to the loan liability.

6. SECURED LOANS (continued)

During the period ended June 30, 2020, the Company incurred $24,750 (2019 - $21,840) in interest expense and paid $Nil (2019 - $Nil) in accrued interest. At June 30, 2020 a total of $428,182 (June 30, 2020 - $379,867) in loan principal and accrued interest remained outstanding.

The loan is in default, but the Company continues to accrue interest in accordance with the agreement.

Ballakilley Loan

On June 15, 2017, the Company borrowed $140,950 under a convertible loan agreement (the "Ballakilley Loan") bearing interest at 20% per annum, payable semi-annually, and maturing on May 31, 2019. The Ballakilley Loan is convertible into common shares of the Company at a price of $0.07 per share, subject to a reduction if the Company completes a private placement or issues options or warrants at a lower price, at the option of the lender. The cash received under the Ballakilley Loan was allocated between the fair value of the loan liability and the value of the loan conversion feature which is considered an embedded derivative. The value ascribed to the loan liability as at the loan date was $35,650, and the residual amount has been allocated to the loan conversion feature.

During the period ended June 30, 2020, the Company incurred $14,056 (June 30, 2019 - $55,171) in interest expense and $Nil (June 30, 2019 - $36,820) in accretion of the loan liability. At June 30, 2020, a total of $213,799 (June 30, 2019 - $177,957) in loan principal and accrued interest remained outstanding. Additionally, on the basis of the private placement completed by the Company in December 2019 at $0.03 per share, the loan conversion feature has been revalued to $84,000 (2018 - $52,500), and the Company has recorded a loss of $31,500 (2018 – gain of $21,200) on the consolidated statement of loss and comprehensive loss.

The loan is in default, but the Company continues to accrue interest in accordance with the agreement**.**

Project Financing

In February 2017, the Company entered into an arrangement with a third party to provide potential debt financing of up to $2,500,000. The Company incurred standby charges at a rate of 7% per annum for the availability of this potential debt financing for the acquisition and development of oil projects located in Canada. Upon making a draw down under the facility additional fees would be incurred resulting in an effective borrowing rate of 20% per annum. The Company did not borrow any funds but has incurred standby charges totalling $13,531 during the year ended December 31, 2019 (2018 - $71,515). The arrangement is still currently in place but there are no funds currently incurring standby charges as at December 31, 2019. At June 30, 2020, a total of $154,154 (2019 - $260,623) in standby charges and interest on standby charges remained outstanding.

1055328 BC Ltd. Loan

On October 6, 2017, the Company borrowed $63,000 under a secured loan that bears 12% interest per annum and is repayable on or before October 6, 2018. On June 6, 2018, the Company borrowed an additional $37,000 under the same terms.

During the year ended December 31, 2019 the Company incurred $12,000 (2018 - $10,832) in interest expense. At June 30, 2020, a total of $129,855 (June 30, 2019 - $117,822) in loan principal and accrued interest remained outstanding.

The loan is in default, but the Company continues to accrue interest in accordance with the agreement.

7. UNSECURED LOANS

Significant unsecured loans are as follows:

Credit Line

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

7. UNSECURED LOANS (continued)

maximum capacity of $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 year ended December 31, 2019, the Company incurred $10,156 (2018 - $19,437) in interest expense, including $Nil (2018 - $5,452) in accretion of the loan liability. At June 30, 2020, a total of $52,161 (June 30, 2019 - $181,757) in loan principal and accrued interest remained outstanding.

Proactive Advance

On December 16, 2019, the Company received $60,000 from Proactive Investors. This advance bears interest at 4% per annum and is intended to be applied towards a future private placement.

During the year ended December 31, 2019, the Company incurred $99 (2018 - $Nil) in interest expense. At June 30, 2020, a total of $61,198 (June 30, 2019 - $Nil) in advance principal and interest remained outstanding.

8. CONVERTIBLE DEBENTURES

During the year ended December 31, 2019, the Company borrowed a total of $55,000 under convertible debenture agreements (the "2019 Convertible Debentures") bearing interest at 15% per annum, payable quarterly, and maturing two years from the dates of advance.

The cash received under the 2019 Convertible Debentures has been allocated between the fair value of the loan liability and the conversion feature. The value ascribed to the loan liability as at the loan date was $27,341, and the value ascribed to the conversion feature was $27,659. Additionally, the loan conversion feature was revalued to $7,439 at December 31, 2019 (2018 - $Nil), and the Company has recorded a gain of $20,220 (2018 –$Nil) on the consolidated statement of loss and comprehensive loss.

During the year ended December 31, 2018, the Company borrowed a total of $695,000 under convertible debenture agreements (the "2018 Convertible Debentures") bearing interest at 15% per annum, payable quarterly, and maturing two years from the dates of advance. A total of $600,000 of the Convertible Debentures were issued to the CEO of the Company.

The cash received under the 2018 Convertible Debentures has been allocated between the fair value of the loan liability and the conversion feature. The value ascribed to the loan liability, net of transaction costs of $5,731, as at the loan date was $689,269, and the conversion feature was determined to have no value. In addition, the 20% retained profit interest which was attached to the Convertible Debentures and takes effect upon full loan repayment, and is applicable only to specific zones of the four original reactivation wells, was determined to have a fair value of $116,000 which was recorded as financing expense during the year ended December 31, 2018.

The Convertible Debentures are secured by the West Hazel property and are convertible into common shares of the Company at a price equal to market price of the common shares of the Company in the first twelve months or the greater of $0.10 and market price thereafter. In addition, should the West Hazel property be sold prior to the first anniversary of the advance date of the Convertible Debentures, then the Company will pay an amount equal to one full year of interest, the loan principal and 15% of any profit realized on the sale above the original reactivation costs. Should the West Hazel property be sold subsequent to the first anniversary of the advance date and prior to maturity of the Convertible Debentures, then the Company will pay an amount equal to the loan principal and 15% of any profit realized on the sale above the original reactivation costs.

During the year ended December 31, 2019, debenture holders converted $577,081 (2018 - $Nil) of debenture principal and interest payable via the issuance of 11,541,627 common shares, including $557,081 payable to the CEO of the Company via the issuance of 11,141,627 common shares, and the Company repaid $43,833 of debenture principal and $107,274 of debenture interest. During the year ended December 31, 2019, the Company incurred $126,622 (2018 - $13,996) in interest and accretion expense. At June 30, 2020 a total of $74,052 (June 30, 2019 - $769,733) in loan principal and accrued interest remained outstanding.

(Expressed in Canadian dollars)

9. RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the period ended June 30, 2020 and 2019. Key management personnel included the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and directors and officers and companies controlled or significantly influenced by them:

Key management compensation

	June 30, 2020 ($)	June 30, 2019 ($)
Management and consulting fees paid or accrued to directors, officers or corporations controlled by directors and officers of the Company	47,898	192,416
	47,898	192,416

a) As at June 30, 2020, a total of $10,000 (June 30, 2019 - $417,679) was included in accounts payable and accrued liabilities owing to the directors and officers or corporations controlled by directors and officers of the Company for unpaid consulting fees and reimbursable expenses. These liabilities are non-interest bearing and payable on demand.

b) As at June 30, 2020, a total of $Nil (June 30, 2019 - $600,000) was included in convertible debentures owing to the CEO. A total of $Nil (December 31, 2018 - $57,353) was paid in advance for future interest payments and was recorded as prepaids on the consolidated statement of financial position (see Note 9).

c) As at June 30, 2020, the Company owed a total of $55,201 (June 30, 2019 - $48,043) in loan principal and interest to the Chairman of the Company pursuant to a December 27, 2018 loan agreement where the Company borrowed $45,000 from the Chairman. The loan bears interest at 15% and is repayable on demand.

d) During the year ended December 31, 2019, related parties forgave a net amount of $235,850 (2018 - $Nil) in unpaid management and consulting fees accrued in prior years.

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 June 30, 2020, the oil and gas properties had estimated abandonment dates between 2024 and 2028.

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.

(Expressed in Canadian dollars)

10. DECOMMISSIONING LIABILITY (continued)

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

	Hartburg, Texas	West Hazel, Saskatchewan	Flaxcombe, Saskatchewan	Total
	($)	($)		($)
Balance, January 1, 2018	42,844	-	-	42,844
Accretion	850	-	992	1,842
Additions	-	369,700	50,098	419,798
Balance, December 31, 2018	43,694	369,700	51,090	464,484
Change in estimate	-	(65,675)	-	(65,675)
Accretion	867	7,320	1,012	9,199
Disposal	(35,249)	-	-	(35,249)
Foreign exchange movement	428	-	-	428
Balance, December 31, 2019	9,740	311,345	52,102	373,187
Accretion	201	2,125	204	2,530
Balance, June 30, 2020	9,941	313,470	52,306	375,717
Current portion	-	-	-	-
Non-current portion	9,941	313,470	52,306	375,717
	9,941	313,470	52,306	375,717

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Hartburg Project was $10,957 (US$8,436) (December 31, 2018 - $46,358 (US$35,976)) as at December 31, 2019. The provision has been estimated using a risk-free discount rate of 1.98% (December 31, 2018 – 1.93%) and an inflation rate of 2.00% (December 31, 2018 – 2.00%).

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Flaxcombe Project was $60,950 (June 30, 2019 - $60,950) at June 30, 2020. The provision has been estimated using a risk-free discount rate of 1.98% (June 30, 2019 – 1.93%) and an inflation rate of 2.00% (June 30, 2019 – 2.00%).

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the West Hazel Project was $338,391 (June 30, 2019 - $415,854) at June 30, 2020. The provision has been estimated using a risk-free discount rate of 1.68% (June 30, 2019 – 1.93%) and an inflation rate of 2.00% (June 30, 2019 – 2.00%).

11. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value

Issued and outstanding

Six Month Period Ended June 30, 2020

a) The Company issued 600,000 common shares in connection with the conversion of a $30,000 portion of the outstanding Convertible Debentures at $0.05 per share.

b) The Company issued 300,000 common shares in connection with the conversion of a $15,000 portion of the outstanding Convertible Debentures at $0.05 per share.

Year Ended December 31, 2019

a) The Company completed a non-brokered private placement wherein it issued an aggregate of 3,900,000 units at $0.05 per unit for gross proceeds of $195,000. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant entitled the holder to acquire an additional common share at $0.10 for two years from the date of closing of the placement. In September 2019, these exercise price of these warrants was repriced to $0.05 per share. The Company used the residual method to determine the value of the warrants issued as part of the private placement. It was determined that the warrants issued as part of the private placement had a value of $78,000.

   The Company incurred $2,146 in cash share issuance costs and issued 272,000 finder's warrants valued at $1,891 and exercisable on the same terms as the private placement warrants in connection with the private placement. $15,000 of the proceeds from this private placement remained unreceived as at December 31, 2019 and were written off from accounts receivable during the year ended December 31, 2019.

b) The Company issued 400,000 common shares in connection with the conversion of a $20,000 portion of the outstanding Convertible Debentures at $0.05 per share.

c) The Company issued 11,141,627 common shares in connection with the conversion of a $557,081 portion of the outstanding Convertible Debentures at $0.05 per share.

d) The Company completed a non-brokered private placement wherein it issued an aggregate of 20,944,446 units at $0.03 per unit for gross proceeds of $628,333. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at $0.05 for one year from the date of closing of the placement. The Company used the residual method to determine the value of the warrants issued as part of the private placement. It was determined that the warrants issued as part of the private placement had a value of $Nil.

   The Company incurred $17,600 in cash share issuance costs and issued 586,666 finder's warrants valued at $2,109 and exercisable on the same terms as the private placement warrants in connection with the private placement. Each finder's warrant entitles the holder to acquire an additional common share at $0.05 for one year from the date of closing of the placement.

e) The Company repriced a total of 6,140,600 existing share purchase warrants to $0.05 per warrant, including:

   - 3,636,887 share purchase warrants expiring February 27, 2020 from $0.10 per warrant;
   - 553,713 share purchase warrants expiring March 23, 2020 from $0.10 per warrant; and
   - 1,950,000 share purchase warrants expiring May 10, 2021 from $0.10 per warrant.

11. SHARE CAPITAL (continued)

f) The Company repriced a total of 2,600,000 existing stock options to $0.05 per option, including:

- 1,950,000 stock options expiring February 21, 2022 from $0.07 per option;
- 300,000 stock options expiring May 1, 2022 from $0.06 per option; and
- 350,000 stock options expiring June 13, 2022 from $0.065 per option.

Year Ended December 31, 2018

a) The Company issued 1,700,000 common shares to settle $85,000 in outstanding debts.

b) The Company completed a non-brokered private placement in two tranches wherein it issued an aggregate of 9,992,000 units at $0.05 per unit for gross proceeds of $499,600. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at $0.10 for two years from the date of closing of the placement. The Company used the residual method to determine the value of the warrants issued as part of the private placement. It was determined that the warrants issued as part of the private placement do not have any value. The Company incurred $17,248 in share issuance costs in connection with this private placement.

c) The Company issued 725,000 common shares due to the exercise of stock options at $0.06 per share for gross proceeds of $43,500. The fair value of the options was determined to be $41,059, and accordingly the amount has been transferred from contributed surplus to share capital.

Share Purchase Warrants

Six Month Period Ended June 30, 2020

a) A total of 4,396,000 share purchase warrants exercisable at $0.05 expired unexercised on February 27, 2020.

b) A total of 600,000 share purchase warrants exercisable at $0.10 expired unexercised on March 23, 2020.

Year Ended December 31, 2019

a) The Company issued 1,950,000 share purchase warrants in connection with a non-brokered private placement. Each warrant originally entitled the holder to acquire a common share of the Company at $0.10 per share until May 10, 2021. In September 2019, the exercise price of these warrants was repriced to $0.05 per share. Pursuant to the same private placement, the Company also issued 272,000 finder's share purchase warrants exercisable on the same terms as the private placement warrants.

b) The Company issued 20,944,446 share purchase warrants in connection with a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at $0.05 per share until December 4, 2020. Pursuant to the same private placement, the Company also issued 586,666 finder's share purchase warrants exercisable on the same terms as the private placement warrants.

Year Ended December 31, 2018

c) The Company issued 4,396,000 share purchase warrants in connection with the first tranche of a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at $0.10 per share until February 27, 2020.

d) The Company issued 600,000 share purchase warrants in connection with the second tranche a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at $0.10 per share until March 23, 2020.

(Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

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

	Number of Warrants	Weighted Average Exercise Price
		($)
Balance, January 1, 2018	11,897,429	0.08
Issued	4,996,000	0.10
Expired	(3,650,000)	0.08
Balance, December 31, 2018	13,243,429	0.09
Issued	23,753,112	0.05
Repriced – original prices	(6,140,600)	0.10
Repriced – amended prices	6,140,600	0.05
Expired	(7,247,429)	0.09
Balance, December 31, 2019	29,749,112	0.05
Expired	(4,996,000)	0.05
Balance, June 30, 2020	24,753,112	0.05

The following table summarizes the share purchase warrants outstanding as at December 31, 2019:

Number of Warrants	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
	($)		(yrs)
1,950,000	0.05	May 10, 2021	1.11
272,000*	0.10	May 10, 2021	1.11
20,944,446	0.05	December 4, 2020	0.68
586,666*	0.05	December 4, 2020	0.68
500,000	0.07	August 17, 2020	0.38
500,000	0.10	August 17, 2020	0.38
24,753,112	0.05		0.71

*Finder's warrants

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 TSXV, 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, 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 unexercised options granted under the plan will expire no later than five years from the date of grant.

The Company granted an aggregate of 950,000 stock options during the year ended December 31, 2018. The options vest over different time periods, and the Company expensed $41,598 as share-based compensation. The Company expensed an additional $744 during the year ended December 31, 2019 in connection with the 2018 option grants.

(Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

The options granted were valued using the Black-Scholes option pricing model under the following weighted average assumptions:

	2018
Risk-free interest rate	2.11%
Expected life of options	3.7 years
Volatility	149%
Expected Dividend yield	Nil
Forfeiture rate	Nil
Weighted average fair value	$0.05

During the year ended December 31, 2019, the Company expensed $5,700 as share-based compensation for the incremental value of repricing 2,600,000 stock options with prices originally ranging from $0.06 to $0.07 per option to amended prices of $0.05 per option. The incremental value was determined using the Black-Scholes option pricing model under the following weighted average assumptions:

	2019
Risk-free interest rate	1.62%
Expected life of options	2.43-2.73 years
Volatility	83-87%
Expected Dividend yield	Nil
Forfeiture rate	Nil
Weighted average fair value	$0.002

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

	Number of Options	Weighted Average Exercise Price
		($)
Balance, January 1, 2018	6,400,000	0.07
Issued	950,000	0.06
Exercised	(725,000)	0.06
Expired	(1,700,000)	0.06
Balance, December 31, 2018	4,925,000	0.07
Repriced – original prices	(2,600,000)	0.07
Repriced – amended prices	2,600,000	0.05
Cancelled	(275,000)	0.07
Balance, December 31, 2019 and June 30, 2020	4,650,000	0.06

(Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

The following table summarizes the stock options outstanding and exercisable as at June 30, 2020:

Number of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
		($)		(yrs)
300,000	300,000	0.05	April 3, 2021	1.01
1,750,000	1,750,000	0.07	February 21, 2022	1.90
1,950,000	1,950,000	0.05	February 21, 2022	1.90
300,000	300,000	0.05	May 1, 2022	2.08
350,000	350,000	0.05	June 13, 2022	2.20
4,650,000	4,650,000	0.06		1.87

12. COMMITMENTS

The Company had the following commitments as at June 30, 2020:

a) The Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, terminating on June 15, 2020. The remaining base rent payable under the lease is $6,673 up until the lease expires. In addition to the base rent of $2,067 per month, the Company's share of operating costs is estimated at approximately $1,598 per month.

   On May 6, 2020, the Company extended its existing office rental agreement in Vancouver, British Columbia, originally set to terminate June 15, 2020, to November 30, 2020. Under the extension agreement, the Company will pay base rent of $2,385 per month, plus common costs and taxes, from June to November 2020.

b) HEL entered into an office rental agreement with a term of 72 months, terminating on February 28, 2023. The landlord issued a notice of termination to the Company effective January 31, 2019 and has sent a demand for payment of $43,961 (US$32,245) representing unpaid rental charges under the rental agreement. The Company has recognized the full liability as at June 30, 2020.

13. GEOGRAPHICAL SEGMENTED INFORMATION

The Company is engaged in one business activity, being the acquisition, exploration, development and production of oil and gas reserves in Canada and the United States. For the year ended December 31, 2019 and June 30, 2020, all revenues were derived from operations in Canada and all non-current assets were located in Canada (June 30, 2019 - all revenues were derived from operations in Canada and all non-current assets were located in Canada).

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.

14. CAPITAL MANAGEMENT (continued)

There were no changes in the Company's approach to capital management during the period ended June 30, 2020. 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, receivables, accounts payable and accrued liabilities and loans.

The fair value of cash, receivables and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments. The carrying amounts of the 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. The fair value of the convertible debentures has been determined after deducting transaction costs and allocating the portion of the proceeds applicable to the retained profit interest.

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 remaining customers are related to the recovery of shared office rent and share subscription proceeds. The Company has minimal collection risk related to these receivables and expects to collect the outstanding receivables in the normal course of operations. At June 30, 2020, the maximum credit exposure is the carrying amount of Receivables of $97,641 (June 30, 2019 - $140,184).

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.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company's primary commodity is heavy oil which is closely tied to the price of Western Canadian Select.

Interest rate risk

The Company is exposed to interest rate risk. The Company has an unsecured loan associated with a CIBC line of credit which has a variable interest rate, recalculated quarterly. A 1% change in market interest rates would result in an increase/decrease of $1,602 on the Company's net loss.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 June 30, 2020, the Company had a working capital deficiency of $2,831,629 (June 30, 2019 - $2,592,094). The Company finances its operations through a combination of cash, loans, equity and convertible debentures. The Company's ability to continue as a going concern is dependent upon the ongoing support from its lenders and its ability to fund the repayment of its debt by generating positive cash flows from operations, securing funding from additional debt, equity financing, disposing of assets or making other arrangements. Refer to Note 1 for further discussion.

The Company's financial liabilities had contractual maturities as follows:

	June 30, 2020	June 30, 2019
	($)	($)
Less than 1 year	3,042,143	2,950,559
Between 1 – 2 years	531,480	769,733
Between 2 – 5 years	-	-
	3,573,623	3,720,292

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 sales are denominated in Canadian dollars. As a result, the Company has minimal exposure to foreign exchange risk.

16. SUPPLEMENTAL CASH FLOW INFORMATION

	June 30, 2020	June 30, 2019
	($)	($)
Non-cash investing and financing activities:		
Common shares issued upon the conversion of convertible debentures	45,000	-
Common shares issued to settle outstanding liabilities	-	-
Exploration and evaluation assets reclassified to property and equipment	-	-
Interest paid during the period	11,106	50,641
Income taxes paid during the period	-	-

(Expressed in Canadian dollars)

17. RIGHT-OF-USE ASSET/LEASE LIABILITY

On June 15, 2017, the Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, terminating on June 15, 2020. Pursuant to this agreement, the Company has a commitment to lease office space at a base rent rate of $24,804 per annum, plus common costs and taxes.

On May 6, 2020, the Company extended its existing office rental agreement in Vancouver, British Columbia, originally set to terminate June 15, 2020, to November 30, 2020. Under the extension agreement, the Company will pay base rent of $2,385 per month, plus common costs and taxes, from June to November 2020.

a) Right-of-use asset

As at June 30, 2020, the right-of-use asset recorded for the Company's office premises was as follows:

	$
As at December 31, 2018	-
IFRS 16 adoption	35,668
Amortization	(23,136)
As at December 31, 2019	12,532
Amortization	(12,532)
Adoption of lease extension	80,086
Amortization	1,112
As at June 30, 2020	78,974

b) Lease liability

Minimum lease payments in respect of lease liabilities and the effect of discounting as at June 30, 2020 are as follows:

	$
Undiscounted minimum lease payments:	
Total payments	84,668
Effect of discounting	(5,665)
Present value of minimum lease payments	79,003

c) Lease liability continuity

The net change in the Company's lease liability during the year ended June 30, 2020 was as follows:

	$
As at December 31, 2018	-
IFRS 16 adoption	34,997
Principal payments	(23,732)
As at December 31, 2019	11,265
Principal payments	(11,265)
Adoption of lease extension	80,086
Principal payments	(1,083)
As at June 30, 2020	79,003

Interest of $907 for the six month period ended June 30, 2020 (June 30, 2019 – $nil) is included in financing expenses.

18. LICENSE AGREEMENT

The Company entered into a non-binding memorandum of intent with Oropass to form and invest in a joint venture with Oropass on a 50% basis each to market certain intellectual property in the European Union ("EU Licensing Rights MOI"). Under the EU Marketing Rights MOI, the Company paid an initial $10,000 deposit payable to a third party that originally licensed the intellectual property to Oropass. Formation of a joint venture is subject to the Company securing joint venture seed funding on or before August 1, 2020 and execution of a joint venture shareholders' agreement between the Company and Oropass.

19. SUBSEQUENT EVENTS

Subsequent to June 30, 2020:

a) On July 24, 2020, the Company granted 7,100,000 stock options pursuant to the share option plan of the Company. The options are exercisable on or before July 8, 2025 at an exercise price of $0.05 per share.

b) On July 30, 2020, the Company acquired a 100% working interest in the West Hazel field from its joint venture partner for 3,00,000 shares of the Company.

c) On July 30, 2020, the Company issued 1,700,000 common shares in connection with the conversion of a $85,000 portion of the remaining outstanding Convertible Debentures at $0.05 per share.

d) On August 4, 2020, the Company closed a private placement of 20,442,000 units at a price of $0.05 per unit for gross proceeds of $1,022,100. Each unit consists of one common share and one-half warrant of a share purchase warrant. Each whole warrant will be exercisable into an additional common share of the Company at $0.07 for a period of two years.

e) On August 4, 2020, the Company closed the early warrant exercise incentive program intended to encourage the early exercise of up to 22,894,446 outstanding common share purchase warrants of the Company. 17,479,668 eligible warrants were exercised resulting in gross proceeds of $873,984.

f) On August 6, 2020, the Company signed a term sheet with a New York based firm for CDN $5,000,000 convertible loan. The loan will be drawn down in stages and more specific terms will be disclosed upon signing a formal agreement.

g) On August 12, 2020 the Company executed the previously announced US Licensing Agreement with Oropass Ltd. The Company will contribute a minimum of Three Hundred Thousand (CDN $300,000) and up to Five Hundred Thousand Dollars (CDN $500,000) for the development of the technology, anticipated to be paid to an incorporated joint venture between the Company and Oropass Ltd. in ALSET Innovations Inc.

h) On August 21, 2020, the Company signed a Financial and Advisory Services Agreement with a New York based capital and advisory firm. The agreement has a term of one (1) year at a cost of USD $15,000 per quarter.

i) From July 1, 2020 to August 31, 2020, a total of 2,450,000 stock options were exercised for gross proceeds of $122,500.

j) The outbreak of the novel strain of coronavirus ("COVID-19") has resulted in governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused an economic slowdown and material disruption to business. Government has reacted with interventions intended to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial performance and financial position of the Company in future periods.

Hillcrest Petroleum

Condensed Interim Consolidated Financial Statements

Nine Month Period Ended

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

HILLCREST PETROLEUM LTD.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars) (Unaudited)

	September 30, 2020	December 31, 2019
	($)	($)
ASSETS		
Current assets		
Cash	342,065	41,749
Receivables (Note 9)	139,410	87,919
Prepaid expenses	56,148	37,627
Right-of-use asset	-	12,532
Total current assets	537,623	179,827
Non-current assets		
Property and equipment (Note 4)	648,144	684,071
TOTAL ASSETS	1,185,767	863,898
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	1,603,463	1,411,071
Loans (Notes 6, 7 and 9)	807,748	1,234,542
Embedded derivative liabilities (Note 6 and 8)	138,000	91,439
Lease liability	-	11,265
Current portion of convertible debentures (Note 8)	-	76,657
Total current liabilities	2,549,211	2,824,974
Convertible debentures (Note 8)	-	39,763
Other liability (Note 8)	116,000	116,000
Decommissioning liability (Note 10)	379,247	373,187
TOTAL LIABILITIES	3,044,458	3,353,924
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 11)	11,106,355	8,980,016
Contributed surplus (Note 11)	1,740,874	1,357,361
Subscriptions receivable (Note 11)	(45,500)	-
Reserves (Note 11)	249,473	246,084
Deficit	(14,909,893)	(13,073,487)
Total shareholders' deficiency	(1,858,691)	(2,490,026)
TOTAL LIABILITIES & SHAREHOLDERS' DEFICIENCY	1,185,767	863,898

Nature of operations and going concern (Note 1)
Commitments (Note 12)
Subsequent events (Note 17)

On behalf of the Board of Directors:

"Michael Krzus"
Director

"Thomas Milne"
Director

HILLCREST PETROLEUM LTD.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars) (Unaudited)

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2020	**2019**	**2020**	**2019**
	($)	**($)**	**($)**	**($)**
Revenue and costs				
Oil sales	198,811	377,620	445,213	716,828
Royalties	(41,265)	(104,930)	(88,878)	(188,522)
Operating costs	(170,319)	(252,936)	(350,825)	(458,679)
Depletion and depreciation (Note 4)	(45,961)	(85,300)	(133,473)	(159,131)
	(58,734)	(65,546)	(127,963)	(89,504)
General and administrative expenses				
Management and consulting fees (Note 9)	548,376	98,222	599,591	285,294
Office and general	383,180	98,090	532,591	331,267
Share-based payments (Note 11)	383,513	-	383,513	744
Exploration and evaluation expenditures	1,600	-	1,600	-
	1,316,669	196,312	1,517,295	617,305
Loss from operations	(1,375,403)	(261,858)	(1,645,258)	(706,809)
Financing expenses (Notes 6, 7 and 17)	(42,185)	(62,545)	(119,894)	(226,375)
Change in fair value of embedded derivative liabilities (Notes 6 and 8)	(53,143)	-	(53,143)	-
Foreign exchange gain	(16,236)	(251)	(18,111)	2,273
Net loss	(1,486,967)	(324,654)	(1,836,406)	(930,911)
Item that may be subsequently reclassified to net loss				
Exchange differences on translating foreign operations	2,317	3	3,389	(10)
Comprehensive loss for the period	(1,484,650)	(324,651)	(1,833,017)	(930,921)
Basic and diluted loss per share	(0.01)	(0.00)	(0.01)	(0.01)
Weighted average common shares outstanding:				
Basic	137,039,416	91,217,270	132,742,443	89,366,486
Diluted	137,039,416	91,217,270	132,742,443	89,366,486

HILLCREST PETROLEUM LTD.

Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars) (Unaudited)

	Share Capital				Reserves			
	Number of Shares	**Amount**	**Subscriptions (receivable) received**	**Contributed Surplus**	**Warrants**	**Foreign Currency Translation**	**Deficit**	**Shareholders' Deficiency**
		($)	**($)**	**($)**	**($)**	**($)**	**($)**	**($)**
Balance at December 31, 2018	87,293,226	7,681,347	-	1,350,917	47,550	119,923	(11,872,229)	(2,672,492)
Proceeds from private placement	4,300,000	137,000	-	-	78,000	-	-	215,000
Share issuance costs	-	(6,146)	-	-	4,000	-	-	(2,146)
Vesting of stock options	-	-	-	744	-	-	-	744
Net loss and comprehensive loss for the period	-	-	-	-	-	(10)	(930,911)	(930,921)
Balance at September 30, 2019	91,593,226	7,812,201	-	1,351,661	129,550	119,913	(12,803,140)	(3,389,815)
Balance at December 31, 2019	123,679,299	8,980,016	-	1,357,361	129,550	116,534	(13,073,487)	(2,490,026)
Conversion of convertible debentures (Note 11)	2,600,000	130,000	-	-	-	-	-	130,000
Proceeds from exercise of stock options	2,500,000	125,000	15,000	-	-	-	-	140,000
Proceeds from exercise of warrants	17,479,668	873,983	-	-	-	-	-	873,983
Proceeds from private placement	20,442,000	1,022,100	(60,500)	-	-	-	-	961,600
Vesting of stock options	-	-	-	383,513	-	-	-	383,513
Share issuance costs	-	(24,744)	-	-	-	-	-	(24,744)
Net loss and comprehensive loss for the period	-	-	-	-	-	3,389	(1,836,406)	(1,833,017)
Balance at September 30, 2020	166,700,967	11,106,355	(45,500)	1,740,874	129,550	119,923	(14,909,893)	(1,858,691)

HILLCREST PETROLEUM LTD.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars) (Unaudited)

	Nine Month Periods Ended	
	September 30, 2020	**September 30, 2019**
	($)	**($)**
Net loss for the period	(1,836,406)	(930,911)
Adjusted for items not involving cash:		
Accretion expense	6,060	34,751
Accrued interest expense	58,993	37,743
Change in fair value of embedded derivative liabilities	53,143	-
Depletion and depreciation	133,473	159,131
Share-based payments	383,513	744
Changes in non-cash working capital:		
Prepaid expenses	(18,521)	(109,298)
Receivables	(51,491)	(322,812)
Accounts payable and accrued liabilities	204,046	958,099
Cash flows provided by (used in) operating activities	(1,067,190)	(172,553)
Proceeds from disposal of oil and gas property interest	-	170,000
Property and equipment expenditures	(97,546)	(106,132)
Cash flows provided by (used in) investing activities	(97,546)	63,868
Proceeds from convertible debentures	-	55,000
Proceeds from private placement, net of share issuance costs	961,600	210,000
Proceeds from exercise of stock options	140,000	-
Proceeds from exercise of warrants	873,983	-
Share issuance costs	(24,744)	(2,146)
Repayment of loan principal and interest	(485,787)	(148,444)
Cash flows provided by financing activities	1,465,052	114,410
Change in cash	300,316	5,725
Effect of exchange rate changes on cash denominated in a foreign currency	-	(10)
Cash, beginning of the period	41,749	21,348
Cash, end of the period	342,065	27,063

Supplemental cash flow information (Note 16)

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 located in North America. The Company's registered office is Suite 1300 – 1030 West Georgia Street, Vancouver, BC, V6E 2Y3. The Company's shares are listed for trading on the TSX Venture Exchange ("TSXV") under the symbol "HRH" and on the OTC pink sheets 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 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'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 its creditors and its 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 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.

The outbreak of the novel strain of coronavirus ("COVID-19") has resulted in governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused an economic slowdown and material disruption to business. Government has reacted with interventions intended to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial performance and financial position of the Company in future periods.

2. BASIS OF PREPARATION

(a) Statement of Compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were approved by the Audit Committee and the Board of Directors of the Company on November 26, 2020.

(b) Statement of Compliance

The consolidated financial statements have been prepared on a historical cost basis, with the exception of the embedded derivatives in the Ballakilley loan and the convertible debentures which are recognised at fair value (Notes 6 and 8), using the accrual basis of accounting, except for cash flow information.

2. BASIS OF PREPARATION (continued)

(c) Basis of Consolidation

These consolidated financial statements include the accounts of the parent company, Hillcrest Petroleum Ltd., and its wholly-owned subsidiaries. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Name of Subsidiary	Jurisdiction of Incorporation	Principal Activity
Hillcrest Exploration Ltd. ("HEL")	USA	Oil and Gas exploration
ALSET Innovation Ltd.	Canada	Clean Technology
2044573 Alberta Ltd.	Canada	Oil and Gas exploration
102031850 Saskatchewan Ltd.	Canada	Oil and Gas exploration
Hillcrest Resources (Arizona) Ltd. ("HARL")	USA	Dormant

(d) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars. The functional currency of the parent, 1084580 BC Ltd., 2044573 Alberta Ltd., 102031850 Saskatchewan Ltd. and HARL is the Canadian dollar. The functional currency of HEL is the United States dollar.

(e) Use of Estimates and Judgments

The preparation of these consolidated 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 period. Actual results could differ from these estimates.

These consolidated 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:

Depletion and Depreciation
The amounts recorded for depletion and depreciation of oil and natural gas properties and the amounts used in impairment testing are based on independent estimates of proved and probable reserves, well production rates, realized and forecast oil and natural gas prices, future development costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty. Accordingly, the impact on the consolidated financial statements for future periods may be material.

2. BASIS OF PREPARATION (continued)

(e) Use of Estimates and Judgments (continued)

Decommissioning provisions
Restoration costs will be incurred by the Company at the end of the operating life of the Company's oil properties. The Company estimates abandonment and reclamation costs based on a combination of publicly available industry benchmarks and internal site-specific information. For producing wells and facilities, the expected timing of settlement is estimated based on the period to abandonment for each field, as per an independent report. The ultimate restoration liability is uncertain and can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, or changes in the risk-free discount rate. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Income taxes
The calculation of income taxes requires judgment in applying tax laws and regulations, estimating the timing of the reversals of temporary differences, and estimating the reliability of deferred tax assets. These estimates impact current and deferred income tax assets and liabilities, and current and deferred income tax expense (recovery).

Significant judgments that management has made at the end of the reporting period are as follows:

Carrying value and the recoverability of exploration and evaluation assets
Management has determined that exploration, evaluation and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, scoping and feasibility studies, accessible facilities and existing permits.

Fair value of stock options and other share-based payments
Management assesses the fair value of stock options and other share-based payments granted in accordance with the accounting policy stated in Note 3 to the consolidated financial statements. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the Company's stock options.

Going concern
In order to assess whether it is appropriate for the Company to be reported as a going concern, the Directors apply judgment, having undertaken appropriate inquiries and having considered the business activities and the Company's principal risks. Management estimates future cash flows, including the timing of future capital expenditures and equity funding.

Fair value of embedded derivatives and other liability
Management assesses its financial instruments in order to identify whether or not non-derivative instruments might contain an embedded derivative component. If such a derivative component is identified, then it must be separated from the non-derivative host contract and recorded at fair value. The fair value of the embedded derivative is measured using the Black-Scholes model, taking into account the terms and conditions upon which the derivative is granted. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the embedded derivative. Fair value of the other liability is measured using a market-based approach.

2. BASIS OF PREPARATION (continued)

(e) Use of Estimates and Judgments (continued)

Carrying value and the recoverability of property and equipment
The Company reviews its equipment for indicators of impairment whenever there is a change in events or circumstances that indicate an asset may be impaired and at each reporting period. Reviews are undertaken to evaluate the carrying value of the property and equipment considering, among other factors: the carrying value of each type of asset and the changes in circumstances that affect the carrying value of the Company's property and equipment. If such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or a CGU is the greater of its value in use ("VIU") and its fair value less costs to dispose ("FVLCD"). The FVLCD is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, and willing parties, less the costs of disposal or in the case of lack of comparable transactions, based upon discounted cash after tax cash flow. VIU is determined by estimating the pre-tax present value of the future net cash flows expected to be derived from the continued use of the asset of CGU.

Determination of cash generating units
Management must make judgments as to which oil and gas properties can be aggregated into a cash generating unit ("CGU"). The Company's oil and gas assets are aggregated into CGUs for the purpose of calculating impairment and depletion. Factors considered by management include, but are not limited to, the product produced (i.e. oil versus gas), the common infrastructure shared by individual properties, proximity of properties to each other, and planned development activities.

Right-of-Use Asset/Lease Liability
The incremental rate of borrowing used in the measurement of the lease liability was based on the interest rate of the Credit Line.

3. 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"). The accounting policies applied in these condensed interim financial statements are consistent with those stated in the Company's most recent annual audited financial statements, except for any new standards and amendments adopted (Note 3). Accordingly, these condensed interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2019.

(Expressed in Canadian dollars) (Unaudited)

4. PROPERTY AND EQUIPMENT

	Computers	Oil and Gas Interests	Total
	($)	($)	($)
At December 31, 2018	16,028	1,915,932	1,931,960
Reclassification from exploration and evaluation assets	-	896,013	896,013
Revaluation of decommissioning liabilities	-	(65,675)	(65,675)
At December 31, 2019	**16,028**	**2,746,270**	**2,762,298**
Additions	2,508	95,038	97,546
At September 30, 2020	**18,536**	**2,841,308**	**2,859,844**
Accumulated depletion and depreciation			
At December 31, 2018	16,028	1,221,864	1,237,892
Depletion and depreciation for the year	-	146,267	146,267
At December 31, 2019	**16,028**	**1,368,131**	**1,384,159**
Depletion and depreciation for the period	-	133,473	133,473
At September 30, 2020	**16,028**	**1,501,604**	**1,517,632**
Impairment			
At January 1, 2018	-	491,543	491,543
Additions	-	202,525	202,525
At December 31, 2019 and September 30, 2020	**-**	**694,068**	**694,068**
Carrying amounts:			
At December 31, 2019	-	684,071	684,071
At September 30, 2020	**2,508**	**645,636**	**648,144**

West Hazel, Saskatchewan

In February 2019, three wells under the West Hazel farm-in agreement (see Note 4) were reactivated, and as a result the Company reclassified the associated costs from exploration and evaluation assets to property and equipment on the consolidated statement of financial position. The Company is the joint venture operator with its working interest of 62.25%. The owners of the other working interests are:

- 2042870 Alberta Ltd. (Charterhouse subsidiary): 25%;
- KFG Resources Ltd: 11.25%; and
- Geronimo Corp.: 1.5%

Flaxcombe, Saskatchewan

In January 2018, Well 16-13 and Well 07-13 under the Westcore farm-in agreement (see Note 4) were reactivated, and as a result the Company reclassified the associated costs from exploration and evaluation assets to property and equipment on the consolidated statement of financial position.

(Expressed in Canadian dollars) (Unaudited)

4. PROPERTY AND EQUIPMENT (continued)

Impairment

The Company's oil production assets were assessed for impairment against the proved and probable reserves. The valuation determined that the pre-tax net present value of oil and gas reserves at a discount rate of 10% is $4.525 million.

Proved reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Probable reserves are defined as those which have a better than 50% chance of being technically and economically recoverable.

At September 30, 2020, the Company's estimated total Proven and Probable Reserves were 282.4 Mboe. Assumptions for the fair value calculation included heavy oil prices ranging from $54 – 63 bbl (2020 – 2026) and an inflation rate of 2%.

During the period ended September 30, 2020, the Company reviewed the carrying value of its oil and gas interests and determined there were no indicators of impairment with respect to the performance and operating costs of the West Hazel wells.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2020	December 31, 2019
	($)	($)
Trade payables	1,046,978	885,655
Related party payables (Note 10)	-	69,431
Accrued liabilities	533,685	443,941
GST payable	22,800	12,044
	1,603,463	1,411,071

6. SECURED LOANS

ASI Loan

As at September 30, 2020, the Company has $138,550 (September 30, 2019 - $138,550) outstanding on a senior secured loan facility that bears interest at a rate of 20% per annum and is currently payable on demand. As part of the consideration for the loan facility, the lenders and the arranging agent receive an aggregate 10% 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 loan. The Company has fully impaired these Hartburg assets and they are no longer producing.

During the nine months ended September 30, 2020, the Company repaid $Nil (2019 - $Nil) in loan principal and incurred $21,232 (2019 - $20,726) in interest expense.

Bridge Loan

On August 10, 2016, the Company borrowed $300,000 under a loan agreement (the "Bridge Loan") bearing interest at 1% per month, compounded monthly, and maturing on August 9, 2017. The Company also issued 1,500,000 common shares with a value of $75,000 as payment of arrangement fees and syndication fees incurred in connection with the Bridge Loan. The cash received under the Bridge Loan has been allocated between the fair value of the loan liability and the value of the 1,500,000 common shares. The value ascribed to the common shares as at the loan date was $75,000, and the residual amount has been allocated to the loan liability.

During the nine months ended September 30, 2020, the Company incurred $37,831 (2019 - $33,446) in interest expense and paid $Nil (2019 - $Nil) in accrued interest. At September 30, 2020 a total of $441,265 (December 31, 2019 - $403,433) in loan principal and accrued interest remained outstanding.

6. SECURED LOANS (continued)

The loan is in default, but the Company continues to accrue interest in accordance with the agreement.

Ballakilley Loan

On June 15, 2017, the Company borrowed $140,950 under a convertible loan agreement (the "Ballakilley Loan") bearing interest at 20% per annum, payable semi-annually, and maturing on May 31, 2019. The Ballakilley Loan is convertible into common shares of the Company at a price of $0.07 per share, subject to a reduction if the Company completes a private placement or issues options or warrants at a lower price, at the option of the lender. The cash received under the Ballakilley Loan was allocated between the fair value of the loan liability and the value of the loan conversion feature which is considered an embedded derivative. The value ascribed to the loan liability as at the loan date was $35,650, and the residual amount has been allocated to the loan conversion feature.

During the nine months ended September 30, 2020, the Company incurred $21,161 (September 30, 2019 - $59,161) in interest expense, including $Nil (September 30, 2019 - $36,820) in accretion of the loan liability. At September 30, 2020, a total of $227,932 (December 31, 2019 - $206,771) in loan principal and accrued interest remained outstanding. Additionally, on the basis of the private placement completed by the Company in December 2019 at $0.03 per share, the loan conversion feature has been revalued to $138,000 (December 31, 2019 - $84,000), and the Company has recorded a loss of $54,000 (2019 – $Nil) on the consolidated statement of loss and comprehensive loss for the nine months ended September 30, 2020.

The loan is in default, but the Company continues to accrue interest in accordance with the agreement.

Project Financing

In February 2017, the Company entered into an arrangement with a third party to provide potential debt financing of up to $2,500,000. The Company incurred standby charges at a rate of 7% per annum for the availability of this potential debt financing for the acquisition and development of oil projects located in Canada. Upon making a draw down under the facility additional fees would be incurred resulting in an effective borrowing rate of 20% per annum. The Company did not borrow any funds but has incurred standby charges totalling $Nil during the nine months ended September 30, 2020 (2019 - $Nil). The arrangement is still currently in place but there are no funds currently incurring standby charges as at September 30, 2020 and December 31, 2019. At September 30, 2020, a total of $Nil (December 31, 2019 - $154,154) in standby charges and interest on standby charges remained outstanding.

1055328 BC Ltd. Loan

On October 6, 2017, the Company borrowed $63,000 under a secured loan that bears 12% interest per annum and is repayable on or before October 6, 2018. On June 6, 2018, the Company borrowed an additional $37,000 under the same terms.

During the nine months ended September 30, 2020, the Company incurred $6,674 (2019 - $6,674) in interest expense. At September 30, 2020, a total of $Nil (December 31, 2019 - $123,871) in loan principal and accrued interest remained outstanding.

7. UNSECURED LOANS

Significant unsecured loans are as follows:

Credit Line

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 maximum capacity of $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.

7. UNSECURED LOANS (continued)

During the nine months ended September 30, 2020, the Company incurred $4,683 (2019 - $5,728) in interest expense, including $Nil (2018 - $Nil) in accretion of the loan liability. At September 30, 2020, a total of $Nil (December 31, 2019 - $95,859) in loan principal and accrued interest remained outstanding.

Proactive Advance

On December 16, 2019, the Company received $60,000 from Proactive Investors. This advance bears interest at 4% per annum and is intended to be applied towards a future private placement.

During the nine months ended September 30, 2020, the lender converted the principle amount of the loan in the July 2020 private placement.

8. CONVERTIBLE DEBENTURES

During the year ended December 31, 2019, the Company borrowed a total of $55,000 under convertible debenture agreements (the "2019 Convertible Debentures") bearing interest at 15% per annum, payable quarterly, and maturing two years from the dates of advance.

The cash received under the 2019 Convertible Debentures has been allocated between the fair value of the loan liability and the conversion feature. The value ascribed to the loan liability as at the loan date was $27,341, and the value ascribed to the conversion feature was $27,659. Additionally, the loan conversion feature was revalued to $6,582 at September 30, 2020 (December 31, 2019 - $7,439), and the Company recorded a gain of $857 (2019 –$Nil) on the consolidated statement of loss and comprehensive loss for the nine months ended September 30, 2020.

During the year ended December 31, 2018, the Company borrowed a total of $695,000 under convertible debenture agreements (the "2018 Convertible Debentures") bearing interest at 15% per annum, payable quarterly, and maturing two years from the dates of advance. A total of $600,000 of the Convertible Debentures were issued to the CEO of the Company.

The cash received under the 2018 Convertible Debentures has been allocated between the fair value of the loan liability and the conversion feature. The value ascribed to the loan liability, net of transaction costs of $5,731, as at the loan date was $689,269, and the conversion feature was determined to have no value. In addition, the 20% retained profit interest which was attached to the Convertible Debentures and takes effect upon full loan repayment, and is applicable only to specific zones of the four original reactivation wells, was determined to have a fair value of $116,000 which was recorded as financing expense during the year ended December 31, 2018.

The Convertible Debentures are secured by the West Hazel property and are convertible into common shares of the Company at a price equal to market price of the common shares of the Company in the first twelve months or the greater of $0.10 and market price thereafter. In addition, should the West Hazel property be sold prior to the first anniversary of the advance date of the Convertible Debentures, then the Company will pay an amount equal to one full year of interest, the loan principal and 15% of any profit realized on the sale above the original reactivation costs. Should the West Hazel property be sold subsequent to the first anniversary of the advance date and prior to maturity of the Convertible Debentures, then the Company will pay an amount equal to the loan principal and 15% of any profit realized on the sale above the original reactivation costs.

During the nine months ended September 30, 2020, debenture holders converted $130,000 (year ended December 31, 2019 - $577,081) of debenture principal and interest payable via the issuance of 2,600,000 common shares, including $Nil (year ended December 31, 2019 - $557,081) payable to the CEO of the Company via the issuance of nil common shares (year ended December 31, 2019 - 11,141,627 common shares), and the Company repaid $Nil (year ended December 31, 2019 - $43,833) of debenture principal and $5,874 (year ended December 31, 2019 - $107,274) of debenture interest during the nine months ended September 30, 2020. During the nine months ended September 30, 2020, the Company incurred $8,663 (2019 - $55,709) in interest and accretion expense. At September 30, 2020 a total of $Nil (September 30, 2019 - $769,733) in loan principal and accrued interest remained outstanding.

(Expressed in Canadian dollars) (Unaudited)

9. RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the period ended September 30, 2020 and 2019. Key management personnel included the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and directors and officers and companies controlled or significantly influenced by them:

Key management compensation

	September 30, 2020	September 30, 2019
	($)	**($)**
Management and consulting fees paid or accrued to directors, officers or corporations controlled by directors and officers of the Company	286,736	192,416
	286,736	192,416

a) As at September 30, 2020, a total of $Nil (December 31, 2019 - $69,431) was included in accounts payable and accrued liabilities owing to the directors and officers or corporations controlled by directors and officers of the Company for unpaid consulting fees and reimbursable expenses. These liabilities are non-interest bearing and payable on demand.

b) As at September 30, 2020, the Company owed a total of $Nil (December 31, 2019 - $51,805) in loan principal and interest to the Chairman of the Company pursuant to a December 27, 2018 loan agreement where the Company borrowed $45,000 from the Chairman. The loan bears interest at 15% and is repayable on demand.

c) As at September 30, 2020, the Company was owed $54,805 (2019: $Nil) from the CEO.

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 September 30, 2020, the oil and gas properties had estimated abandonment dates between 2024 and 2028.

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.

(Expressed in Canadian dollars) (Unaudited)

10. DECOMMISSIONING LIABILITY (continued)

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

	Hartburg, Texas	West Hazel, Saskatchewan	Flaxcombe, Saskatchewan	Total
	($)	($)		($)
Balance, January 1, 2018	42,844	-	-	42,844
Accretion	850	-	992	1,842
Additions	-	369,700	50,098	419,798
Balance, December 31, 2018	43,694	369,700	51,090	464,484
Change in estimate	-	(65,675)	-	(65,675)
Accretion	867	7,320	1,012	9,199
Disposal	(35,249)	-	-	(35,249)
Foreign exchange movement	428	-	-	428
Balance, December 31, 2019	9,740	311,345	52,102	373,187
Accretion	663	4,623	774	6,060
Balance, September 30, 2020	10,403	315,968	52,876	379,247
Current portion	-	-	-	-
Non-current portion	10,403	315,968	52,876	379,247
	10,403	315,968	52,876	379,247

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Hartburg Project was $10,957 (US$8,436) as at September 30, 2020 (December 31, 2019 - $10,957 (US$8,436)). The provision has been estimated using a risk-free discount rate of 1.98% (December 31, 2019 – 1.98%) and an inflation rate of 2.00% (December 31, 2019 – 2.00%) at September 30, 2020.

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Flaxcombe Project was $60,950 (December 31, 2019 - $60,950) at September 30, 2020. The provision has been estimated using a risk-free discount rate of 1.98% (December 31, 2019 – 1.98%) and an inflation rate of 2.00% (December 31, 2019 – 2.00%).

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the West Hazel Project was $338,391 (December 31, 2019 - $338,391) at September 30, 2020. The provision has been estimated using a risk-free discount rate of 1.68% (December 31, 2019 – 1.68%) and an inflation rate of 2.00% (December 31, 2019 – 2.00%).

(Expressed in Canadian dollars) (Unaudited)

11. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value

Issued and Outstanding

Nine Month Period Ended September 30, 2020

a) The Company issued 2,600,000 common shares in connection with the conversion of a $130,000 portion of the outstanding Convertible Debentures at $0.05 per share.

b) On August 4, 2020, the Company closed a private placement of 20,442,000 units at a price of $0.05 per unit for gross proceeds of $1,022,100. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant will be exercisable into an additional common share of the Company at $0.07 for a period of two years. $60,500 was received subsequent to the period end.

c) On August 4, 2020, the Company closed an early warrant exercise incentive program intended to encourage the early exercise of up to 22,894,446 outstanding common share purchase warrants of the Company. 17,479,667 eligible warrants were exercised resulting in the Company receiving gross proceeds of $873,984. In addition to receiving a Company common share upon exercise, each warrant holder who exercised warrants under the early warrant exercise incentive program received a new warrant exercisable at $0.10 per share for two years after issuance.

d) The Company issued 2,500,000 shares in connection with exercising stock options at $0.05 for gross proceeds of $125,000. As at September 30, 2020, the Company received $15,000 and issued 300,000 shares subsequent to the period end, see Note 17(b).

Share Purchase Warrants

Nine Month Period Ended September 30, 2020

a) A total of 4,396,000 share purchase warrants exercisable at $0.05 expired unexercised on February 27, 2020.

b) A total of 600,000 share purchase warrants exercisable at $0.10 expired unexercised on March 23, 2020.

c) A total of 500,000 share purchase warrants exercisable at $0.07 expired unexercised on August 17, 2020.

d) A total of 500,000 share purchase warrants exercisable at $0.10 expired unexercised on August 17, 2020

The following table summarizes the share purchase warrants outstanding as at September 30, 2020:

Number of Warrants	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
	($)		(yrs)
10,221,000	$0.07	July 14, 2022	1.79
450,000	0.05	May 10, 2021	0.61
272,000*	0.10	May 10, 2021	0.61
17,479,668	0.07	December 4, 2020	0.18
4,964,778	0.05	December 4, 2020	0.18
586,666*	0.05	December 4, 2020	0.18
33,974,112	0.05		0.68

*Finder's warrants

(Expressed in Canadian dollars) (Unaudited)

11. SHARE CAPITAL (continued)

See Note 17.

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 TSXV, 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, 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 unexercised options granted under the plan will expire no later than five years from the date of grant.

On July 24, 2020, the Company granted 7,100,000 stock options pursuant to the share option plan of the Company. The options are exercisable on or before July 8, 2025 at an exercise price of $0.05 per share. The Company recognized $383,513 in stock-based compensation in relation to this grant.

The options granted were valued using the Black-Scholes option pricing model under the following weighted average assumptions:

	2020
Risk-free interest rate	0.25%
Expected life of options	5 years
Volatility	142%
Expected Dividend yield	Nil
Forfeiture rate	Nil
Weighted average fair value	$0.05

The following table summarizes the stock options outstanding and exercisable as at September 30, 2020:

Number of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
		($)		(yrs)
300,000	300,000	0.06	April 3, 2021	0.51
1,250,000	1,250,000	0.05	February 21, 2022	1.39
300,000	300,000	0.05	May 1, 2022	1.58
7,100,000	7,100,000	0.05	July 8, 2025	4.77
8,950,000	8,950,000	0.05		4.05

See Note 18.

12. COMMITMENTS

The Company had the following commitments as at September 30, 2020:

a) On May 6, 2020, the Company extended its existing office rental agreement in Vancouver, British Columbia, originally set to terminate June 15, 2020, to November 30, 2020. Under the extension agreement, the Company will pay base rent of $2,385 per month, plus common costs and taxes, from June to November 2020.

12. COMMITMENTS (continued)

b) The Company has an office rental agreement with a term of 72 months, terminating on February 28, 2023. The landlord issued a notice of termination to the Company effective January 31, 2019 and has sent a demand for payment of $43,961 (US$32,245) representing unpaid rental charges under the rental agreement. The Company has recognized the full liability as at September 30, 2020.

c) On August 21, 2020, the Company signed a Financial and Advisory Services Agreement with a New York-based capital and advisory firm. The agreement has a term of one (1) year at a cost of US$15,000 per quarter.

13. GEOGRAPHICAL SEGMENTED INFORMATION

The Company is engaged in one business activity, being the acquisition, exploration, development and production of oil and gas reserves in Canada and the United States. For the year ended December 31, 2019 and September 30, 2020, all revenues were derived from operations in Canada and all non-current assets were located in Canada September 30, 2019 - all revenues were derived from operations in Canada and all non-current assets were located in Canada).

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 period ended September 30, 2020. The Company is not subject to externally imposed capital requirements.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

<u>Financial Risk Management</u>
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, receivables, accounts payable and accrued liabilities and loans.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The fair value of cash, receivables and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments. The carrying amounts of the 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. The fair value of the convertible debentures has been determined after deducting transaction costs and allocating the portion of the proceeds applicable to the retained profit interest.

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 remaining customers are related to the recovery of shared office rent and share subscription proceeds. The Company has minimal collection risk related to these receivables and expects to collect the outstanding receivables in the normal course of operations. At September 30, 2020, the maximum credit exposure is the carrying amount of Receivables of $139,410 (December 31, 2019 - $87,919).

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.

Market risk
Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company's primary commodity is heavy oil which is closely tied to the price of Western Canadian Select.

Interest rate risk
The Company is exposed to interest rate risk. The Company has an unsecured loan associated with a CIBC line of credit which has a variable interest rate, recalculated quarterly. A 1% change in market interest rates would result in an increase/decrease of $1,602 on the Company's net loss.

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 September 30, 2020, the Company had a working capital deficiency of $1,991,588 (December 31, 2019 - $2,645,147). The Company finances its operations through a combination of cash, loans, equity and convertible debentures. The Company's ability to continue as a going concern is dependent upon the ongoing support from its lenders and its ability to fund the repayment of its debt by generating positive cash flows from operations, securing funding from additional debt, equity financing, disposing of assets or making other arrangements. Refer to Note 1 for further discussion.

The Company's financial liabilities had contractual maturities as follows:

	September 30, 2020	**December 31, 2019**
	($)	**($)**
Less than 1 year	2,549,211	2,824,974
Between 1 – 2 years	-	39,763
Between 2 – 5 years	-	-
	2,549,211	2,864,737

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 sales are denominated in Canadian dollars. As a result, the Company has minimal exposure to foreign exchange risk.

(Expressed in Canadian dollars) (Unaudited)

16. SUPPLEMENTAL CASH FLOW INFORMATION

	September 30, 2020	September 30, 2019
	($)	($)
Non-cash investing and financing activities:		
Common shares issued upon the conversion of convertible debentures	130,000	-
Interest paid during the period	42,766	50,641
Income taxes paid during the period	-	-

17. SUBSEQUENT EVENTS

The following events occurred subsequent to September 30, 2020:

a) On October 7, 2020, the Company granted 1,000,000 stock options pursuant to the share option plan of the Company. The options are exercisable on or before October 7, 2025 at an exercise price of $0.05 per share.

b) On October 8, 2020, the Company issued 300,000 shares in connection with exercising stock options at $0.05 for gross proceeds of $15,000.

c) On October 15, 2020, the Company issued 150,000 shares in connection with exercising warrants at $0.05 for gross proceeds of $7,500.

d) On October 28, 2020, the Company issued 12,804,952 shares to settle accounts payable and loans payable in the amount of $688,346.

e) On November 9, 2020, the Company granted 1,000,000 stock options pursuant to the share option plan of the Company. The options are exercisable on or before November 9, 2025 at an exercise price of $0.05 per share.

f) On November 19, 2020, the Company entered into an office rental agreement in Vancouver, British Columbia. The term of the agreement is 36 months, and the Company will pay base rent of $4,173 per month, plus common costs and taxes.

g) On November 23, 2020, the Company issued 187,000 shares in connection with exercising warrants at $0.05 for gross proceeds of $7,500.

SCHEDULE “B”

MANAGEMENT’S DISCUSSION AND ANALYSIS OF THE COMPANY

(see attached)

Hillcrest Petroleum

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended
December 31, 2019

Report Date – June 15, 2020

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is provided by the management of Hillcrest Petroleum Ltd. ("Hillcrest" or the "Company") as at and for the year ended December 31, 2019. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2019 and 2018 (the "Annual Financial Statements").

The following information has been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). All financial results are reported in Canadian dollars, unless otherwise indicated, and production numbers represent Hillcrest's ownership interest.

Additional information relating to the Company, including the financial statements are available on the Hillcrest website at **www.hillcrestpetroleum.com** or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") website at **www.sedar.com.**

CORPORATE OVERVIEW

Hillcrest is listed for trading on the TSX Venture Exchange (the "Exchange") under the symbol "HRH" and on the OTC pink sheets in the United States of America ("US") under the symbol "HLRTF". The Company is in the business of acquiring and developing exploration and production interests in oil and gas projects in North America. Management and consultants of the Company have extensive experience in oil and gas exploration, development and production and have the capability to expand the scope of the Company's activities as appropriate opportunities arise. Currently, the Company's focus is on conventional oil and gas opportunities in Western Canada (Refer to "Oil and Gas Properties" section).

FORWARD-LOOKING STATEMENTS

This MD&A, which contains certain forward-looking statements pertaining to, among other things: additional capital funding; the Company's ability to obtain such funding and the use thereof; the Company's ability to continue as a going concern; the completion of private placements and the use of proceeds thereof; the existence of reserves; oil production rates and recovery from drilling operations; commercial viability of drilled wells; additional drilling locations; storage and transportation of oil and costs thereof; the timing, method, cost and recovery from drilling operations; infrastructure development and the timing and effects thereof; the Company's next phase of capital expenditures; regulatory approvals and the Company's ability to obtain applicable permits; future operation, general and administrative expenditures and the anticipated impact of the reduction thereof; performance and financial results; capital expenditures; the Company's working capital deficiency and capital requirements; the ability of the Company to satisfy the interest and principal owed to debt holders; estimates and assumptions made in accordance with IFRS requirements; and the Company's ability to generate shareholder value, which is intended to provide readers with a reasonable basis for assessing the financial performance of the Company. The use of any of the words "believe", "expect", "estimate", "will", "should", "intend" and similar expressions are intended to identify forward-looking statements.

FORWARD-LOOKING STATEMENTS (continued)

Forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The estimates and assumptions of the Company contained in this MD&A, which may prove to be incorrect, include but are not limited to: the general continuance of current or, where applicable, assumed industry conditions and the lack of any significant disruptions affecting operations, whether due to labour disruptions, supply disruptions, power disruptions, damage to equipment, adverse weather conditions or otherwise; the ability of the Company to obtain necessary permits; acquisition of lands; the Company's status as a going concern; costs and availability of equipment, labour, natural gas, fuel, oil, electricity, water and other key supplies; the accuracy of production data; the continuance of existing and, in certain circumstances, proposed tax and royalty regimes; the continuance of laws and regulations relating to environmental matters; the Company's ability to retain key employees and executives; assumptions relating to the costs of future wells; the accuracy of estimates of reserves volumes; the availability and timing of additional financing to fund the Company's capital and operating requirements as needed; and certain commodity price and other cost assumptions. Statements regarding future production, capital expenditures and development plans are subject to the risks and uncertainties normally incident to the exploration for and development and production of oil and gas that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These risks include, but are not limited to: inflation or lack of availability of goods and services; changes in commodity prices; unanticipated operating results or production declines; third party pipeline issues; environmental risks; drilling risks; financial markets; economic conditions; volatility in the debt and equity markets; regulatory changes; changes in tax or environmental laws or royalty rates; and certain other known and unknown risks listed under the section "Risks & Uncertainties" herein.

Although Hillcrest believes that the material factors, expectations and assumptions expressed in such forward-looking statements are reasonable based on information available to it on the date such statements were made, no assurances can be given as to future results, levels of activity and achievements and such statements are not guarantees of future performance.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OIL AND GAS PROPERTIES

a) West Hazel Property, Saskatchewan

During the year ended December 31, 2017, the Company entered into a binding joint venture agreement ("JV Agreement") with a Canadian oil and gas company ("Juniorco") whereby the Company, via a wholly owned subsidiary, may earn up to a 75% Working Interest before payout ("BPO") and a 50% Working Interest after payout ("APO") and become the operator of record in the West Hazel field, a petroleum asset located in the Western Canadian Sedimentary Basin, by returning certain wells to service and restarting production.

In October 2018, the Company commenced the facility inspection/repair/upgrade and well reactivation activities required to re-establish oil production from previously producing wells on the West Hazel property.

In February 2019, the Company successfully re-established production from three wells and upgraded the related facilities by expending approximately $878,000 since entering into the JV Agreement. Pursuant to the JV Agreement, the Company is the operator of the field and earned its 75% BPO working interest in the property. In February 2019, the Company disposed of 17% of its operating profit interest from reactivated wells in the West Hazel property in exchange for a cash payment of $170,000, reducing the Company's BPO interest to 62.25% and its APO interest to 41.5%, which the

OIL AND GAS PROPERTIES (continued)

Company's working interest will revert to after it has recovered all production reactivation costs from the production revenues.

Total field production for the year ended December 31, 2019 totaled 31,673 barrels at an average price of $53.80 per barrel.

Hillcrest has also commenced technical studies to assess potential additional infield development opportunities.

b) Flaxcombe Property, Saskatchewan

On December 14, 2017, the Company entered into a farm-in agreement with Westcore Energy Ltd. whereby the Company would provide the funds required to work-over two existing but shut-in oil wells, the 16-13 and 07-13 wells, located in the Flaxcombe area of southwestern Saskatchewan and return them to production. The Company earned a 50% working interest in the two wells by contributing 100% of the cost of the work-over operations, which were estimated at $135,000. As at December 31, 2018, the Company has incurred $152,427 on the work-over operations.

The 16-13 well re-commenced production in January 2018 at a field estimated daily total fluid production rate of 41 bopd, with a field estimated oil cut of 48%. The 07-13 well re-commenced production in February 2018 at a field estimated daily total fluid production rate of 91 bopd, with a field estimated oil cut of 11%. Due to a down-hole pump failure the 16-13 well was temporarily shut-in, but the well subsequently came back on line in June 2018.

Due to technical difficulties, both wells have since been shut in.

As a result of the poor performance of the field and a lack of profitability, the Company has recorded a full impairment of $202,525 on the Flaxcombe Property. The Company is currently in discussions with the operator to determine a future course of action, including disposal of the Company's interest in the property.

c) Hartburg Properties, Texas

In December 2017, the Company relinquished its mineral rights in the leases associated with the remaining well-bores. The Donner 2 well has since been acquired by a private third-party corporation, and the Company is no longer responsible for the ultimate plugging and abandonment costs for this well resulting in a gain of $9,923.

In October 2019 the Company paid its proportionate share to reclaim the Brown 1 Well.

The Company continues to retain ownership and abandonment liability for the Donner 4.

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SELECTED QUARTERLY INFORMATION

The table below summarized information reported for the most recent eight quarterly periods:

	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
	($)	**($)**	**($)**	**($)**
Total assets	863,898	1,234,139	1,104,211	**1,180,254**
Total liabilities	3,353,924	4,623,954	4,189,376	**4,159,059**
Revenue	325,519	377,620	205,819	**133,389**
Net income (loss)	(271,018)	(324,654)	(301,208)	**(305,049)**
Earnings (loss) per share	(0.00)	(0.00)	(0.00)	**(0.00)**
Weighted average common shares Outstanding	91,461,993	91,217,270	89,521,797	**87,293,226**
	December 31, 2018	**September 30, 2018**	**June 30, 2018**	**March 31, 2018**
	($)	**($)**	**($)**	**($)**
Total assets	1,115,423	46,924	128,726	**356,087**
Total liabilities	3,787,915	1,841,182	1,743,187	**1,689,757**
Revenue	640	6,387	29,569	**15,667**
Net income (loss)	(859,423)	(183,037)	(366,012)	**(458,063)**
Earnings (loss) per share	(0.01)	(0.00)	(0.00)	**(0.01)**
Weighted average common shares Outstanding	**87,293,226**	**87,293,226**	**86,576,237**	**78,711,070**

Significant variations in the most recent eight quarters are discussed below:

a) Revenue for the quarter ended June 30, 2019 increased by $176,250 compared to the quarter ended June 30, 2018; revenue for the quarter ended September 30, 2019 increased by $371,233 compared to the quarter ended September 30, 2018; and revenue for the quarter ended December 31, 2019 increased by $324,879 compared to the quarter ended December 31, 2018 due to increased oil production after pump changeouts were completed on several of the West Hazel oil wells.

b) During the quarter ended March 31, 2019, revenue increased by $117,722 compared to the quarter ended March 31, 2018 due to the commencement of production from the West Hazel oil property.

c) During the quarter ended December 31, 2018, total assets and liabilities increased primarily due to the issuance of convertible debentures to commence the well workovers on the West Hazel property. The Company expended $595,181 in the quarter. The Company's accounts payable balance has also materially increased due to initial expenditures required to reactivate and upgrade West Hazel production operations and the insufficient cash flow from the initial production ramp up from West Hazel start up operations.

d) During the quarter ended September 30, 2018, revenue decreased substantially due to both Wells 16-13 and 7-13 in the Flaxcombe property being shut-in for all or a portion of the period.

e) During the quarter ended March 31, 2018, revenue increased due to the recompletion of Wells 16-13 and 7-13 in the Flaxcombe property.

SELECTED ANNUAL INFORMATION

Selected annual information for the years ended December 31, 2019, 2018 and 2017 is presented below:

	2019	2018	2017
	($)	($)	($)
Total assets	863,898	1,115,423	**251,077**
Total liabilities	3,353,924	3,787,915	**1,711,284**
Shareholders' equity (deficiency)	(2,490,026)	(2,672,492)	**(1,460,207)**
Revenue, net of royalties	763,000	47,779	**36,299**
Net income (loss)	(1,201,929)	(1,866,535)	**5,284,533**
Earnings (loss) per share	**(0.01)**	**(0.02)**	**0.07**

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital deficiency of $2,645,147 as at December 31, 2019, compared to $2,400,807 as at December 31, 2018. The balance has increased due to a cash out flow from operations as well as certain debt facilities which are in default and accordingly have been reported as current liabilities.

During the year ended December 31, 2019, the Company reported a net loss of $1,201,929 (2018 – $1,866,535) due to the Company's oil production in 2019 from the West Hazel property wells being insufficient to cover the Company's corporate costs. As a result, the Company reported a cash outflow from operations of $482,104 (2018 - $566,170) for the year ended December 31, 2019. The Company is currently in default on certain loans, but it continues to accrue interest in accordance with the terms of the agreements. The Company's ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent upon the continued financial support of its creditors, access to equity financial markets and ultimately, the attainment of profitable operations. As a result, the Company completed non-brokered private placements during the year ended December 31, 2019, wherein it issued 24,844,446 units for aggregate gross proceeds of $823,333.

Management has successfully utilized both debt and equity financing in the past, but there is no assurance that such funding will be available in the future or if it is that it will be on terms that are acceptable. If the Company is unable to obtain additional financing, it will experience liquidity problems and management expects that it will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures. Any additional equity financing may involve substantial dilution.

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.

RESULTS OF OPERATIONS

Year Ended December 31, 2019

Revenue
The Company generated total revenue of $1,042,327 during the year ended December 31, 2019 ("Current Year") compared to $52,263 during the year ended December 31, 2018 ("Prior Year"). The increase is due to the Company reactivating three wells under the West Hazel farm-in agreement.

Expenses
The Company's operating costs, depletion and depreciation and general and administrative expenses for the Current Year increased by $584,212 relative to the Prior Year. This was due to the Company recording depletion and depreciation expenditures that come with producing oil. In addition, operating costs increased with the increase in oil production.

Year Ended December 31, 2018

Revenue
The Company generated total revenue of $52,263 during for the year ended December 31, 2018 ("Current Year") as compared to $37,973 in the year ended December 31, 2017 ("Prior Year"). The increase is a result of the Company having sold its producing oil assets in 2017 and just having commenced production in early 2018 on the Flaxcombe property.

Expenses
The Company's operating costs, depletion and depreciation and general and administrative expenses for the Current Year decreased by $186,255 relative to the Prior Year. This was primarily due to a $191,484 decrease in office and general expenses and $242,410 decrease in share-based payments expense from the Prior Year to the Current Year.

OUTSTANDING SHARE DATA

As at the Report Date there are 124,579,299 common shares outstanding.

STOCK OPTIONS

The total number of stock options outstanding as of the Report Date are summarized below:

Number of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price	Expiry Date
		($)	
300,000	300,000	0.05	April 3, 2021
1,750,000	1,750,000	0.07	February 21, 2022
1,950,000	1,950,000	0.05	February 21, 2022
300,000	300,000	0.05	May 1, 2022
350,000	350,000	0.05	June 13, 2022
4,650,000	4,650,000	0.06	

SHARE PURCHASE WARRANTS

The total number of share purchase warrants outstanding as of the Report Date are summarized below:

Number of Warrants	Weighted Average Exercise Price	Expiry Date
	($)	
1,950,000	0.05	May 10, 2021
272,000*	0.10	May 10, 2021
20,944,446	0.05	December 4, 2020
586,666*	0.05	December 4, 2020
500,000	0.07	August 17, 2020
500,000	0.10	August 17, 2020
46,287	0.10	March 23, 2020
553,713	0.05	March 23, 2020
759,113	0.10	February 27, 2020
3,636,887	0.05	February 27, 2020
29,749,112	0.05	

*Finder's warrants

SUBSEQUENT EVENTS

Subsequent to December 31, 2019:

a) The Company issued 600,000 common shares in connection with the conversion of a portion of the outstanding Convertible Debentures at $0.05 per share.

b) A total of 4,396,000 share purchase warrants exercisable at $0.05 expired unexercised on February 27, 2020.

c) A total of 600,000 share purchase warrants exercisable at $0.10 expired unexercised on March 23, 2020.

d) The Company entered into a non-binding memorandum of intent with Oropass Ltd. ("Oropass") to form and invest in a joint venture with Oropass on a 50% basis each to license and market certain intellectual property in the United States ("USA Licensing Rights MOI"). Under the USA Licensing Rights MOI, the Company paid $10,000 of an initial $15,000 deposit payable, with Oropass paying the other $5,000, to a third party that originally licensed the intellectual property to Oropass. Formation of a joint venture is subject to the Company securing $500,000 of joint venture seed funding and entry of the Company and Oropass into a joint venture shareholders' agreement.

e) The Company entered into a non-binding memorandum of intent with Oropass to form and invest in a joint venture with Oropass on a 50% basis each to license and market certain intellectual property in the European Union ("EU Licensing Rights MOI"). Under the EU Licensing Rights MOI, the Company paid an initial $10,000 deposit payable to a third party that originally licensed the intellectual property to Oropass. Formation of a joint venture is subject to the Company securing joint venture seed funding, the submission of European Union patent applications on or before August 1, 2020 and entry of the Company and Oropass into a joint venture shareholders' agreement.

f) On May 6, 2020, the Company extended its existing office rental agreement in Vancouver, British Columbia, originally set to terminate June 15, 2020, to November 30, 2020. Under the extension agreement, the Company will pay base rent of $2,385 per month, plus common costs and taxes, from June to November 2020.

SUBSEQUENT EVENTS (continued)

g) The outbreak of the novel strain of coronavirus ("COVID-19") has resulted in governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused an economic slowdown and material disruption to business. Government has reacted with interventions intended to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial performance and financial position of the Company in future periods.

OFF-BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet debt nor did it have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may have material current or future effect on financial conditions, changes in the financial conditions, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses.

COMMITMENTS

a) The Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, terminating on June 15, 2020. The remaining base rent payable under the lease is $13,436 up until the lease expires. In addition to the base rent of $2,067 per month, the Company's share of operating costs is estimated at approximately $1,598 per month.

b) HEL entered into an office rental agreement with a term of 72 months, terminating on February 28, 2023. The landlord issued a notice of termination to the Company effective January 31, 2019 and has sent a demand for payment of $43,961 (US$32,245) representing unpaid rental charges under the rental agreement. The Company has recognized the full liability as at December 31, 2019.

RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the years ended December 31, 2019 and 2018. Key management personnel included the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and directors and officers and companies controlled or significantly influenced by them:

Key management compensation

	2019	2018
	($)	($)
Management and consulting fees paid or accrued to directors, officers or corporations controlled by directors and officers of the Company*	271,350	365,850
Share-based payments paid to certain directors and officers of the Company in connection with the extension of the expiry dates of share purchase warrants and amendment of exercise prices of share purchase options	5,700	35,400
	277,050	401,250

*For the year ended December 31, 2019, $289,406 in gross management and consulting were billed by or accrued to related parties, with $18,056 of management and consulting fees allocated to other West Hazel joint venture partners.

a) As at December 31, 2019, a total of $69,431 (December 31, 2018 - $318,478) was included in accounts payable and accrued liabilities owing to the directors and officers or corporations controlled by directors and officers of the Company for unpaid consulting fees and reimbursable expenses. These liabilities are non-interest bearing and payable on demand.

b) As at December 31, 2019, a total of $Nil (December 31, 2018 - $600,000) was included in convertible debentures owing to the CEO. A total of $Nil (December 31, 201 - $57,353) was paid in advance for future interest payments and was recorded as prepaids on the consolidated statement of financial position (see Note 9).

c) As at December 31, 2019, the Company owed a total of $51,805 (December 31, 2018 - $45,055) in loan principal and interest to the Chairman of the Company pursuant to a December 27, 2018 loan agreement where the Company borrowed $45,000 from the Chairman. The loan bears interest at 15% and is repayable on demand.

d) During the year ended December 31, 2019, related parties forgave a total of $260,950 (2018 - $Nil) in unpaid management and consulting fees accrued in prior years.

CAPITAL MANAGEMENT

The Company considers its capital resources to be the shareholders' deficiency, comprising share capital, contributed surplus, reserves and deficit. 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 year ended December 31, 2019. The Company is not subject to externally imposed capital requirements.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies and critical accounting estimates used during the year ended December 31, 2019 are disclosed in notes 2 and 3 of the 2019 audited annual consolidated financial statements. Preparing financial statements in accordance with IFRS requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position.

OUTLOOK

Hillcrest is focused on adding, creating and increasing value through the acquisition, development and production of conventional onshore oil and gas assets in North America. The Company has disposed of its offshore oil interests and is actively evaluating new value accretive acquisitions. The Company's intention is to operate or, at a minimum, to hold a controlling working interest in any significant growth assets acquired, in order to be able to direct operation activity to maximize Company value.

RISKS & UNCERTAINTIES

The business and operations of the Company are subject to numerous risks, many of which are beyond the Company's control. The Company considers the risks set out below to be some of the most significant to current and potential investors in the Company, but readers are cautioned that the list is not exhaustive. If any of these risks materialize into actual events or circumstances, or any other additional risks or uncertainties material to the Company's business occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), and business and business prospects are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline, and investors may lose all or part of their investment. The Company is engaged in the acquisition, exploration and development of oil and gas properties. Given the nature of the oil and gas business, the limited extent of the Company's assets and the present stage of exploration, the following risks, among others, should be considered.

RISKS & UNCERTAINTIES (contined)

Financing Risks and Dilution to Shareholders
The Company has limited financial resources and further exploration or acquisitions will require additional funds to complete. There can be no assurance that the Company will be successful in its efforts to obtain adequate financing in the future or that such financing will be available on favourable terms or at all. It is likely such additional capital may be raised through the issuance of additional equity or other forms of capital such as debt or sale of assets which may result in dilution to the Company's existing shareholders.

Fluctuating Oil and Gas Prices
The economics of oil and gas exploration are affected by many factors beyond the Company's control, including commodity prices, supply and demand in the market and the cost of operations. Depending on the price of commodities, the Company may determine that it is impractical to continue exploration. Any material decline in prices may result in the reduction of existing and potential profitable exploration and development activities as well as reducing the financing options available to the Company. Prices are prone to fluctuations and marketability is affected by government regulations relating to price, royalties and allowable production, the effect of which cannot be accurately predicted. There is no assurance that a profitable market will exist for the sale of any commodities found on the properties.

Conflicts of Interest
There are potential conflicts of interest to which the directors and officers of this Company may be subject to in connection with the Company's operations. Certain of the directors and officers of the Company are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies and, as a result of these and other activities, such directors and officers may be in direct conflict with the Company. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA and any other applicable corporate laws.

Local Resident Concerns
In addition to ordinary environmental issues, the exploration and development of the Company's projects could be subject to resistance from local residents that could either prevent or delay exploration and development of its properties.

Competition
The oil and gas exploration and development industry is highly competitive. The Company will have to compete with other companies, many of which have greater financial, technical and other resources than the Company, for, among other things, the acquisition of leases and other interests as well as for the recruitment and retention of qualified employees and other personnel. Failure to compete successfully against other companies could have a material adverse effect on the Company and its prospects.

RISKS & UNCERTAINTIES (continued)

Environmental Risks

The Company's exploration and appraisal programs will, in general, be subject to approval by regulatory bodies. Additionally, all phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, state and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

Exploration, Development and Operating Risks

Oil and gas exploration and development is highly speculative in nature and involves a high degree of risk. There is no assurance that expenditures made on future exploration and development by the Company will result in new discoveries of oil and gas in commercial quantities. The recovery of expenditures on oil and gas properties and the related deferred exploration expenditures are dependent on the ability of the Company to obtain financing necessary to complete the exploration and development of its projects, and upon future profitable production, or alternatively, on the sufficiency of proceeds from disposition. The long-term commercial success of the Company depends on its ability to acquire, develop and commercially produce oil and gas reserves. The Company is in the process of exploring its properties and determining the technical feasibility and economically recoverable reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Additionally, if such acquisitions and participation are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisition or participation uneconomic. Even if the Company is successful in locating satisfactory properties, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. The Company attempts to control operating risks by maintaining a disciplined approach to execution of its exploration and development programs. Exploration risks are managed by utilizing management experience and expertise along with technical professionals and by concentrating on the exploration activity on specific core regions that have multi-zone potential. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner. Additionally, oil and gas operations are subject to the usual risks involved in the acquisition, exploration, development and production of oil and gas properties, including whether any of the remaining projects contain economically recoverable reserves and are able to generate any revenues from production.

Litigation

The Company and/or its directors may become subject to a variety of civil or other legal proceedings, with or without merit.

RISKS & UNCERTAINTIES (continued)

Uninsurable Risks

Exploration, development and production operations of oil and gas reserves involve numerous risks, including sub-surface production issues or mechanical failure in wells, uncontrolled release of hydrocarbons, fires, floods, hurricanes, earthquakes and other environmental occurrences, any of which could result in damage to, or destruction of, wells and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although the Company intends to take precautions to minimize risk that will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks, such as environmental risks, as a result of high premiums or other reasons. Should such liabilities arise, they could have an adverse impact on the Company's operations and financial condition and could cause a decline in the value of the Company's shares.

Regulatory, Permit and License Requirements

The current or future operations of the Company require permits from various governmental authorities, and such operations are and will be governed by laws and regulations concerning exploration, development, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, site safety and other matters. Companies engaged in the exploration and development of oil and gas properties generally experience increased costs and delays in development and other schedules as a result of the need to comply with applicable laws, regulations and permits. Adverse changes to laws and regulations could have a material adverse effect on present and future exploration and development projects, operations, and capital expenditures. There can be no assurance that all permits which the Company may require for facilities and to conduct exploration and development operations on the properties will be obtainable on reasonable terms, or that such laws and regulations will not have an adverse effect on any exploration or development project which the Company might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in exploration and development operations may be required to compensate those suffering loss or damage by reason of the exploration and development activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of oil and gas companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or exploration and development costs, or require abandonment or delays in the development of new or existing properties.

Reliance on Management and Dependence on Key Personnel

The success of the Company will be largely dependent upon the performance of its directors and officers and on the Company's ability to attract and retain key personnel. The loss of the services of these persons may have a material adverse effect on the Company's business and prospects. The Company will compete with numerous other companies for the recruitment and retention of qualified employees and contractors. There is no assurance that the Company can maintain the service of its directors and officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Availability of Equipment and Labour

The oil and gas exploration industry is dependent on the availability of equipment and labour in the areas where such activities will be conducted. Demand for limited equipment and labour and restrictions imposed on access to equipment may affect the availability of such equipment to the Company which could delay exploration, development and production activities.

ADDITIONAL DISCLOSURE

Additional information relating to the Company and its regulatory filings is available on the Company's website at **www.hillcrestpetroleum.com** and under the Company's profile on SEDAR at **www.sedar.com**.

CORPORATE INFORMATION

HEAD OFFICE
1300 – 1030 West Georgia Street
Vancouver, BC V6E 2Y3
Tel: (604) 609-0006

LISTINGS
TSX Venture Exchange: **HRH**
OTCQB: **HLRTF**

LEGAL COUNSEL

McMillan LLP
Royal Centre 1055 West Georgia Street
Vancouver, BC V6E 4N7

AUDITOR

De Visser Gray LLP
905 W Pender St
Vancouver, BC V6C 1L6

OFFICERS

Don Currie – *Chief Executive Officer*
Aaron Triplett – *Chief Financial Officer*
Dale Miller – *Chief Operating Officer*

TRANSFER AGENT

Computershare Canada
510 Burrard Street
Vancouver, BC V6C 3A8

BOARD OF DIRECTORS

Michael Krzus – *Executive Chairman*
Don Currie – *Chief Executive Officer*
David Stone – *Independent*
Thomas Milne – *Independent*
Robert Lambert – *Independent*

Hillcrest Petroleum

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three Month Period Ended
March 31, 2020

Report Date – July 13, 2020

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is provided by the management of Hillcrest Petroleum Ltd. ("Hillcrest" or the "Company") as at and for the three month period ended March 31, 2020. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2019 and 2018 (the "Annual Financial Statements").

The following information has been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). All financial results are reported in Canadian dollars, unless otherwise indicated, and production numbers represent Hillcrest's ownership interest.

Additional information relating to the Company, including the financial statements are available on the Hillcrest website at **www.hillcrestpetroleum.com** or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") website at **www.sedar.com**.

CORPORATE OVERVIEW

Hillcrest is listed for trading on the TSX Venture Exchange (the "Exchange") under the symbol "HRH" and on the OTC pink sheets in the United States of America ("US") under the symbol "HLRTF". The Company is a Canadian oil and gas producer, which to complement its oil and gas production, is pursuing opportunities related to clean energy technology with potential to substantially reduce greenhouse gas emissions. Hillcrest holds multiple wells on two projects in the province of Saskatchewan, and intends to add a green energy asset to its energy production portfolio through its 50% ownership in ALSET Innovations Inc., a technology partnership with rights to exclusively license and market innovative efficient power generation and electric motor technologies in the USA and to exclusively market this technology in the EU.

FORWARD-LOOKING STATEMENTS

This MD&A, which contains certain forward-looking statements pertaining to, among other things: additional capital funding; the Company's ability to obtain such funding and the use thereof; the Company's ability to continue as a going concern; the completion of private placements and the use of proceeds thereof; the existence of reserves; oil production rates and recovery from drilling operations; commercial viability of drilled wells; additional drilling locations; storage and transportation of oil and costs thereof; the timing, method, cost and recovery from drilling operations; infrastructure development and the timing and effects thereof; the Company's next phase of capital expenditures; regulatory approvals and the Company's ability to obtain applicable permits; future operation, general and administrative expenditures and the anticipated impact of the reduction thereof; performance and financial results; capital expenditures; the Company's working capital deficiency and capital requirements; the ability of the Company to satisfy the interest and principal owed to debt holders; estimates and assumptions made in accordance with IFRS requirements; and the Company's ability to generate shareholder value, which is intended to provide readers with a reasonable basis for assessing the financial performance of the Company. The use of any of the words "believe", "expect", "estimate", "will", "should", "intend" and similar expressions are intended to identify forward-looking statements.

FORWARD-LOOKING STATEMENTS (continued)

Forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The estimates and assumptions of the Company contained in this MD&A, which may prove to be incorrect, include but are not limited to: the general continuance of current or, where applicable, assumed industry conditions and the lack of any significant disruptions affecting operations, whether due to labour disruptions, supply disruptions, power disruptions, damage to equipment, adverse weather conditions or otherwise; the ability of the Company to obtain necessary permits; acquisition of lands; the Company's status as a going concern; costs and availability of equipment, labour, natural gas, fuel, oil, electricity, water and other key supplies; the accuracy of production data; the continuance of existing and, in certain circumstances, proposed tax and royalty regimes; the continuance of laws and regulations relating to environmental matters; the Company's ability to retain key employees and executives; assumptions relating to the costs of future wells; the accuracy of estimates of reserves volumes; the availability and timing of additional financing to fund the Company's capital and operating requirements as needed; and certain commodity price and other cost assumptions. Statements regarding future production, capital expenditures and development plans are subject to the risks and uncertainties normally incident to the exploration for and development and production of oil and gas that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These risks include, but are not limited to: inflation or lack of availability of goods and services; changes in commodity prices; unanticipated operating results or production declines; third party pipeline issues; environmental risks; drilling risks; financial markets; economic conditions; volatility in the debt and equity markets; regulatory changes; changes in tax or environmental laws or royalty rates; and certain other known and unknown risks listed under the section "Risks & Uncertainties" herein.

Although Hillcrest believes that the material factors, expectations and assumptions expressed in such forward-looking statements are reasonable based on information available to it on the date such statements were made, no assurances can be given as to future results, levels of activity and achievements and such statements are not guarantees of future performance.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OIL AND GAS PROPERTIES

a) West Hazel Property, Saskatchewan

During the year ended December 31, 2017, the Company entered into a binding joint venture agreement ("JV Agreement") with a Canadian oil and gas company ("Juniorco") whereby the Company, via a wholly owned subsidiary, may earn up to a 75% Working Interest before payout ("BPO") and a 50% Working Interest after payout ("APO") and become the operator of record in the West Hazel field, a petroleum asset located in the Western Canadian Sedimentary Basin, by returning certain wells to service and restarting production.

In October 2018, the Company commenced the facility inspection/repair/upgrade and well reactivation activities required to re-establish oil production from previously producing wells on the West Hazel property.

In February 2019, the Company successfully re-established production from three wells and upgraded the related facilities by expending approximately $878,000 since entering into the JV Agreement. Pursuant to the JV Agreement, the Company is the operator of the field and earned its 75% BPO working interest in the property. In February 2019, the Company disposed of 17% of its operating profit interest from reactivated wells in the West Hazel property in exchange for a cash payment of $170,000, reducing the Company's BPO interest to 62.25% and its APO interest to 41.5%, which the

OIL AND GAS PROPERTIES (continued)

Company's working interest will revert to after it has recovered all production reactivation costs from the production revenues.

Total field production for the year ended December 31, 2019 totaled 31,673 barrels at an average price of $53.80 per barrel.

Total field production for the three-month period ended March 31, 2020 totaled 10,062 barrels at an average price of $21.75 per barrel.

Total field production for three-month period ended March 31, 2019 totaled 3,730 barrels at an average price of $57.45 per barrel.

Hillcrest has also commenced technical studies to assess potential additional infield development opportunities.

b) Flaxcombe Property, Saskatchewan

On December 14, 2017, the Company entered into a farm-in agreement with Westcore Energy Ltd. whereby the Company would provide the funds required to work-over two existing but shut-in oil wells, the 16-13 and 07-13 wells, located in the Flaxcombe area of southwestern Saskatchewan and return them to production. The Company earned a 50% working interest in the two wells by contributing 100% of the cost of the work-over operations, which were estimated at $135,000. As at December 31, 2018, the Company has incurred $152,427 on the work-over operations.

The 16-13 well re-commenced production in January 2018 at a field estimated daily total fluid production rate of 41 bopd, with a field estimated oil cut of 48%. The 07-13 well re-commenced production in February 2018 at a field estimated daily total fluid production rate of 91 bopd, with a field estimated oil cut of 11%. Due to a down-hole pump failure the 16-13 well was temporarily shut-in, but the well subsequently came back on line in June 2018.

Due to technical difficulties, both wells have since been shut in.

As a result of the poor performance of the field and a lack of profitability, the Company has recorded a full impairment of $202,525 on the Flaxcombe Property. The Company is currently in discussions with the operator to determine a future course of action, including disposal of the Company's interest in the property.

c) Hartburg Properties, Texas

In December 2017, the Company relinquished its mineral rights in the leases associated with the remaining well-bores. The Donner 2 well has since been acquired by a private third-party corporation, and the Company is no longer responsible for the ultimate plugging and abandonment costs for this well resulting in a gain of $9,923.

In October 2019 the Company paid its proportionate share to reclaim the Brown 1 Well.

The Company continues to retain ownership and abandonment liability for the Donner 4.

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SELECTED QUARTERLY INFORMATION

The table below summarized information reported for the most recent eight quarterly periods:

	March 31, 2020 $	December 31, 2019 $	September 30, 2019 $	June 30, 2019 $
Total assets	750,618	863,898	1,234,139	1,104,211
Total liabilities	3,436,163	3,353,924	4,623,954	4,189,376
Revenue	136,244	325,519	377,620	205,819
Net income (loss)	(232,230)	(271,018)	(324,654)	(301,208)
Earnings (loss) per share	(0.00)	(0.00)	(0.00)	(0.00)
Weighted average common shares oustanding	124,101,277	91,461,993	91,217,270	89,521,797
	March 31, 2019 $	**December 31, 2018 $**	**September 30, 2018 $**	**June 30, 2018 $**
Total assets	1,180,254	1,115,423	46,924	128,726
Total liabilities	4,159,059	3,787,915	1,841,182	1,743,187
Revenue	133,389	640	6,387	29,569
Net income (loss)	(305,049)	(859,423)	(183,037)	(366,012)
Earnings (loss) per share	(0.00)	(0.01)	(0.00)	(0.00)
Weighted average common shares oustanding	87,293,226	87,293,226	87,293,226	86,576,237

Significant variations in the most recent eight quarters are discussed below:

a) During the quarter ended March 31, 2020, revenue decreased due to the decrease in oil prices specifically in February and March.

b) Revenue for the quarter ended June 30, 2019 increased by $176,250 compared to the quarter ended June 30, 2018; revenue for the quarter ended September 30, 2019 increased by $371,233 compared to the quarter ended September 30, 2018; and revenue for the quarter ended December 31, 2019 increased by $324,879 compared to the quarter ended December 31, 2018 due to increased oil production after pump changeouts were completed on several of the West Hazel oil wells.

c) During the quarter ended March 31, 2019, revenue increased by $117,722 compared to the quarter ended March 31, 2018 due to the commencement of production from the West Hazel oil property.

d) During the quarter ended December 31, 2018, total assets and liabilities increased primarily due to the issuance of convertible debentures to commence the well workovers on the West Hazel property. The Company expended $595,181 in the quarter. The Company's accounts payable balance has also materially increased due to initial expenditures required to reactivate and upgrade West Hazel production operations and the insufficient cash flow from the initial production ramp up from West Hazel start up operations.

e) During the quarter ended September 30, 2018, revenue decreased substantially due to both Wells 16-13 and 7-13 in the Flaxcombe property being shut-in for all or a portion of the period.

SELECTED ANNUAL INFORMATION

Selected annual information for the years ended December 31, 2019, 2018 and 2017 is presented below:

	2019 ($)	2018 ($)	2017 ($)
Total assets	863,898	1,115,423	**251,077**
Total liabilities	3,353,924	3,787,915	**1,711,284**
Shareholders' equity (deficiency)	(2,490,026)	(2,672,492)	**(1,460,207)**
Revenue, net of royalties	763,000	47,779	**36,299**
Net income (loss)	(1,201,929)	(1,866,535)	**5,284,533**
Earnings (loss) per share	**(0.01)**	**(0.02)**	**0.07**

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital deficiency of $2,791,777 as at March 31, 2020, compared to $2,553,628 as at March 31, 2019. The balance has increased due to a cash out flow from operations as well as certain debt facilities which are in default and accordingly have been reported as current liabilities.

During the year ended December 31, 2019, the Company reported a net loss of $1,201,929 (2018 – $1,866,535) due to the Company's oil production in 2019 from the West Hazel property wells being insufficient to cover the Company's corporate costs. As a result, the Company reported a cash outflow from operations of $482,104 (2018 - $566,170) for the year ended December 31, 2019. The Company is currently in default on certain loans, but it continues to accrue interest in accordance with the terms of the agreements. The Company's ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent upon the continued financial support of its creditors, access to equity financial markets and ultimately, the attainment of profitable operations. As a result, the Company completed non-brokered private placements during the year ended December 31, 2019, wherein it issued 24,844,446 units for aggregate gross proceeds of $823,333.

Management has successfully utilized both debt and equity financing in the past, but there is no assurance that such funding will be available in the future or if it is that it will be on terms that are acceptable. If the Company is unable to obtain additional financing, it will experience liquidity problems and management expects that it will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures. Any additional equity financing may involve substantial dilution.

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.

RESULTS OF OPERATIONS

Three Month Period Ended March 31, 2020

Revenue
The Company generated total revenue of $136,244 during the three-month period ended March 31, 2020 ("Current Quarter") and $133,889 during the three-month period ended March 31, 2019 ("PY Quarter"). The revenue was similar to the PY Quarter. The decrease in oil prices for February and March significantly affected the revenue, as the Company was anticipating a larger increase over the PY Quarter.

Expenses
The Company's general and administrative expenses for the Current Quarter decreased by $90,002 relative to the PY Quarter. This was due to a decrease in management and consulting fees. Operating costs increased from the PY Quarter by $27,091 due to more maintenance work than the PY Quarter.

OUTSTANDING SHARE DATA

As at the Report Date there are 124,579,299 common shares outstanding.

STOCK OPTIONS

The total number of stock options outstanding as of the Report Date are summarized below:

Number of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price	Expiry Date
		($)	
300,000	300,000	0.05	April 3, 2021
1,750,000	1,750,000	0.07	February 21, 2022
1,950,000	1,950,000	0.05	February 21, 2022
300,000	300,000	0.05	May 1, 2022
350,000	350,000	0.05	June 13, 2022
4,650,000	4,650,000	0.06	

SHARE PURCHASE WARRANTS

The total number of share purchase warrants outstanding as of the Report Date are summarized below:

Number of Warrants	Weighted Average Exercise Price	Expiry Date
	($)	
1,950,000	0.05	May 10, 2021
272,000*	0.10	May 10, 2021
20,944,446	0.05	December 4, 2020
586,666*	0.05	December 4, 2020
500,000	0.07	August 17, 2020
500,000	0.10	August 17, 2020
24,753,112	0.05	

*Finder's warrants

SUBSEQUENT EVENTS

Subsequent to March 31, 2020:

a) The Company issued 300,000 common shares in connection with the conversion of a portion of the outstanding Convertible Debentures at $0.05 per share.

b) The Company entered into a non-binding memorandum of intent with Oropass Ltd. ("Oropass") to form and invest in a joint venture with Oropass on a 50% basis each to license and market certain intellectual property in the United States ("USA Licensing Rights MOI"). Under the USA Licensing Rights MOI, the Company paid $10,000 of an initial $15,000 deposit payable, with Oropass paying the other $5,000, to a third party that originally licensed the intellectual property to Oropass. Formation of a joint venture is subject to the Company securing up to $500,000 of joint venture seed funding on or before August 1, 2020 and execution of a joint venture shareholders' agreement between the Company and Oropass.

c) The Company entered into a non-binding memorandum of intent with Oropass to form and invest in a joint venture with Oropass on a 50% basis each to market certain intellectual property in the European Union ("EU Licensing Rights MOI"). Under the EU Marketing Rights MOI, the Company paid an initial $10,000 deposit payable to a third party that originally licensed the intellectual property to Oropass. Formation of a joint venture is subject to the Company securing joint venture seed funding on or before August 1, 2020 and execution of a joint venture shareholders' agreement between the Company and Oropass.

d) On May 6, 2020, the Company extended its existing office rental agreement in Vancouver, British Columbia, originally set to terminate June 15, 2020, to November 30, 2020. Under the extension agreement, the Company will pay base rent of $2,385 per month, plus common costs and taxes, from June to November 2020.

e) On July 13, 2020, the Company announced that it will make an application to the TSX Venture Exchange for approval of the implementation of an early warrant exercise incentive program intended to encourage the early exercise of up to 24,166,466 outstanding common share purchase warrants of the Company held by warrant holders.

SUBSEQUENT EVENTS (continued)

f) The outbreak of the novel strain of coronavirus ("COVID-19") has resulted in governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused an economic slowdown and material disruption to business. Government has reacted with interventions intended to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial performance and financial position of the Company in future periods.

OFF-BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet debt nor did it have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may have material current or future effect on financial conditions, changes in the financial conditions, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses.

COMMITMENTS

a) The Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, terminating on June 15, 2020. The remaining base rent payable under the lease is $6,673 up until the lease expires. In addition to the base rent of $2,067 per month, the Company's share of operating costs is estimated at approximately $1,598 per month.

b) HEL entered into an office rental agreement with a term of 72 months, terminating on February 28, 2023. The landlord issued a notice of termination to the Company effective January 31, 2019 and has sent a demand for payment of $43,961 (US$32,245) representing unpaid rental charges under the rental agreement. The Company has recognized the full liability as at March 31, 2020.

RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the period ended March 31, 2020 and 2019. Key management personnel included the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and directors and officers and companies controlled or significantly influenced by them:

<u>Key management compensation</u>

	March 31, 2020	**March 31, 2019**
	($)	**($)**
Management and consulting fees paid or accrued to directors, officers or corporations controlled by directors and officers of the Company	30,176	91,300
	30,176	91,300

a) As at March 31, 2020, a total of $69,431 (March 31, 2019 - $417,679) was included in accounts payable and accrued liabilities owing to the directors and officers or corporations controlled by directors and officers of the Company for unpaid consulting fees and reimbursable expenses. These liabilities are non-interest bearing and payable on demand.

b) As at March 31, 2020, a total of $Nil (March 31, 2019 - $600,000) was included in convertible debentures owing to the CEO. A total of $Nil (December 31, 2018 - $57,353) was paid in advance for future interest payments and was recorded as prepaids on the consolidated statement of financial position (see Note 9).

c) As at March 31, 2020, the Company owed a total of $53,488 (March 31, 2019 - $46,720) in loan principal and interest to the Chairman of the Company pursuant to a December 27, 2018 loan agreement where the Company borrowed $45,000 from the Chairman. The loan bears interest at 15% and is repayable on demand.

d) During the year ended December 31, 2019, related parties forgave a net amount of $235,850 (2018 - $Nil) in unpaid management and consulting fees accrued in prior years.

CAPITAL MANAGEMENT

The Company considers its capital resources to be the shareholders' deficiency, comprising share capital, contributed surplus, reserves and deficit. 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, 2020. The Company is not subject to externally imposed capital requirements.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies and critical accounting estimates used during the year ended December 31, 2019 are disclosed in notes 2 and 3 of the 2019 audited annual consolidated financial statements. Preparing financial statements in accordance with IFRS requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position.

OUTLOOK

Hillcrest is focused on adding, creating and increasing value through the acquisition, development and production of conventional onshore oil and gas assets in North America. The Company has disposed of its offshore oil interests and is actively evaluating new value accretive acquisitions. The Company's intention is to operate or, at a minimum, to hold a controlling working interest in any significant growth assets acquired, in order to be able to direct operation activity to maximize Company value.

RISKS & UNCERTAINTIES

The business and operations of the Company are subject to numerous risks, many of which are beyond the Company's control. The Company considers the risks set out below to be some of the most significant to current and potential investors in the Company, but readers are cautioned that the list is not exhaustive. If any of these risks materialize into actual events or circumstances, or any other additional risks or uncertainties material to the Company's business occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), and business and business prospects are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline, and investors may lose all or part of their investment. The Company is engaged in the acquisition, exploration and development of oil and gas properties. Given the nature of the oil and gas business, the limited extent of the Company's assets and the present stage of exploration, the following risks, among others, should be considered.

RISKS & UNCERTAINTIES (contined)

Financing Risks and Dilution to Shareholders
The Company has limited financial resources and further exploration or acquisitions will require additional funds to complete. There can be no assurance that the Company will be successful in its efforts to obtain adequate financing in the future or that such financing will be available on favourable terms or at all. It is likely such additional capital may be raised through the issuance of additional equity or other forms of capital such as debt or sale of assets which may result in dilution to the Company's existing shareholders.

Fluctuating Oil and Gas Prices
The economics of oil and gas exploration are affected by many factors beyond the Company's control, including commodity prices, supply and demand in the market and the cost of operations. Depending on the price of commodities, the Company may determine that it is impractical to continue exploration. Any material decline in prices may result in the reduction of existing and potential profitable exploration and development activities as well as reducing the financing options available to the Company. Prices are prone to fluctuations and marketability is affected by government regulations relating to price, royalties and allowable production, the effect of which cannot be accurately predicted. There is no assurance that a profitable market will exist for the sale of any commodities found on the properties.

Conflicts of Interest
There are potential conflicts of interest to which the directors and officers of this Company may be subject to in connection with the Company's operations. Certain of the directors and officers of the Company are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies and, as a result of these and other activities, such directors and officers may be in direct conflict with the Company. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA and any other applicable corporate laws.

Local Resident Concerns
In addition to ordinary environmental issues, the exploration and development of the Company's projects could be subject to resistance from local residents that could either prevent or delay exploration and development of its properties.

Competition
The oil and gas exploration and development industry is highly competitive. The Company will have to compete with other companies, many of which have greater financial, technical and other resources than the Company, for, among other things, the acquisition of leases and other interests as well as for the recruitment and retention of qualified employees and other personnel. Failure to compete successfully against other companies could have a material adverse effect on the Company and its prospects.

RISKS & UNCERTAINTIES (continued)

Environmental Risks

The Company's exploration and appraisal programs will, in general, be subject to approval by regulatory bodies. Additionally, all phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, state and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

Exploration, Development and Operating Risks

Oil and gas exploration and development is highly speculative in nature and involves a high degree of risk. There is no assurance that expenditures made on future exploration and development by the Company will result in new discoveries of oil and gas in commercial quantities. The recovery of expenditures on oil and gas properties and the related deferred exploration expenditures are dependent on the ability of the Company to obtain financing necessary to complete the exploration and development of its projects, and upon future profitable production, or alternatively, on the sufficiency of proceeds from disposition. The long-term commercial success of the Company depends on its ability to acquire, develop and commercially produce oil and gas reserves. The Company is in the process of exploring its properties and determining the technical feasibility and economically recoverable reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Additionally, if such acquisitions and participation are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisition or participation uneconomic. Even if the Company is successful in locating satisfactory properties, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. The Company attempts to control operating risks by maintaining a disciplined approach to execution of its exploration and development programs. Exploration risks are managed by utilizing management experience and expertise along with technical professionals and by concentrating on the exploration activity on specific core regions that have multi-zone potential. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner. Additionally, oil and gas operations are subject to the usual risks involved in the acquisition, exploration, development and production of oil and gas properties, including whether any of the remaining projects contain economically recoverable reserves and are able to generate any revenues from production.

Litigation

The Company and/or its directors may become subject to a variety of civil or other legal proceedings, with or without merit.

RISKS & UNCERTAINTIES (continued)

Uninsurable Risks

Exploration, development and production operations of oil and gas reserves involve numerous risks, including sub-surface production issues or mechanical failure in wells, uncontrolled release of hydrocarbons, fires, floods, hurricanes, earthquakes and other environmental occurrences, any of which could result in damage to, or destruction of, wells and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although the Company intends to take precautions to minimize risk that will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks, such as environmental risks, as a result of high premiums or other reasons. Should such liabilities arise, they could have an adverse impact on the Company's operations and financial condition and could cause a decline in the value of the Company's shares.

Regulatory, Permit and License Requirements

The current or future operations of the Company require permits from various governmental authorities, and such operations are and will be governed by laws and regulations concerning exploration, development, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, site safety and other matters. Companies engaged in the exploration and development of oil and gas properties generally experience increased costs and delays in development and other schedules as a result of the need to comply with applicable laws, regulations and permits. Adverse changes to laws and regulations could have a material adverse effect on present and future exploration and development projects, operations, and capital expenditures. There can be no assurance that all permits which the Company may require for facilities and to conduct exploration and development operations on the properties will be obtainable on reasonable terms, or that such laws and regulations will not have an adverse effect on any exploration or development project which the Company might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in exploration and development operations may be required to compensate those suffering loss or damage by reason of the exploration and development activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of oil and gas companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or exploration and development costs, or require abandonment or delays in the development of new or existing properties.

Reliance on Management and Dependence on Key Personnel

The success of the Company will be largely dependent upon the performance of its directors and officers and on the Company's ability to attract and retain key personnel. The loss of the services of these persons may have a material adverse effect on the Company's business and prospects. The Company will compete with numerous other companies for the recruitment and retention of qualified employees and contractors. There is no assurance that the Company can maintain the service of its directors and officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Availability of Equipment and Labour

The oil and gas exploration industry is dependent on the availability of equipment and labour in the areas where such activities will be conducted. Demand for limited equipment and labour and restrictions imposed on access to equipment may affect the availability of such equipment to the Company which could delay exploration, development and production activities.

ADDITIONAL DISCLOSURE

Additional information relating to the Company and its regulatory filings is available on the Company's website at **www.hillcrestpetroleum.com** and under the Company's profile on SEDAR at **www.sedar.com**.

CORPORATE INFORMATION

HEAD OFFICE
1300 – 1030 West Georgia Street
Vancouver, BC V6E 2Y3
Tel: (604) 609-0006

LISTINGS
TSX Venture Exchange: **HRH**
OTCQB: **HLRTF**

LEGAL COUNSEL

McMillan LLP
Royal Centre 1055 West Georgia Street
Vancouver, BC V6E 4N7

AUDITOR

De Visser Gray LLP
905 W Pender St
Vancouver, BC V6C 1L6

OFFICERS

Don Currie – *Chief Executive Officer*
Aaron Triplett – *Chief Financial Officer*
Dale Miller – *Chief Operating Officer*

TRANSFER AGENT

Computershare Canada
510 Burrard Street
Vancouver, BC V6C 3A8

BOARD OF DIRECTORS

Michael Krzus – *Executive Chairman*
Don Currie – *Chief Executive Officer*
David Stone – *Independent*
Thomas Milne – *Independent*
Robert Lambert – *Independent*

Hillcrest Petroleum

MANAGEMENT'S DISCUSSION AND ANALYSIS

Six Month Period Ended
June 30, 2020

Report Date – August 31, 2020

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is provided by the management of Hillcrest Petroleum Ltd. ("Hillcrest" or the "Company") as at and for the three month period ended June 30, 2020. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2019 and 2018 (the "Annual Financial Statements").

The following information has been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). All financial results are reported in Canadian dollars, unless otherwise indicated, and production numbers represent Hillcrest's ownership interest.

Additional information relating to the Company, including the financial statements are available on the Hillcrest website at **www.hillcrestpetroleum.com** or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") website at **www.sedar.com**.

CORPORATE OVERVIEW

Hillcrest is listed for trading on the TSX Venture Exchange (the "Exchange") under the symbol "HRH" and on the OTC pink sheets in the United States of America ("US") under the symbol "HLRTF". The Company is a Canadian oil and gas producer, which to complement its oil and gas production, is pursuing opportunities related to clean energy technology with potential to substantially reduce greenhouse gas emissions. Hillcrest holds multiple wells on two projects in the province of Saskatchewan, and intends to add a green energy asset to its energy production portfolio through its 50% ownership in ALSET Innovations Inc., a technology partnership with rights to exclusively license and market innovative efficient power generation and electric motor technologies in the USA and to exclusively market this technology in the EU.

FORWARD-LOOKING STATEMENTS

This MD&A, which contains certain forward-looking statements pertaining to, among other things: additional capital funding; the Company's ability to obtain such funding and the use thereof; the Company's ability to continue as a going concern; the completion of private placements and the use of proceeds thereof; the existence of reserves; oil production rates and recovery from drilling operations; commercial viability of drilled wells; additional drilling locations; storage and transportation of oil and costs thereof; the timing, method, cost and recovery from drilling operations; infrastructure development and the timing and effects thereof; the Company's next phase of capital expenditures; regulatory approvals and the Company's ability to obtain applicable permits; future operation, general and administrative expenditures and the anticipated impact of the reduction thereof; performance and financial results; capital expenditures; the Company's working capital deficiency and capital requirements; the ability of the Company to satisfy the interest and principal owed to debt holders; estimates and assumptions made in accordance with IFRS requirements; and the Company's ability to generate shareholder value, which is intended to provide readers with a reasonable basis for assessing the financial performance of the Company. The use of any of the words "believe", "expect", "estimate", "will", "should", "intend" and similar expressions are intended to identify forward-looking statements.

FORWARD-LOOKING STATEMENTS (continued)

Forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The estimates and assumptions of the Company contained in this MD&A, which may prove to be incorrect, include but are not limited to: the general continuance of current or, where applicable, assumed industry conditions and the lack of any significant disruptions affecting operations, whether due to labour disruptions, supply disruptions, power disruptions, damage to equipment, adverse weather conditions or otherwise; the ability of the Company to obtain necessary permits; acquisition of lands; the Company's status as a going concern; costs and availability of equipment, labour, natural gas, fuel, oil, electricity, water and other key supplies; the accuracy of production data; the continuance of existing and, in certain circumstances, proposed tax and royalty regimes; the continuance of laws and regulations relating to environmental matters; the Company's ability to retain key employees and executives; assumptions relating to the costs of future wells; the accuracy of estimates of reserves volumes; the availability and timing of additional financing to fund the Company's capital and operating requirements as needed; and certain commodity price and other cost assumptions. Statements regarding future production, capital expenditures and development plans are subject to the risks and uncertainties normally inherent in the exploration for and development and production of oil and gas that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These risks include, but are not limited to: inflation or lack of availability of goods and services; changes in commodity prices; unanticipated operating results or production declines; third party pipeline issues; environmental risks; drilling risks; financial markets; economic conditions; volatility in the debt and equity markets; regulatory changes; changes in tax or environmental laws or royalty rates; and certain other known and unknown risks listed under the section "Risks & Uncertainties" herein.

Although Hillcrest believes that the material factors, expectations and assumptions expressed in such forward-looking statements are reasonable based on information available to it on the date such statements were made, no assurances can be given as to future results, levels of activity and achievements and such statements are not guarantees of future performance.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OIL AND GAS PROPERTIES

a) West Hazel Property, Saskatchewan

During the year ended December 31, 2017, the Company entered into a binding joint venture agreement ("JV Agreement") with a Canadian oil and gas company ("Juniorco") whereby the Company, via a wholly owned subsidiary, may earn up to a 75% Working Interest before payout ("BPO") and a 50% Working Interest after payout ("APO") and become the operator of record in the West Hazel field, a petroleum asset located in the Western Canadian Sedimentary Basin, by returning certain wells to service and restarting production.

In October 2018, the Company commenced the facility inspection/repair/upgrade and well reactivation activities required to re-establish oil production from previously producing wells on the West Hazel property.

In February 2019, the Company successfully re-established production from three wells and upgraded the related facilities by expending approximately $878,000 since entering into the JV Agreement. Pursuant to the JV Agreement, the Company is the operator of the field and earned its 75% BPO working interest in the property. In February 2019, the Company disposed of 17% of its operating profit interest from reactivated wells in the West Hazel property in exchange for a cash payment of $170,000, reducing the Company's BPO interest to 62.25% and its APO interest to 41.5%, which the

OIL AND GAS PROPERTIES (continued)

Company's working interest will revert to after it has recovered all production reactivation costs from the production revenues.

Total field production for the year ended December 31, 2019 totaled 31,673 barrels at an average price of $53.80 per barrel.

Total field production for the six-month period ended June 30, 2020 totaled 16,680 barrels at an average price of $25.97 per barrel.

Total field production for six-month period ended June 30, 2019 totaled 9,200 barrels at an average price of $59.24 per barrel.

Hillcrest has also commenced technical studies to assess potential additional infield development opportunities.

b) Flaxcombe Property, Saskatchewan

On December 14, 2017, the Company entered into a farm-in agreement with Westcore Energy Ltd. whereby the Company would provide the funds required to work-over two existing but shut-in oil wells, the 16-13 and 07-13 wells, located in the Flaxcombe area of southwestern Saskatchewan and return them to production. The Company earned a 50% working interest in the two wells by contributing 100% of the cost of the work-over operations, which were estimated at $135,000. As at December 31, 2018, the Company has incurred $152,427 on the work-over operations.

The 16-13 well re-commenced production in January 2018 at a field estimated daily total fluid production rate of 41 bopd, with a field estimated oil cut of 48%. The 07-13 well re-commenced production in February 2018 at a field estimated daily total fluid production rate of 91 bopd, with a field estimated oil cut of 11%. Due to a down-hole pump failure the 16-13 well was temporarily shut-in, but the well subsequently came back on line in June 2018.

Due to technical difficulties, both wells have since been shut in.

As a result of the poor performance of the field and a lack of profitability, the Company has recorded a full impairment of $202,525 on the Flaxcombe Property. The Company is currently in discussions with the operator to determine a future course of action, including disposal of the Company's interest in the property.

c) Hartburg Properties, Texas

In December 2017, the Company relinquished its mineral rights in the leases associated with the remaining well-bores. The Donner 2 well has since been acquired by a private third-party corporation, and the Company is no longer responsible for the ultimate plugging and abandonment costs for this well resulting in a gain of $9,923.

In October 2019 the Company paid its proportionate share to reclaim the Brown 1 Well.

The Company continues to retain ownership and abandonment liability for the Donner 4.

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SELECTED QUARTERLY INFORMATION

The table below summarized information reported for the most recent eight quarterly periods:

	June 30, 2019 $	March 31, 2020 $	December 31, 2019 $	September 30, 2019 $
Total assets	909,745	750,618	863,898	1,234,139
Total liabilities	3,647,537	3,436,163	3,353,924	4,623,954
Revenue	110,158	136,244	325,519	377,620
Net income (loss)	(117,209)	(232,230)	(271,018)	(324,654)
Earnings (loss) per share	(0.00)	(0.00)	(0.00)	(0.00)
Weighted average common shares oustanding	124,616,784	124,101,277	91,461,993	91,217,270
	June 30, 2019 $	**March 31, 2019 $**	**December 31, 2018 $**	**September 30, 2018 $**
Total assets	1,104,211	1,180,254	1,115,423	46,924
Total liabilities	4,189,376	4,159,059	3,787,915	1,841,182
Revenue	205,819	133,389	640	6,387
Net income (loss)	(301,208)	(305,049)	(859,423)	(183,037)
Earnings (loss) per share	(0.00)	(0.00)	(0.01)	(0.00)
Weighted average common shares oustanding	89,521,797	87,293,226	87,293,226	87,293,226

Significant variations in the most recent eight quarters are discussed below:

a) During the quarter ended June 30, 2020, revenue decreased as the Company shut-in production for one and a half months, this also correlated to a decrease in expenses as the Company subcontracts for its services.

b) During the quarter ended March 31, 2020, revenue decreased due to the decrease in oil prices specifically in February and March.

c) Revenue for the quarter ended June 30, 2019 increased by $176,250 compared to the quarter ended June 30, 2018; revenue for the quarter ended September 30, 2019 increased by $371,233 compared to the quarter ended September 30, 2018; and revenue for the quarter ended December 31, 2019 increased by $324,879 compared to the quarter ended December 31, 2018 due to increased oil production after pump changeouts were completed on several of the West Hazel oil wells.

d) During the quarter ended March 31, 2019, revenue increased by $117,722 compared to the quarter ended March 31, 2018 due to the commencement of production from the West Hazel oil property.

e) During the quarter ended December 31, 2018, total assets and liabilities increased primarily due to the issuance of convertible debentures to commence the well workovers on the West Hazel property. The Company expended $595,181 in the quarter. The Company's accounts payable balance has also materially increased due to initial expenditures required to reactivate and upgrade West Hazel production operations and the insufficient cash flow from the initial production ramp up from West Hazel start up operations.

f) During the quarter ended September 30, 2018, revenue decreased substantially due to both Wells 16-13 and 7-13 in the Flaxcombe property being shut-in for all or a portion of the period.

SELECTED ANNUAL INFORMATION

Selected annual information for the years ended December 31, 2019, 2018 and 2017 is presented below:

	2019	2018	2017
	($)	($)	($)
Total assets	863,898	1,115,423	**251,077**
Total liabilities	3,353,924	3,787,915	**1,711,284**
Shareholders' equity (deficiency)	(2,490,026)	(2,672,492)	**(1,460,207)**
Revenue, net of royalties	763,000	47,779	**36,299**
Net income (loss)	(1,201,929)	(1,866,535)	**5,284,533**
Earnings (loss) per share	**(0.01)**	**(0.02)**	**0.07**

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital deficiency of $2,831,629 as at June 30, 2020, compared to $2,592,094 as at June 30, 2019. The balance has increased due to a cash out flow from operations as well as certain debt facilities which are in default and accordingly have been reported as current liabilities.

During the year ended December 31, 2019, the Company reported a net loss of $1,201,929 (2018 – $1,866,535) due to the Company's oil production in 2019 from the West Hazel property wells being insufficient to cover the Company's corporate costs. As a result, the Company reported a cash outflow from operations of $482,104 (2018 - $566,170) for the year ended December 31, 2019. The Company is currently in default on certain loans, but it continues to accrue interest in accordance with the terms of the agreements. The Company's ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent upon the continued financial support of its creditors, access to equity financial markets and ultimately, the attainment of profitable operations. As a result, the Company completed non-brokered private placements during the year ended December 31, 2019, wherein it issued 24,844,446 units for aggregate gross proceeds of $823,333.

Management has successfully utilized both debt and equity financing in the past, but there is no assurance that such funding will be available in the future or if it is that it will be on terms that are acceptable. If the Company is unable to obtain additional financing, it will experience liquidity problems and management expects that it will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures. Any additional equity financing may involve substantial dilution.

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.

RESULTS OF OPERATIONS

Six Month Period Ended June 30, 2020

Revenue
The Company generated total revenue of $246,402 during the six-month period ended June 30, 2020 ("Current Period") and $339,208 during the six-month period ended June 30, 2019 ("PY Period"). The decrease in oil prices for February and March significantly affected the revenue, as the Company was anticipating a larger increase over the PY Period. In addition, the Company experienced no revenue for April and portions of May as it shut-in production.

Expenses
The Company's general and administrative expenses for the Current Period decreased by $220,367 relative to the PY Period. This was due to a decrease in management and consulting fees. Operating costs decreased from the PY Period by $25,237 due to less expense required due to the shut-in of the wells.

OUTSTANDING SHARE DATA

As at the Report Date there are 161,850,966 common shares outstanding.

STOCK OPTIONS

The total number of stock options outstanding as of the Report Date are summarized below:

Number of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price	Expiry Date
		($)	
300,000	300,000	0.05	April 3, 2021
1,600,000	1,600,000	0.05	February 21, 2022
300,000	300,000	0.05	May 1, 2022
7,100,000	7,100,000	0.05	July 8, 2025
9,300,000	9,300,000	0.06	

SHARE PURCHASE WARRANTS

The total number of share purchase warrants outstanding as of the Report Date are summarized below:

Number of Warrants	Weighted Average Exercise Price	Expiry Date
	($)	
722,000	0.05	May 10, 2021
6,964,778	0.05	December 4, 2020
586,666*	0.05	December 4, 2020
8,273,444	0.05	

*Finder's warrants

SUBSEQUENT EVENTS

Subsequent to June 30, 2020:

a) On July 24, 2020, the Company granted 7,100,000 stock options pursuant to the share option plan of the Company. The options are exercisable on or before July 8, 2025 at an exercise price of $0.05 per share.

b) On July 30, 2020, the Company acquired a 100% working interest in the West Hazel field from its joint venture partner for 3,00,000 shares of the Company.

c) On July 30, 2020, the Company issued 1,700,000 common shares in connection with the conversion of a $85,000 portion of the remaining outstanding Convertible Debentures at $0.05 per share.

d) On August 4, 2020, the Company closed a private placement of 20,442,000 units at a price of $0.05 per unit for gross proceeds of $1,022,100. Each unit consists of one common share and one-half warrant of a share purchase warrant. Each whole warrant will be exercisable into an additional common share of the Company at $0.07 for a period of two years.

e) On August 4, 2020, the Company closed the early warrant exercise incentive program intended to encourage the early exercise of up to 22,894,446 outstanding common share purchase warrants of the Company. 17,479,668 eligible warrants were exercised resulting in gross proceeds of $873,984.

f) On August 6, 2020, the Company signed a term sheet with a New York based firm for CDN $5,000,000 convertible loan. The loan will be drawn down in stages and more specific terms will be disclosed upon signing a formal agreement.

g) On August 12, 2020 the Company executed the previously announced US Licensing Agreement with Oropass Ltd. The Company will contribute a minimum of Three Hundred Thousand (CDN $300,000) and up to Five Hundred Thousand Dollars (CDN $500,000) for the development of the technology, anticipated to be paid to an incorporated joint venture between the Company and Oropass Ltd. in ALSET Innovations Inc.

h) On August 21, 2020, the Company signed a Financial and Advisory Services Agreement with a New York based capital and advisory firm. The agreement has a term of one (1) year at a cost of USD $15,000 per quarter.

i) From July 1, 2020 to August 31, 2020, a total of 2,450,000 stock options were exercised for gross proceeds of $122,500.

SUBSEQUENT EVENTS (continued)

j) The outbreak of the novel strain of coronavirus ("COVID-19") has resulted in governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused an economic slowdown and material disruption to business. Government has reacted with interventions intended to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial performance and financial position of the Company in future periods.

OFF-BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet debt nor did it have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may have material current or future effect on financial conditions, changes in the financial conditions, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses.

COMMITMENTS

The Company had the following commitments as at June 30, 2020:

a) The Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, terminating on June 15, 2020. The remaining base rent payable under the lease is $6,673 up until the lease expires. In addition to the base rent of $2,067 per month, the Company's share of operating costs is estimated at approximately $1,598 per month.

   On May 6, 2020, the Company extended its existing office rental agreement in Vancouver, British Columbia, originally set to terminate June 15, 2020, to November 30, 2020. Under the extension agreement, the Company will pay base rent of $2,385 per month, plus common costs and taxes, from June to November 2020.

b) HEL entered into an office rental agreement with a term of 72 months, terminating on February 28, 2023. The landlord issued a notice of termination to the Company effective January 31, 2019 and has sent a demand for payment of $43,961 (US$32,245) representing unpaid rental charges under the rental agreement. The Company has recognized the full liability as at June 30, 2020.

RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the period ended June 30, 2020 and 2019. Key management personnel included the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and directors and officers and companies controlled or significantly influenced by them:

<u>Key management compensation</u>

	June 30, 2020 ($)	June 30, 2019 ($)
Management and consulting fees paid or accrued to directors, officers or corporations controlled by directors and officers of the Company	47,898	192,416
	47,898	192,416

a) As at June 30, 2020, a total of $10,000 (June 30, 2019 - $417,679) was included in accounts payable and accrued liabilities owing to the directors and officers or corporations controlled by directors and officers of the Company for unpaid consulting fees and reimbursable expenses. These liabilities are non-interest bearing and payable on demand.

b) As at June 30, 2020, a total of $Nil (June 30, 2019 - $600,000) was included in convertible debentures owing to the CEO. A total of $Nil (December 31, 2018 - $57,353) was paid in advance for future interest payments and was recorded as prepaids on the consolidated statement of financial position (see Note 9).

c) As at June 30, 2020, the Company owed a total of $55,201 (June 30, 2019 - $48,043) in loan principal and interest to the Chairman of the Company pursuant to a December 27, 2018 loan agreement where the Company borrowed $45,000 from the Chairman. The loan bears interest at 15% and is repayable on demand.

d) During the year ended December 31, 2019, related parties forgave a net amount of $235,850 (2018 - $Nil) in unpaid management and consulting fees accrued in prior years.

CAPITAL MANAGEMENT

The Company considers its capital resources to be the shareholders' deficiency, comprising share capital, contributed surplus, reserves and deficit. 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 six month period ended June 30, 2020. The Company is not subject to externally imposed capital requirements.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies and critical accounting estimates used during the year ended December 31, 2019 are disclosed in notes 2 and 3 of the 2019 audited annual consolidated financial statements. Preparing financial statements in accordance with IFRS requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position.

OUTLOOK

Hillcrest is focused on adding, creating and increasing value through the acquisition, development and production of conventional onshore oil and gas assets in North America. The Company has disposed of its offshore oil interests and is actively evaluating new value accretive acquisitions. The Company's intention is to operate or, at a minimum, to hold a controlling working interest in any significant growth assets acquired, in order to be able to direct operation activity to maximize Company value.

RISKS & UNCERTAINTIES

The business and operations of the Company are subject to numerous risks, many of which are beyond the Company's control. The Company considers the risks set out below to be some of the most significant to current and potential investors in the Company, but readers are cautioned that the list is not exhaustive. If any of these risks materialize into actual events or circumstances, or any other additional risks or uncertainties material to the Company's business occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), and business and business prospects are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline, and investors may lose all or part of their investment. The Company is engaged in the acquisition, exploration and development of oil and gas properties. Given the nature of the oil and gas business, the limited extent of the Company's assets and the present stage of exploration, the following risks, among others, should be considered.

RISKS & UNCERTAINTIES (contined)

Financing Risks and Dilution to Shareholders
The Company has limited financial resources and further exploration or acquisitions will require additional funds to complete. There can be no assurance that the Company will be successful in its efforts to obtain adequate financing in the future or that such financing will be available on favourable terms or at all. It is likely such additional capital may be raised through the issuance of additional equity or other forms of capital such as debt or sale of assets which may result in dilution to the Company's existing shareholders.

Fluctuating Oil and Gas Prices
The economics of oil and gas exploration are affected by many factors beyond the Company's control, including commodity prices, supply and demand in the market and the cost of operations. Depending on the price of commodities, the Company may determine that it is impractical to continue exploration. Any material decline in prices may result in the reduction of existing and potential profitable exploration and development activities as well as reducing the financing options available to the Company. Prices are prone to fluctuations and marketability is affected by government regulations relating to price, royalties and allowable production, the effect of which cannot be accurately predicted. There is no assurance that a profitable market will exist for the sale of any commodities found on the properties.

Conflicts of Interest
There are potential conflicts of interest to which the directors and officers of this Company may be subject to in connection with the Company's operations. Certain of the directors and officers of the Company are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies and, as a result of these and other activities, such directors and officers may be in direct conflict with the Company. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA and any other applicable corporate laws.

Local Resident Concerns
In addition to ordinary environmental issues, the exploration and development of the Company's projects could be subject to resistance from local residents that could either prevent or delay exploration and development of its properties.

Competition
The oil and gas exploration and development industry is highly competitive. The Company will have to compete with other companies, many of which have greater financial, technical and other resources than the Company, for, among other things, the acquisition of leases and other interests as well as for the recruitment and retention of qualified employees and other personnel. Failure to compete successfully against other companies could have a material adverse effect on the Company and its prospects.

RISKS & UNCERTAINTIES (continued)

Environmental Risks

The Company's exploration and appraisal programs will, in general, be subject to approval by regulatory bodies. Additionally, all phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, state and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

Exploration, Development and Operating Risks

Oil and gas exploration and development is highly speculative in nature and involves a high degree of risk. There is no assurance that expenditures made on future exploration and development by the Company will result in new discoveries of oil and gas in commercial quantities. The recovery of expenditures on oil and gas properties and the related deferred exploration expenditures are dependent on the ability of the Company to obtain financing necessary to complete the exploration and development of its projects, and upon future profitable production, or alternatively, on the sufficiency of proceeds from disposition. The long-term commercial success of the Company depends on its ability to acquire, develop and commercially produce oil and gas reserves. The Company is in the process of exploring its properties and determining the technical feasibility and economically recoverable reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Additionally, if such acquisitions and participation are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisition or participation uneconomic. Even if the Company is successful in locating satisfactory properties, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. The Company attempts to control operating risks by maintaining a disciplined approach to execution of its exploration and development programs. Exploration risks are managed by utilizing management experience and expertise along with technical professionals and by concentrating on the exploration activity on specific core regions that have multi-zone potential. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner. Additionally, oil and gas operations are subject to the usual risks involved in the acquisition, exploration, development and production of oil and gas properties, including whether any of the remaining projects contain economically recoverable reserves and are able to generate any revenues from production.

Litigation

The Company and/or its directors may become subject to a variety of civil or other legal proceedings, with or without merit.

RISKS & UNCERTAINTIES (continued)

Uninsurable Risks
Exploration, development and production operations of oil and gas reserves involve numerous risks, including sub-surface production issues or mechanical failure in wells, uncontrolled release of hydrocarbons, fires, floods, hurricanes, earthquakes and other environmental occurrences, any of which could result in damage to, or destruction of, wells and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although the Company intends to take precautions to minimize risk that will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks, such as environmental risks, as a result of high premiums or other reasons. Should such liabilities arise, they could have an adverse impact on the Company's operations and financial condition and could cause a decline in the value of the Company's shares.

Regulatory, Permit and License Requirements
The current or future operations of the Company require permits from various governmental authorities, and such operations are and will be governed by laws and regulations concerning exploration, development, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, site safety and other matters. Companies engaged in the exploration and development of oil and gas properties generally experience increased costs and delays in development and other schedules as a result of the need to comply with applicable laws, regulations and permits. Adverse changes to laws and regulations could have a material adverse effect on present and future exploration and development projects, operations, and capital expenditures. There can be no assurance that all permits which the Company may require for facilities and to conduct exploration and development operations on the properties will be obtainable on reasonable terms, or that such laws and regulations will not have an adverse effect on any exploration or development project which the Company might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in exploration and development operations may be required to compensate those suffering loss or damage by reason of the exploration and development activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of oil and gas companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or exploration and development costs, or require abandonment or delays in the development of new or existing properties.

Reliance on Management and Dependence on Key Personnel
The success of the Company will be largely dependent upon the performance of its directors and officers and on the Company's ability to attract and retain key personnel. The loss of the services of these persons may have a material adverse effect on the Company's business and prospects. The Company will compete with numerous other companies for the recruitment and retention of qualified employees and contractors. There is no assurance that the Company can maintain the service of its directors and officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Availability of Equipment and Labour
The oil and gas exploration industry is dependent on the availability of equipment and labour in the areas where such activities will be conducted. Demand for limited equipment and labour and restrictions imposed on access to equipment may affect the availability of such equipment to the Company which could delay exploration, development and production activities.

ADDITIONAL DISCLOSURE

Additional information relating to the Company and its regulatory filings is available on the Company's website at **www.hillcrestpetroleum.com** and under the Company's profile on SEDAR at **www.sedar.com**.

CORPORATE INFORMATION

HEAD OFFICE
1300 – 1030 West Georgia Street
Vancouver, BC V6E 2Y3
Tel: (604) 609-0006

LISTINGS
TSX Venture Exchange: **HRH**
OTCQB: **HLRTF**

LEGAL COUNSEL

McMillan LLP
Royal Centre 1055 West Georgia Street
Vancouver, BC V6E 4N7

AUDITOR

De Visser Gray LLP
905 W Pender St
Vancouver, BC V6C 1L6

OFFICERS

Don Currie – *Chief Executive Officer*
Aaron Triplett – *Chief Financial Officer*
Dale Miller – *Chief Operating Officer*

TRANSFER AGENT

Computershare Canada
510 Burrard Street
Vancouver, BC V6C 3A8

BOARD OF DIRECTORS

Michael Krzus – *Executive Chairman*
Don Currie – *Chief Executive Officer*
David Stone – *Independent*
Thomas Milne – *Independent*
Robert Lambert – *Independent*

Hillcrest Petroleum

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nine Month Period Ended
September 30, 2020

Report Date – November 26, 2020

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is provided by the management of Hillcrest Petroleum Ltd. ("Hillcrest" or the "Company") as at and for the nine month period ended September 30, 2020. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2019 and 2018 (the "Annual Financial Statements").

The following information has been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). All financial results are reported in Canadian dollars, unless otherwise indicated, and production numbers represent Hillcrest's ownership interest.

Additional information relating to the Company, including the financial statements are available on the Hillcrest website at **www.hillcrestpetroleum.com** or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") website at **www.sedar.com**.

CORPORATE OVERVIEW

Hillcrest is listed for trading on the TSX Venture Exchange (the "Exchange") under the symbol "HRH" and on the OTC pink sheets in the United States of America ("US") under the symbol "HLRTF". The Company is a Canadian oil and gas producer, which to complement its oil and gas production, is pursuing opportunities related to clean energy technology with potential to substantially reduce greenhouse gas emissions. Hillcrest holds multiple wells on two projects in the province of Saskatchewan, and intends to add a green energy asset to its energy production portfolio through its 50% ownership in ALSET Innovations Inc., a technology partnership with rights to exclusively license and market innovative efficient power generation and electric motor technologies in the USA and to exclusively market this technology in the EU.

FORWARD-LOOKING STATEMENTS

This MD&A, which contains certain forward-looking statements pertaining to, among other things: additional capital funding; the Company's ability to obtain such funding and the use thereof; the Company's ability to continue as a going concern; the completion of private placements and the use of proceeds thereof; the existence of reserves; oil production rates and recovery from drilling operations; commercial viability of drilled wells; additional drilling locations; storage and transportation of oil and costs thereof; the timing, method, cost and recovery from drilling operations; infrastructure development and the timing and effects thereof; the Company's next phase of capital expenditures; regulatory approvals and the Company's ability to obtain applicable permits; future operation, general and administrative expenditures and the anticipated impact of the reduction thereof; performance and financial results; capital expenditures; the Company's working capital deficiency and capital requirements; the ability of the Company to satisfy the interest and principal owed to debt holders; estimates and assumptions made in accordance with IFRS requirements; and the Company's ability to generate shareholder value, which is intended to provide readers with a reasonable basis for assessing the financial performance of the Company. The use of any of the words "believe", "expect", "estimate", "will", "should", "intend" and similar expressions are intended to identify forward-looking statements.

FORWARD-LOOKING STATEMENTS (continued)

Forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The estimates and assumptions of the Company contained in this MD&A, which may prove to be incorrect, include but are not limited to: the general continuance of current or, where applicable, assumed industry conditions and the lack of any significant disruptions affecting operations, whether due to labour disruptions, supply disruptions, power disruptions, damage to equipment, adverse weather conditions or otherwise; the ability of the Company to obtain necessary permits; acquisition of lands; the Company's status as a going concern; costs and availability of equipment, labour, natural gas, fuel, oil, electricity, water and other key supplies; the accuracy of production data; the continuance of existing and, in certain circumstances, proposed tax and royalty regimes; the continuance of laws and regulations relating to environmental matters; the Company's ability to retain key employees and executives; assumptions relating to the costs of future wells; the accuracy of estimates of reserves volumes; the availability and timing of additional financing to fund the Company's capital and operating requirements as needed; and certain commodity price and other cost assumptions. Statements regarding future production, capital expenditures and development plans are subject to the risks and uncertainties normally inherent in the exploration for and development and production of oil and gas that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These risks include, but are not limited to: inflation or lack of availability of goods and services; changes in commodity prices; unanticipated operating results or production declines; third party pipeline issues; environmental risks; drilling risks; financial markets; economic conditions; volatility in the debt and equity markets; regulatory changes; changes in tax or environmental laws or royalty rates; and certain other known and unknown risks listed under the section "Risks & Uncertainties" herein.

Although Hillcrest believes that the material factors, expectations and assumptions expressed in such forward-looking statements are reasonable based on information available to it on the date such statements were made, no assurances can be given as to future results, levels of activity and achievements and such statements are not guarantees of future performance.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OIL AND GAS PROPERTIES

a) West Hazel Property, Saskatchewan

During the year ended December 31, 2017, the Company entered into a binding joint venture agreement ("JV Agreement") with a Canadian oil and gas company ("Juniorco") whereby the Company, via a wholly owned subsidiary, may earn up to a 75% Working Interest before payout ("BPO") and a 50% Working Interest after payout ("APO") and become the operator of record in the West Hazel field, a petroleum asset located in the Western Canadian Sedimentary Basin, by returning certain wells to service and restarting production.

In October 2018, the Company commenced the facility inspection/repair/upgrade and well reactivation activities required to re-establish oil production from previously producing wells on the West Hazel property.

In February 2019, the Company successfully re-established production from three wells and upgraded the related facilities by expending approximately $878,000 since entering into the JV Agreement. Pursuant to the JV Agreement, the Company is the operator of the field and earned its 75% BPO working interest in the property. In February 2019, the Company disposed of 17% of its operating profit interest from reactivated wells in the West Hazel property in exchange for a cash payment of $170,000, reducing the Company's BPO interest to 62.25% and its APO interest to 41.5%, which the

OIL AND GAS PROPERTIES (continued)

Company's working interest will revert to after it has recovered all production reactivation costs from the production revenues.

Total field production for the year ended December 31, 2019 totaled 31,673 barrels at an average price of $53.80 per barrel.

Total field production for the nine-month period ended September 30, 2020 totaled 25,286 barrels at an average price of $28.26 per barrel.

Total field production for nine-month period ended September 30, 2019 totaled 20,543 barrels at an average price of $56.06 per barrel.

Hillcrest has also commenced technical studies to assess potential additional infield development opportunities.

b) Flaxcombe Property, Saskatchewan

On December 14, 2017, the Company entered into a farm-in agreement with Westcore Energy Ltd. whereby the Company would provide the funds required to work-over two existing but shut-in oil wells, the 16-13 and 07-13 wells, located in the Flaxcombe area of southwestern Saskatchewan and return them to production. The Company earned a 50% working interest in the two wells by contributing 100% of the cost of the work-over operations, which were estimated at $135,000. As at December 31, 2018, the Company has incurred $152,427 on the work-over operations.

The 16-13 well re-commenced production in January 2018 at a field estimated daily total fluid production rate of 41 bopd, with a field estimated oil cut of 48%. The 07-13 well re-commenced production in February 2018 at a field estimated daily total fluid production rate of 91 bopd, with a field estimated oil cut of 11%. Due to a down-hole pump failure the 16-13 well was temporarily shut-in, but the well subsequently came back on line in June 2018.

Due to technical difficulties, both wells have since been shut in.

As a result of the poor performance of the field and a lack of profitability, the Company has recorded a full impairment of $202,525 on the Flaxcombe Property. The Company is currently in discussions with the operator to determine a future course of action, including disposal of the Company's interest in the property.

c) Hartburg Properties, Texas

In December 2017, the Company relinquished its mineral rights in the leases associated with the remaining well-bores. The Donner 2 well has since been acquired by a private third-party corporation, and the Company is no longer responsible for the ultimate plugging and abandonment costs for this well resulting in a gain of $9,923.

In October 2019 the Company paid its proportionate share to reclaim the Brown 1 Well.

The Company continues to retain ownership and abandonment liability for the Donner 4.

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SELECTED QUARTERLY INFORMATION

The table below summarized information reported for the most recent eight quarterly periods:

	September 30, 2020 $	June 30, 2020 $	March 31, 2020 $	December 31, 2019 $
Total assets	1,185,767	909,745	750,618	863,898
Total liabilities	3,044,458	3,647,537	3,436,163	3,353,924
Revenue	198,811	110,158	136,244	325,519
Net income (loss)	(1,486,967)	(117,209)	(232,230)	(271,018)
Earnings (loss) per share	(0.00)	(0.00)	(0.00)	(0.00)
Weighted average common shares oustanding	137,039,416	124,616,784	124,101,277	91,461,993
	September 30, 2019 $	**June 30, 2019 $**	**March 31, 2019 $**	**December 31, 2018 $**
Total assets	1,234,139	1,104,211	1,180,254	1,115,423
Total liabilities	4,623,954	4,189,376	4,159,059	3,787,915
Revenue	377,620	205,819	133,389	640
Net income (loss)	(324,654)	(301,208)	(305,049)	(859,423)
Earnings (loss) per share	(0.00)	(0.00)	(0.00)	(0.01)
Weighted average common shares oustanding	91,217,270	89,521,797	87,293,226	87,293,226

Significant variations in the most recent eight quarters are discussed below:

a) During the quarter ended September 30, 2020, revenue increased as the Company resumed full production, in addition the price of oil increased which allowed the Company to realize higher revenue.

b) During the quarter ended June 30, 2020, revenue decreased as the Company shut-in production for one and a half months, this also correlated to a decrease in expenses as the Company subcontracts for its services.

c) During the quarter ended March 31, 2020, revenue decreased due to the decrease in oil prices specifically in February and March.

d) Revenue for the quarter ended June 30, 2019 increased by $176,250 compared to the quarter ended June 30, 2018; revenue for the quarter ended September 30, 2019 increased by $371,233 compared to the quarter ended September 30, 2018; and revenue for the quarter ended December 31, 2019 increased by $324,879 compared to the quarter ended December 31, 2018 due to increased oil production after pump changeouts were completed on several of the West Hazel oil wells.

e) During the quarter ended March 31, 2019, revenue increased by $117,722 compared to the quarter ended March 31, 2018 due to the commencement of production from the West Hazel oil property.

f) During the quarter ended December 31, 2018, total assets and liabilities increased primarily due to the issuance of convertible debentures to commence the well workovers on the West Hazel property. The Company expended $595,181 in the quarter. The Company's accounts payable balance has also materially increased due to initial expenditures required to reactivate and upgrade West Hazel production operations and the insufficient cash flow from the initial production ramp up from West Hazel start up operations.

SELECTED ANNUAL INFORMATION

Selected annual information for the years ended December 31, 2019, 2018 and 2017 is presented below:

	2019	2018	2017
	($)	($)	($)
Total assets	863,898	1,115,423	**251,077**
Total liabilities	3,353,924	3,787,915	**1,711,284**
Shareholders' equity (deficiency)	(2,490,026)	(2,672,492)	**(1,460,207)**
Revenue, net of royalties	763,000	47,779	**36,299**
Net income (loss)	(1,201,929)	(1,866,535)	**5,284,533**
Earnings (loss) per share	**(0.01)**	**(0.02)**	**0.07**

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital deficiency of $2,011,588 as at September 30, 2020, compared to $2,872,786 as at September 30, 2019. The balance has decreased as the Company repaid loans outstanding.

During the year ended December 31, 2019, the Company reported a net loss of $1,201,929 (2018 – $1,866,535) due to the Company's oil production in 2019 from the West Hazel property wells being insufficient to cover the Company's corporate costs. As a result, the Company reported a cash outflow from operations of $482,104 (2018 - $566,170) for the year ended December 31, 2019. The Company is currently in default on certain loans, but it continues to accrue interest in accordance with the terms of the agreements. The Company's ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent upon the continued financial support of its creditors, access to equity financial markets and ultimately, the attainment of profitable operations. As a result, the Company completed non-brokered private placements during the year ended December 31, 2019, wherein it issued 24,844,446 units for aggregate gross proceeds of $823,333.

Management has successfully utilized both debt and equity financing in the past, but there is no assurance that such funding will be available in the future or if it is that it will be on terms that are acceptable. If the Company is unable to obtain additional financing, it will experience liquidity problems and management expects that it will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures. Any additional equity financing may involve substantial dilution.

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.

RESULTS OF OPERATIONS

Nine Month Period Ended September 30, 2020

Revenue

The Company generated total revenue of $445,213 during the nine-month period ended September 30, 2020 ("Current Period") and $716,828 during the nine-month period ended September 30, 2019 ("PY Period"). The decrease in oil prices for February and March significantly affected the revenue, as the Company was anticipating a larger increase over the PY Period. In addition, the Company experienced no revenue for April and portions of May as it shut-in production.

Expenses

The Company's general and administrative expenses for the Current Period increased by $515,621 relative to the PY Period. This was due to a increase in management and consulting fees. Operating costs decreased from the PY Period by $107,854 due to less expense required due to the shut-in of the wells.

OUTSTANDING SHARE DATA

As at the Report Date there are 180,142,918 common shares outstanding.

STOCK OPTIONS

The total number of stock options outstanding as of the Report Date are summarized below:

Number of Options Outstanding	Weighted Average Exercise Price	Expiry Date
	($)	
300,000	0.06	April 3, 2021
1,250,000	0.05	February 21, 2022
300,000	0.05	May 1, 2022
7,100,000	0.05	July 8, 2025
1,000,000	0.05	October 7, 2025
1,000,000	0.05	November 9, 2025
10,950,000	0.05	

SHARE PURCHASE WARRANTS

The total number of share purchase warrants outstanding as of the Report Date are summarized below:

Number of Warrants	Weighted Average Exercise Price	Expiry Date
	($)	
10,221,000	$0.07	July 14, 2022
300,000	0.05	May 10, 2021
272,000*	0.10	May 10, 2021
17,479,668	0.07	December 4, 2020
4,777,778	0.05	December 4, 2020
586,666*	0.05	December 4, 2020
32,778,446	0.05	

*Finder's warrants

SUBSEQUENT EVENTS

Subsequent to September 30, 2020:

a) On October 7, 2020, the Company granted 1,000,000 stock options pursuant to the share option plan of the Company. The options are exercisable on or before October 7, 2025 at an exercise price of $0.05 per share.

b) On October 8, 2020, the Company issued 300,000 shares in connection with exercising stock options at $0.05 for gross proceeds of $15,000.

c) On October 15, 2020, the Company issued 150,000 shares in connection with exercising warrants at $0.05 for gross proceeds of $7,500.

d) On October 28, 2020, the Company issued 12,804,952 shares to settle accounts payable and loans payable in the amount of $688,346.

e) On November 9, 2020, the Company granted 1,000,000 stock options pursuant to the share option plan of the Company. The options are exercisable on or before November 9, 2025 at an exercise price of $0.05 per share.

f) On November 19, 2020, the Company entered into an office rental agreement in Vancouver, British Columbia. The term of the agreement is 36 months, and the Company will pay base rent of $4,173 per month, plus common costs and taxes.

g) On November 23, 2020, the Company issued 187,000 shares in connection with exercising warrants at $0.05 for gross proceeds of $7,500.

OFF-BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet debt nor did it have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may have material current or future effect on financial conditions, changes in the financial conditions, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses.

COMMITMENTS

The Company had the following commitments as at September 30, 2020:

a) The Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, terminating on June 15, 2020. The remaining base rent payable under the lease is $6,673 up until the lease expires. In addition to the base rent of $2,067 per month, the Company's share of operating costs is estimated at approximately $1,598 per month.

   On May 6, 2020, the Company extended its existing office rental agreement in Vancouver, British Columbia, originally set to terminate June 15, 2020, to November 30, 2020. Under the extension agreement, the Company will pay base rent of $2,385 per month, plus common costs and taxes, from June to November 2020.

b) HEL entered into an office rental agreement with a term of 72 months, terminating on February 28, 2023. The landlord issued a notice of termination to the Company effective January 31, 2019 and has sent a demand for payment of $43,961 (US$32,245) representing unpaid rental charges under the rental agreement. The Company has recognized the full liability as at September 30, 2020.

c) On August 21, 2020, the Company signed a Financial and Advisory Services Agreement with a New York-based capital and advisory firm. The agreement has a term of one (1) year at a cost of US$15,000 per quarter.

RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the period ended September 30, 2020 and 2019. Key management personnel included the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and directors and officers and companies controlled or significantly influenced by them:

<u>Key management compensation</u>

	September 30, 2020 ($)	**September 30, 2019 ($)**
Management and consulting fees paid or accrued to directors, officers or corporations controlled by directors and officers of the Company	286,736	192,416
	286,736	192,416

a) As at September 30, 2020, a total of $Nil (December 31, 2019 - $69,431) was included in accounts payable and accrued liabilities owing to the directors and officers or corporations controlled by directors and officers of the Company for unpaid consulting fees and reimbursable expenses. These liabilities are non-interest bearing and payable on demand.

b) As at September 30, 2020, the Company owed a total of $Nil (December 31, 2019 - $51,805) in loan principal and interest to the Chairman of the Company pursuant to a December 27, 2018 loan agreement where the Company borrowed $45,000 from the Chairman. The loan bears interest at 15% and is repayable on demand.

c) As at September 30, 2020, the Company was owed $54,805 (2019: $Nil) from the CEO.

CAPITAL MANAGEMENT

The Company considers its capital resources to be the shareholders' deficiency, comprising share capital, contributed surplus, reserves and deficit. 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 nine month period ended September 30, 2020. The Company is not subject to externally imposed capital requirements.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies and critical accounting estimates used during the year ended December 31, 2019 are disclosed in notes 2 and 3 of the 2019 audited annual consolidated financial statements. Preparing financial statements in accordance with IFRS requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position.

OUTLOOK

Hillcrest is focused on adding, creating and increasing value through the acquisition, development and production of conventional onshore oil and gas assets in North America. The Company has disposed of its offshore oil interests and is actively evaluating new value accretive acquisitions. The Company's intention is to operate or, at a minimum, to hold a controlling working interest in any significant growth assets acquired, in order to be able to direct operation activity to maximize Company value.

RISKS & UNCERTAINTIES

The business and operations of the Company are subject to numerous risks, many of which are beyond the Company's control. The Company considers the risks set out below to be some of the most significant to current and potential investors in the Company, but readers are cautioned that the list is not exhaustive. If any of these risks materialize into actual events or circumstances, or any other additional risks or uncertainties material to the Company's business occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), and business and business prospects are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline, and investors may lose all or part of their investment. The Company is engaged in the acquisition, exploration and development of oil and gas properties. Given the nature of the oil and gas business, the limited extent of the Company's assets and the present stage of exploration, the following risks, among others, should be considered.

Financing Risks and Dilution to Shareholders
The Company has limited financial resources and further exploration or acquisitions will require additional funds to complete. There can be no assurance that the Company will be successful in its efforts to obtain adequate financing in the future or that such financing will be available on favourable terms or at all. It is likely such additional capital may be raised through the issuance of additional equity or other forms of capital such as debt or sale of assets which may result in dilution to the Company's existing shareholders.

Fluctuating Oil and Gas Prices
The economics of oil and gas exploration are affected by many factors beyond the Company's control, including commodity prices, supply and demand in the market and the cost of operations. Depending on the price of commodities, the Company may determine that it is impractical to continue exploration. Any material decline in prices may result in the reduction of existing and potential profitable exploration and development activities as well as reducing the financing options available to the Company. Prices are prone to fluctuations and marketability is affected by government regulations relating to price, royalties and allowable production, the effect of which cannot be accurately predicted. There is no assurance that a profitable market will exist for the sale of any commodities found on the properties.

Conflicts of Interest
There are potential conflicts of interest to which the directors and officers of this Company may be subject to in connection with the Company's operations. Certain of the directors and officers of the Company are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies and, as a result of these and other activities, such directors and officers may be in direct conflict with the Company. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA and any other applicable corporate laws.

Local Resident Concerns
In addition to ordinary environmental issues, the exploration and development of the Company's projects could be subject to resistance from local residents that could either prevent or delay exploration and development of its properties.

Competition
The oil and gas exploration and development industry is highly competitive. The Company will have to compete with other companies, many of which have greater financial, technical and other resources than the Company, for, among other things, the acquisition of leases and other interests as well as for the recruitment and retention of qualified employees and other personnel. Failure to compete successfully against other companies could have a material adverse effect on the Company and its prospects.

Environmental Risks
The Company's exploration and appraisal programs will, in general, be subject to approval by regulatory bodies. Additionally, all phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, state and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

Exploration, Development and Operating Risks

Oil and gas exploration and development is highly speculative in nature and involves a high degree of risk. There is no assurance that expenditures made on future exploration and development by the Company will result in new discoveries of oil and gas in commercial quantities. The recovery of expenditures on oil and gas properties and the related deferred exploration expenditures are dependent on the ability of the Company to obtain financing necessary to complete the exploration and development of its projects, and upon future profitable production, or alternatively, on the sufficiency of proceeds from disposition. The long-term commercial success of the Company depends on its ability to acquire, develop and commercially produce oil and gas reserves. The Company is in the process of exploring its properties and determining the technical feasibility and economically recoverable reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Additionally, if such acquisitions and participation are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisition or participation uneconomic. Even if the Company is successful in locating satisfactory properties, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. The Company attempts to control operating risks by maintaining a disciplined approach to execution of its exploration and development programs. Exploration risks are managed by utilizing management experience and expertise along with technical professionals and by concentrating on the exploration activity on specific core regions that have multi-zone potential. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner. Additionally, oil and gas operations are subject to the usual risks involved in the acquisition, exploration, development and production of oil and gas properties, including whether any of the remaining projects contain economically recoverable reserves and are able to generate any revenues from production.

Litigation

The Company and/or its directors may become subject to a variety of civil or other legal proceedings, with or without merit.

Uninsurable Risks

Exploration, development and production operations of oil and gas reserves involve numerous risks, including sub-surface production issues or mechanical failure in wells, uncontrolled release of hydrocarbons, fires, floods, hurricanes, earthquakes and other environmental occurrences, any of which could result in damage to, or destruction of, wells and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although the Company intends to take precautions to minimize risk that will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks, such as environmental risks, as a result of high premiums or other reasons. Should such liabilities arise, they could have an adverse impact on the Company's operations and financial condition and could cause a decline in the value of the Company's shares.

Regulatory, Permit and License Requirements

The current or future operations of the Company require permits from various governmental authorities, and such operations are and will be governed by laws and regulations concerning exploration, development, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, site safety and other matters. Companies engaged in the exploration and development of oil and gas properties generally experience increased costs and delays in development and other schedules as a result of the need to comply with applicable laws, regulations and permits. Adverse changes to laws and regulations could have a material adverse effect on present and future exploration and development projects, operations, and capital expenditures. There can be no assurance that all permits which the Company may require for facilities and to conduct exploration and development operations on the properties will be obtainable on reasonable terms, or that such laws and regulations will not have an adverse effect on any exploration or development project which the Company might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in exploration and development operations may be required to compensate those suffering loss or damage by reason of the exploration and development activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of oil and gas companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or exploration and development costs, or require abandonment or delays in the development of new or existing properties.

Reliance on Management and Dependence on Key Personnel

The success of the Company will be largely dependent upon the performance of its directors and officers and on the Company's ability to attract and retain key personnel. The loss of the services of these persons may have a material adverse effect on the Company's business and prospects. The Company will compete with numerous other companies for the recruitment and retention of qualified employees and contractors. There is no assurance that the Company can maintain the service of its directors and officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Availability of Equipment and Labour

The oil and gas exploration industry is dependent on the availability of equipment and labour in the areas where such activities will be conducted. Demand for limited equipment and labour and restrictions imposed on access to equipment may affect the availability of such equipment to the Company which could delay exploration, development and production activities.

ADDITIONAL DISCLOSURE

Additional information relating to the Company and its regulatory filings is available on the Company's website at **www.hillcrestpetroleum.com** and under the Company's profile on SEDAR at **www.sedar.com**.

CORPORATE INFORMATION

HEAD OFFICE
1300 – 1030 West Georgia Street
Vancouver, BC V6E 2Y3
Tel: (604) 609-0006

LISTINGS
TSX Venture Exchange: **HRH**
OTCQB: **HLRTF**

LEGAL COUNSEL

McMillan LLP
Royal Centre 1055 West Georgia Street
Vancouver, BC V6E 4N7

AUDITOR

De Visser Gray LLP
905 W Pender St
Vancouver, BC V6C 1L6

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SCHEDULE "C"

STATEMENT OF EXECUTIVE COMPENSATION

(see attached)

Statement of Executive Compensation – Venture Issuers

For the purposes of this Executive Compensation disclosure:

"**compensation securities**" includes stock options, convertible securities, exchangeable securities and similar instruments including stock appreciation rights, deferred share units and restricted stock units granted or issued by the company or one of its subsidiaries for services provided or to be provided, directly or indirectly, to the company or any of its subsidiaries;

"**NEO**" or "**named executive officer**" means each of the following individuals:

(a) each individual who, in respect of the company, during any part of the most recently completed financial year, served as chief executive officer ("CEO"), including an individual performing functions similar to a CEO;

(b) each individual who, in respect of the company, during any part of the most recently completed financial year, served as chief financial officer ("CFO"), including an individual performing functions similar to a CFO;

(c) in respect of the company and its subsidiaries, the most highly compensated executive officer other than the individuals identified in paragraphs (a) and (b) at the end of the most recently completed financial year whose total compensation was more than $150,000, for that financial year;

(d) each individual who would be a named executive officer under paragraph (c) but for the fact that the individual was not an executive officer of the company, and was not acting in a similar capacity, at the end of that financial year.

DIRECTOR AND NAMED EXECUTIVE OFFICER COMPENSATION

During financial year ended December 31, 2019, based on the definition above, the NEOs of the Company were: Michael Krzus, Executive Chairman and director, Donald J. Currie, CEO and director, Dale Miller Chief Operating Officer ("COO"), and Sean McGrath, CFO and Corporate Secretary. All directors remained the same from 2018.

Effective on January 1, 2020, Sean McGrath resigned as CFO and Corporate Secretary of the Company and effective on January 1, 2020, Aaron Triplett was appointed CFO and Corporate Secretary of the Company.

During financial year ended December 31, 2018, based on the definition above, the NEOs of the Company were: Michael Krzus, Executive Chairman and director, Donald J. Currie, CEO and director, Dale Miller Chief Operating Officer ("COO"), Jason Oden, former COO, and Sean McGrath, CFO and Corporate Secretary. The directors of the Company who were not NEOs during financial year ended December 31, 2018 were: David M.R. Stone, Thomas J. Milne and Robert Lambert. Jason Oden served as COO of the Company from June 20, 2015 to June 13, 2018. Dale Miller was appointed COO of the Company on June 13, 2018.

Table of Compensation, Excluding Compensation Securities in Financial Years ended December 31, 2019 and 2018

The following table of compensation, excluding options and compensation securities, provides a summary of the compensation paid by the Company to NEOs and directors of the Company for the two completed financial years ended December 31, 2019 and December 31, 2018. Options and compensation securities are disclosed under the heading "**Stock Options and Other Compensation Securities**" in this Information Circular.

Table of compensation excluding compensation securities							
Name and position	**Year**	**Salary, consulting fee, retainer or commission ($)**	**Bonus ($)**	**Committee or meeting fees ($)**	**Value of perquisites ($)**	**Value of all other compensation ($)**	**Total compensation ($)**
Michael Krzus[(1)] Executive Chairman and Director	2019 2018	78,980 120,000	Nil Nil	Nil Nil	Nil Nil	Nil Nil	78,980 120,000
Donald J. Currie [(1)] CEO, Director and former Chairman	2019 2018	112,357 145,000	Nil Nil	Nil Nil	Nil Nil	Nil Nil	112,357 145,000
Jason Oden[(2)] former COO	2019 2018	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil
Sean McGrath[(3)] CFO and former Corporate Secretary	2019 2018	60,000 80,000	Nil Nil	Nil Nil	Nil Nil	Nil Nil	60,000 80,000
Dale Miller[(4)] COO	2019 2018	18,065 20,850	Nil Nil	Nil Nil	Nil Nil	18,065 19,700	18,065 40,550
David M.R. Stone[(5)] Director	2019 2018	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil
Thomas J. Milne[(6)] Director	2019 2018	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil
Robert Lambert[(7)] Director	2019 2018	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil 15,700	Nil 15,700

Notes:

(1) Mr. Currie resigned as Chairman of the Company on August 19, 2015. Mr. Krzus was appointed Executive Chairman of the Company on August 19, 2015. Mr. Currie was appointed CEO and a director of the Company on July 10, 2010.

(2) Mr. Oden served as COO of the Company from January 20, 2015 to June 13, 2018.

(3) Sean McGrath was appointed CFO of the Company on May 1, 2015. Mr. McGrath was appointed Corporate Secretary of the Company on August 13, 2015. Effective on January 1, 2020, Mr. McGrath resigned as CFO and Corporate Secretary of the Company.

(4) Dale Miller was appointed COO of the Company on June 13, 2018.

(5) David M.R. Stone was appointed a director of the Company on July 10, 2010.

(6) Thomas J. Milne was appointed a director of the Company on November 1, 2012.

(7) Robert Lambert was elected a director of the Company on December 15, 2017.

Oversight and Description of Director and Named Executive Officer Compensation

<u>Elements of the Compensation Program</u>

Executive compensation is set to attract and retain the best available talent while efficiently utilizing available resources. The Company compensates executive management with a package typically including a base salary ("**Base Salary**"), an incentive compensation plan ("**Incentive Compensation**") and equity compensation (the "**Equity Compensation**") designed to be competitive with comparable employers. In considering executive management's compensation, the Board takes into consideration the financial condition of the Company. The Base Salary is set in comparison to the comparable positions in the market and in the industry, the Incentive Compensation is used as a short-term incentive to achieve Company objectives, and the Equity Compensation is designed to allow the participants to enjoy the benefits of any increase in company valuation and share price, should such an increase occur. Executive compensation is designed to reward activities and achievements that are aligned with the long-term interests of the Company's shareholders.

The Base Salary, Incentive Compensation and Equity Compensation for the Company's NEOs, including the CEO and the CFO is determined by the Company's Compensation and Corporate Governance Committee. The Compensation and Corporate Governance Committee sets the compensation of the NEOs using generally available market data and their combined industry experience. The Compensation and Corporation Governance Committee delegates to the NEOs the responsibility to set the compensation packages for all other senior management and staff. The Compensation and Corporate Governance Committee is responsible for executive and director compensation, including reviewing and recommending director compensation, overseeing the Company's base compensation structure and equity-based compensation program, recommending compensation of the Company's officers and employees, and evaluating the performance of officers generally and in light of annual goals and objectives.

The Compensation and Corporate Governance Committee also assumes responsibility for reviewing and monitoring the long-range compensation strategy for the Company's senior management. The Compensation and Corporate Governance Committee reviews the compensation of senior management on an annual basis taking into account compensation paid by other issuers of similar size and activity.

The current members of the Company's Compensation and Corporate Governance Committee Thomas J. Milne, Donald Currie and Robert Lambert.

(1) Philosophy and Objectives

The Company is a junior exploration and production company with limited resources and sales that are greatly impacted by oil and gas commodity prices. The compensation program for the senior management of the Company is designed within this context with a view that the level and form of compensation achieves certain objectives, including:

(a) attracting and retaining qualified executives;

(b) motivating the short and long-term performance of these executives; and

(c) better aligning their interests with those of the Company's shareholders.

In compensating its senior management, the Company has employed a combination of base salary and equity participation through its Option Plan (described below) and its RSU Plan (described below). Recommendations for senior management compensation are presented to the Board for review.

(2) Base Salary or Consulting Fees

In the Board's view, paying base salaries which are reasonable in relation to the level of service expected while remaining competitive in the markets in which the Company operates is a first step to attracting and retaining qualified and effective executives.

Base salary ranges for the executive officers were initially determined upon a review of companies within the oil producing industry, which were of the same size as the Company, at the same stage of development as the Company and considered comparable to the Company.

In determining the base salary of an executive officer, the Board considers the following factors:

(a) the particular responsibilities related to the position;

(b) salaries paid by other companies in the oil producing industry which were similar in size as the Company;

(c) the experience level of the executive officer;

(d) the amount of time and commitment which the executive officer devotes to the Company; and

(e) the executive officer's overall performance and performance in relation to the achievement of corporate milestones and objectives.

Financial Year ended December 31, 2019

During the financial year ended December 31, 2019:

i. the Company owed a total of $Nil (2018: $133,102) to Donald Currie, the CEO of the Company, for consulting fees and reimbursable expenses and this amount was included in accounts payable and accrued liabilities on the Company's audited financial statements for the year ending December 31, 2019;

ii. the Company owed a total of $51,805 (December 31, 2018 - $45,055) in loan principal and interest to Michael Krzus, Executive Chairman of the Company pursuant to a December 27, 2018 loan agreement where the Company borrowed $45,000 from the Executive Chairman. The loan bears interest at 15% and is repayable on demand;

iii. the Company owed a total of $Nil (2018 -$20,850) included in accounts payable and accrued liabilities owing to Dale Miller, COO of the Company, for consulting fees;

iv. the Company owed a total of $72,685 (2018 - $43,125) included in accounts payable and accrued liabilities owing to SCM Consulting Corp, a corporation controlled by Sean McGrath, CFO of the Company, for consulting fees;

v. during the year ended December 31, 2019, related parties forgave a net amount of $235,850 (2018 - $Nil) in unpaid management and consulting fees accrued in prior years.

(3) Bonus Incentive Compensation

The Company's objective is to achieve certain strategic objectives and milestones. The Board considers executive bonus compensation dependent upon the Company meeting those strategic objectives and milestones and sufficient cash resources being available for the granting of bonuses. The Board approves executive bonus compensation dependent upon compensation levels based on recommendations of the CEO. Such recommendations are generally based on information provided by issuers that are similar in size and scope to the Company's operations.

(4) Equity Participation

The Company believes that encouraging its executives and employees to become shareholders is the best way of aligning their interests with those of its shareholders. Equity participation is accomplished through the Company's share option plan and its restricted share unit plan. Stock options and restricted share units ("**RSUs**") are granted to executives and employees taking into account a number of factors, including the amount and term of options and RSUs previously granted, base salary and bonuses and competitive factors. The amounts and terms of options and RSUs granted are determined by the Compensation and Corporate Governance Committee based on recommendations put forward by the CEO. Due to the Company's limited financial resources, the Company emphasizes the provisions of option and RSU grants to maintain executive motivation.

Compensation Review Process

Risks Associated with the Company's Compensation Program

The Company's directors have not considered the implications of any risks to the Company associated with decisions regarding the Company's compensation program. The Company intends to formalize its compensation policies and practices and will take into consideration the implications of the risks associated with the Company's compensation program and how it might mitigate those risks.

The Company did not retain a compensation consultant during financial years ending December 31, 2019 and December 31, 2018.

Benefits and Perquisites

The Company does not, as of the date of this Information Circular, offer any benefits or perquisites to its NEOs other than potential grants of incentive stock options and RSUs as otherwise disclosed and discussed herein.

Hedging by Directors or NEOs

The Company has not, to date, adopted a policy restricting its executive officers and directors from purchasing financial instruments, including, for greater certainty, prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, which are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by executive officers or directors. The Company is not, however, aware of any directors of officers having entered into this type of transaction

As of the date of this Information Circular, entitlement to grants of incentive stock options under the Company's share option plan and restricted share unit awards under the Company's restricted share unit plan are the only equity security elements awarded by the Company to its executive officers and directors.

Stock Option Plan and Other Compensation Plans

A. <u>10% "rolling" Share Option Plan</u>

<u>(Option-Based Awards)</u>

The Company has in place a 10% rolling share option plan dated for reference November 4, 2010, as amended May 10, 2012 and August 13, 2015 (the "**Option Plan**"). The Option Plan was implemented in order to provide the Company with the flexibility necessary to attract and maintain the services of senior executives and other employees in competition with other businesses in the industry, and in anticipation of the Company being listed on the TSX Venture Exchange ("**TSXV**"). The Option Plan was established to provide incentive to qualified parties to increase their proprietary interest in the Company and thereby encourage their continuing association with the Company. The Compensation and Corporate Governance Committee proposes share option grants to the Board based on such criteria as performance, previous grants, and hiring incentives. All grants require approval of the Board. The Option Plan provides that options will be issued to directors, officers, employees or consultants of the Company or a subsidiary of the Company.

A number of Common Shares equal to ten (10%) percent of the issued and outstanding Common Shares in the capital stock of the Company from time to time are reserved for the issuance of stock options pursuant to the Option Plan.

The Option Plan provides that the number of Common Shares issuable under the Option Plan, together with all of the Company's other previously established or proposed share compensation arrangements, may not exceed 10% of the total number of the Company's issued and outstanding Common Shares.

Material Terms to the Option Plan

The following is a summary of the material terms of the Option Plan:

a) Persons who are Service Providers to the Company or its affiliates, or who are providing services to the Company or its affiliates, are eligible to receive grants of options under the Option Plan;

b) options granted under the Option Plan are non-assignable and non-transferable and are issuable for a period of up to ten (10) years;

c) for options granted to Service Providers, the Company must ensure that the proposed Optionee is a bona fide Director, Officer, Employee, Management Company Employee, Consultant or Company Consultant, and also includes a company, 100% of the share capital of which is beneficially owned by one or more Service Providers;

d) an option granted to any Service Provider will expire 90 days (or such other time, not to exceed one year, as shall be determined by the Board as at the date of grant or agreed to by the Board and the Optionee at any time prior to expiry of the option), after the date the Optionee ceases to be employed by or provide services to the Company, and only to the extent that such option was vested at the date the Optionee ceased to be so employed by or to provide services to the Company;

e) if an Optionee dies, any vested option held by him at the date of death will become exercisable by the Optionee's lawful personal representatives, heirs or executors until the earlier of one year after the date of death of such Optionee and the date of expiration of the term otherwise applicable to such option;

f) in the case of an Optionee being dismissed from employment or service for cause, such Optionee's options, whether or not vested at the date of dismissal will immediately terminate without right to exercise same;

g) the exercise price of each option will be set by the Board at the time such option is allocated under the Option Plan, and cannot be less than the Discounted Market Price (as defined in the Option Plan);

h) vesting of options shall be at the discretion of the Board and, with respect to any particular options granted under the Option Plan, in the absence of a vesting schedule being specified at the time of grant, all such options shall vest immediately. Where application, vesting of options will generally be subject to: (i) the Service Provider remaining employed by or continuing to provide services to the Company or any of its affiliates as well as, at the discretion of the Board, achieving certain milestones which may be defined by the Board from time to time or receiving a satisfactory performance review by the Company or any of its affiliates during the vesting period; or (ii) the Service Provider remaining as a Director of the Company or any of its affiliates during the vesting period;

i) the Option Plan contains a black-out provision restricting all or any of the Company's directors, officers, employees, insiders or persons in a special relationship to refrain from trading in the Company's securities until the restriction has been lifted by the Company;

j) the Board reserves the right in its absolute discretion to amend, modify or terminate the Option Plan with respect to all common shares in respect of options which have not yet been granted under the Option Plan. Any amendment to any provision of the Option Plan will be subject to any necessary Regulatory approvals unless the effect of such amendment is intended to reduce (but not to increase) the benefits of the Option Plan to Service Providers.

The Board has determined that, in order to reasonably protect the rights of participants, as a matter of administration, it is necessary to clarify when amendments to the Option Plan may be made by the Board without further shareholder approval. Accordingly, the Option Plan also provides that the Board may, without shareholder approval:

a) amend the Option Plan to correct typographical, grammatical or clerical errors;

b) change the vesting provisions of an option granted under the Option Plan, subject to prior written approval of the TSXV, if applicable;

c) change the termination provision of an option granted under the Option Plan if it does not entail an extension beyond the original expiry date of such option;

d) make such amendments to the Option Plan as are necessary or desirable to reflect changes to securities laws applicable to the Company;

e) make such amendments as may otherwise be permitted by the TSXV Policies, if applicable;

f) if the Company becomes listed or quoted on a stock exchange or stock market, make senior to the TSX Venture, it may make such amendments as may be required by the policies of such senior stock exchange or stock market; and

g) amend the Option Plan to reduce, and do not increase, the benefits that may be granted to Service Providers.

On November 27, 2019, the Board approved amendments to its 10% "rolling" share option plan in order to comply with current policies of the TSX Venture Exchange ("**TSXV**") and other amendments of an administrative nature that do not affect the rights of the Company's securityholders. These amendments were conditionally approved by the TSXV, subject to shareholder approval.

The below described are the crossed out amendments that were made to the Company's 10% "rolling" share option plan:

Under Section 2.10 **Amendments Requiring Disinterested Shareholder Approval**

2.10 The Company will be required to obtain Disinterested Shareholder Approval prior to any of the following actions becoming effective (see crossed out section below):

(a) the Plan, together with all of the Company's other previous Share Compensation Arrangements, could result at any time in:

(i) the aggregate number of Common Shares reserved for issuance under Options granted to Insiders exceeding 10% of the Outstanding Shares ~~**in the event that this Plan is amended to reserve for issuance more than 10% of the Outstanding Shares**~~;

(ii) the number of Optioned Shares issued to Insiders within a one-year period exceeding 10% of the Outstanding Shares ~~**in the event that this Plan is amended to reserve for issuance more than 10% of the Outstanding Shares**~~; or

A copy of the Option Plan dated for reference November 4, 2010, as amended May 10, 2012, August 13, 2015 and further amended and restated on November 27, 2020 is attached as Schedule "C" to the Company's Information Circular dated November 9, 2020.

B. <u>Fixed Restricted Share Unit Plan/New RSU Plan</u>

Fixed Restricted Share Unit Plan

<u>(Share-Based Awards)</u>

The Company has in place a restricted share unit plan dated for reference August 13, 2015, as amended and restated on October 11, 2019 (the "**Fixed RSU Plan**"). The Compensation and Corporate Governance Committee (or such other committee the Board may appoint) is responsible for administering the RSU Plan.

The Fixed RSU Plan allows the Company to grant RSUs, under and subject to the terms and conditions of the Fixed RSU Plan, which may be exercised to purchase up to a maximum of 4,000,000 Shares. A copy of the Fixed Restricted Share Unit Plan is attached as Schedule "B" to the Company's Information Circular dated November 5, 2019.

Adoption of New RSU Plan (Share Based Awards)

On November 9, 2020, the Board deemed it to be in the Company's best interests to terminate its Fixed RSU Plan and adopt a new fixed 10% "rolling" restricted share unit plan (the "**New RSU Plan**"). The New RSU Plan is subject to the approval of relevant disinterested shareholders at the Meeting and the TSX Venture Exchange.

Summary of the New RSU Plan

The New RSU Plan is a fixed plan which reserves for issuance a maximum of 17,995,592 common shares (10% of the issued and outstanding common shares of the Company at November 9, 2020 record date). The common shares reserved for issuance under the New RSU Plan will not be deducted from the number of common shares issuable under the Company's Option Plan. However, the percentage limitations on insiders (as a group), on any one eligible persons and on consultants apply to the New RSU Plan and the Option Plan in aggregate. For insiders (as a group), subject to approval by disinterested shareholders of the Company or other requirements of applicable TSX Venture Exchange Policies, (i) the aggregate number of common shares reserved for issuance under the New RSU Plan, Option Plan and any other share based compensation arrangements for insiders (as a group) at any point in time may not exceed 10% of the issued and outstanding common shares from time to time, and (ii) the maximum number of RSUs and Options that may be granted to insiders (as a group) under the New RSU Plan, the Option Plan, together with any other share based compensation arrangements, within a 12-month period, may not exceed 10% of the issued and outstanding common shares calculated on the grant or award date. Subject to this 10% limitation, with the New RSU Plan and the Option Plan available, the Company will have the flexibility to grant and award insiders any combination of RSUs and options as appropriate and determined by the Company.

All Directors, Employees and Consultants (as defined in the New RSU Plan) of the Company and its related entities ("**Eligible Persons**") are eligible to participate in the New RSU Plan (as "**Participants**"), though the Company reserves the right to restrict eligibility or otherwise limit the number of persons eligible for participation in the New RSU Plan at any time. Eligibility to participate in the New RSU Plan does not confer upon any person a right to receive an award of RSUs. It shall be the responsibility of the Company and the Eligible Person to ensure that such Eligible Person is a bona fide Eligible Person.

Subject to certain restrictions, the Compensation and Corporate Governance Committee (the "**Committee**") can, from time to time, award RSUs in its discretion to any Eligible Persons. RSUs will be credited to an account maintained for each Participant on the books of the Company as of the award date. The number of RSUs to be credited to each Participant's account in respect of a fiscal year shall be determined by dividing: (a) the dollar amount of the portion of the Participant's compensation which the Committee, in its sole discretion, determines to be paid as RSUs; by (b) the Fair Market Value (as defined in the New RSU Plan) per Common Share on the award date. Any fractional RSUs resulting from such calculations shall be rounded to the nearest whole number. For greater certainty, a fractional entitlement that is equal to or greater than 0.5 shall be rounded up to the next greater whole number and a fractional entitlement that is less than 0.5 shall be rounded down to the next lesser whole number.

The RSUs shall have a term, which shall be determined by the Committee on the date of award of the RSUs, which term shall not exceed ten years from the award date.

Each award of RSUs vests on the date(s) and/or the satisfaction of the Performance Criteria (each a "**Vesting Date**") specified by the Committee on the award date, and reflected in the applicable Award Notice (as defined in the New RSU Plan).

Rights and obligations under the New RSU Plan can be assigned by the Company (without the consent of Participants) to a successor in the business of the Company, any corporation resulting from any amalgamation, reorganization, combination, merger or arrangement of the Company, or any corporation acquiring all or substantially all of the assets or business of the Company. All awards under the New RSU Plan will be evidenced by award notices in substantially the form attached to the New RSU Plan and will contain such other terms and conditions relating to an award of RSUs as the Committee may prescribe.

Credits for Dividends

A Participant's account will be credited with additional RSUs as of each dividend payment date in respect of which cash dividends are paid on Common Shares. The number of additional RSUs to be credited to a Participant's account is computed by dividing: (a) the dividends that would have been paid to such Participant if each RSU in the Participant's account on the relevant dividend record date had been a Common Share, by (b) the Fair Market Value of the Common Shares determined as of the date of payment of such dividend. Any fractional RSUs resulting from such calculation shall be rounded to the nearest whole number. For greater certainty, a fractional entitlement that is equal to or greater than 0.5 shall be shall be rounded up to the next greater whole number and a fractional entitlement that is less than 0.5 shall be rounded down to the next lesser whole number.. Any additional RSUs credited to the Participant's account will vest in proportion to and will be paid under the New RSU Plan in the same manner as the RSUs to which they relate. The Company is not obligated to pay dividends on Common Shares.

Acquisition of Vested RSUs

A holder of vested RSUs may acquire Common Shares representing such RSUs by delivering a Notice of Acquisition (as defined in the New RSU Plan) to the Company and a certified cheque or bank draft payable to the Company for the Applicable Withholding Amounts (as defined in the New RSU Plan) on or before the Expiry Time (as defined in the New RSU Plan). Upon receipt of the Notice of Acquisition the Company shall issue, within ten days following the receipt of the Notice of Acquisition, and subject to such applicable residual withholding, if any, as the Company determines in its discretion should then be imposed to meet related withholding or remittance obligations under applicable law, one Common Share for each RSU in the Participant's Account which has been included in the Notice of Acquisition.

Resignation, Termination, Leave of Absence or Death

Generally, and subject to any express resolution passed by the Committee, if a Participant's employment or service is terminated, or if the Participate resigns from employment with the Company, then any RSUs credited to him or her under the New RSU Plan which have not vested on or before the Separation Date (as defined in the New RSU Plan) for the Participant are forfeited, cancelled and terminated without payment effective on the Separation Date. The Participant may, but only within the thirty (30) days following the Separation Date, deliver a completed Notice of Acquisition to the Company to acquire Common Shares for previously vested RSUs (if any). Any vested RSUs which the Participant has not delivered a completed Notice of Acquisition for shall be forfeited and cancelled effective at 5:00 p.m. (Vancouver time) on such 30th day.

In the event a Participant takes a leave of absence other than an Approved Leave of Absence (as defined in the New RSU Plan), all RSUs granted to the Participant that have not then vested will terminate and be null and void, subject to applicable law and the Board's sole and absolute discretion to determine otherwise.

Upon the death of a Participant, any RSUs granted to a Participant which, as of the date of the death have not yet vested, immediately vest. Any RSUs granted to the Participant under the Plan shall be forfeited and cancelled effective at 5:00 p.m. (Vancouver time) on the first year anniversary of the death of the Participant and shall terminate without payment and shall be of no further force or effect from and after such time.

Control Change

In the event of a Control Change (as defined in the New RSU Plan), the Committee may:

(a) take such steps as the Committee considers desirable, taking into account any tax consequences to the extent considered relevant by the Committee, cause the conversion or exchange of any outstanding RSUs into or for rights or other securities of substantially equivalent value (or greater value) in any entity participating in or resulting from a Control Change;

(b) accelerate the vesting of any or all outstanding RSUs to provide that such outstanding RSUs are fully vested upon (or immediately prior to) the completion of the transaction resulting in the Control Change; or

(c) determine that a Participant who is no longer an Eligible Person as a result of or in anticipation of a Control Change shall continue to be a Participant and Eligible Person for purposes of the Plan, but subject to such terms and conditions, if any, established by the Committee in its sole discretion.

If, before the completion of the Vesting Date with respect to any award of RSUs, the Participant's service as a Director ceases or, as an Employee of the Company or of a Related Entity is terminated, where such cessation or termination occurs:

(a) subsequent to a Control Change and during the Control Change Period (as defined in the New RSU Plan) and such termination was:

   (i) for any reason whatsoever other than death or termination for Cause (as defined in the New RSU Plan); or

   (ii) for Good Reason (as defined in the New RSU Plan) and the Participant gives notice to the Company to that effect and after thirty days the Company does not cure the act or omission which constitutes Good Reason; or

(b) prior to the date on which a Control Change occurs and it is reasonably demonstrated that such termination:

   (i) was at the request of a third party who has taken steps reasonably calculated to effect Control Change; or

   (ii) arose in connection with or anticipation of a Control Change,

then the Award shall immediately vest on the Separation Date and the Payment Amount shall be equal to the number of Common Shares determined on the Separation Date multiplied by the number of RSUs in the Participant's Account, net of applicable withholding tax. Notwithstanding the foregoing, the Committee may, in its sole and absolute discretion, provide in the Award Notice evidencing the Award a provision to the effect that these provisions shall not apply in respect of that Award or shall apply on such modified basis as is expressly set forth in such Award Notice.

Adjustments

In the event of any subdivision, consolidation, stock dividend, capital reorganization, reclassification, exchange, or other change with respect to the Common Shares, or a consolidation, amalgamation, merger, spin-off, sale, lease or exchange of all or substantially all of the property of the Company or other distribution of the Company's assets to the Shareholders (other than the payment of dividends in respect of the Common Shares as contemplated in the New RSU Plan), the Committee may choose to adjust the Account of each Participant and the RSUs outstanding under the Plan in such manner, if any, as the Committee may in its discretion deem appropriate (taking into account any tax consequences to the extent considered relevant by the Committee) to preserve the account of each Participant and the RSUs outstanding under the New RSU Plan will be adjusted in such manner, if any, as the Committee deems appropriate to preserve, proportionally, the interests of Participants. For greater certainty and notwithstanding any other provision of this Plan, in no event shall a Participant be or become entitled to receive any amount of cash from the Company.

Discretion to Permit Vesting

The Committee can, in its sole discretion, subject to such terms and conditions (if any) established by the Committee in its sole discretion at any time, permit:

(a) Persons previously entitled to participate in the Plan to continue to be a Participant for the purposes of the Plan;

(b) the vesting or accelerated vesting of any or all RSUs held by a Participant; and

(c) the payment of the Payment Amount in respect of such RSUs in the manner and on the terms authorized by the Committee.

Common Shares Reserved

Subject to adjustment as may be permitted under the New RSU Plan, the maximum number of Common Shares which may be reserved for issuance under the Plan at any time shall be 17,995,592 Common Shares.

Limitations under the New RSU Plan

Notwithstanding any other provision of this Plan, but subject to RSU grants approved by the disinterested shareholders of the Company or other requirements of applicable Exchange Policies:

(a) the aggregate number of Common Shares reserved for issuance under the New RSU Plan, together with any other Security Based Compensation Arrangements (as defined in the New RSU Plan), for Insiders (as a group) at any point in time may not exceed 10% of the issued and outstanding Common Shares from time to time;

(b) the maximum number of RSUs that may be granted to Insiders (as a group) under the Plan, together with any other Security Based Compensation Arrangements, within a 12 month period, may not exceed 10% of the issued and outstanding Common Shares calculated on the Award Date;

(c) the maximum number of RSUs that may be granted to any one Eligible Person (and companies wholly owned by that Eligible Person) under the New RSU Plan, together with any other Security Based Compensation Arrangements, within a 12 month period, may not exceed 5% of the issued and outstanding Common Shares, calculated on the Award Date; and

(d) the maximum number of RSUs that may be granted to any one Consultant under the New RSU Plan, together with any other Security Based Compensation Arrangements, within a 12 month period, may not exceed 2% of the issued and outstanding Common Shares, calculated on the Award Date.

The New RSU Plan provides that the respective limits set out above may be exceeded:

(a) if the Common Shares are listed for trading on the TSX Venture Exchange, on a case-by-case basis, upon the approval of disinterested shareholders of the Company; or

(b) if the Common Shares are not listed for trading on the TSX Venture Exchange, in accordance with applicable Exchange Policies (as defined in the New RSU Plan).

Status of Terminated RSUs

For purposes of determining the number of Common Shares that remain available for issuance under the New RSU Plan, the number of Common Shares underlying any grants of RSUs that are surrendered, forfeited, waived and/or cancelled shall be added back to the Plan and again be available for future grant, whereas the number of Common Shares underlying any grants of RSUs that are issued upon exercise of RSUs shall not be available for future grant.

Amendment, Suspension, or Termination of Plan

Subject to applicable law, the Committee may from time to time amend or suspend the New RSU Plan in whole or in part and may at any time terminate the New RSU Plan without prior notice. However, any such amendment, suspension or termination shall not adversely affect the RSUs previously granted to a Participant at the time of such amendment, suspension or termination, without the consent of the affected Participant.

If the Committee suspends or terminates the New RSU Plan, no new RSUs will be credited to the account of a Participant; however, previously credited RSUs shall remain outstanding but shall not be entitled to dividend credits following suspension or termination unless at the time of suspension or termination the Committee determines that the entitlement to dividend credits during suspension or after termination, as applicable, should be continued.

The Committee shall not require the consent of any affected Participant in connection with a termination of the New RSU Plan in which the vesting of all RSUs held by the Participant are accelerated and the Payment Amount (less Applicable Withholding Amount) is paid to the Participant in respect of all such RSUs.

The Company will be required to obtain disinterested shareholder approval for any amendment related to (i) the number or percentage of issued and outstanding Common Shares available for grant under the New RSU Plan; (ii) a change in method of calculation of redemption of RSUs held by Eligible Persons; and (iii) an extension to the term for redemption of RSUs held by Eligible Persons.

A copy of the New RSU Plan is attached as Schedule "D" to the Company's Information Circular dated November 9, 2020.

Stock Options and other Compensation Securities

The following table sets forth incentive stock options (option-based awards) pursuant to the Company's Option Plan that were outstanding to NEOs and directors of the Company as at December 31, 2019. There were no outstanding restricted share units awarded (share-based awards) pursuant to the Company's Fixed Restricted Share Unit Plan to NEOs and directors of the Company during financial years ended December 31, 2019 and December 31, 2018.

Compensation Securities								
Name and position	**Type of compensation security**	**Number of compensation securities, number of underlying securities, and percentage of class**	**Date of issue or grant** (dd/mm/yy)	**Issue, conversion or exercise price ($)[1]**	**Closing price of security or underlying security on date of grant ($)**	**Closing price of security or underlying security at year end ($)**	**Expiry date** (dd/mm/yy)	**Restricted Share Units**
Donald J. Currie CEO and director	Options	450,000 0.5%	02/21/17	0.05	0.07	0.04	02/21/22	Nil Nil
Jason Oden former COO	Options	450,000 0.5%	02/21/17	0.05	0.07	0.04	02/21/22	Nil Nil
Michael Krzus Executive Chairman and director	Options	450,000 0.5%	02/21/17	0.05	0.07	0.04	02/21/22	Nil Nil
David M.R. Stone director	Options	350,000 0.4%	02/21/17	0.05	0.07	0.04	02/21/22	Nil Nil
Thomas J. Milne director	Options	350,000 0.4%	02/21/17	0.05	0.07	0.04	02/21/22	Nil
Robert Lambert director	Options	300,000 0.4%	05/22/18	0.05	0.06	0.04	05/01/22	Nil Nil
L. Edward Parker[1] former director	Options	350,000 0.4%	02/21/17	0.05	0.07	0.04	02/21/22	Nil Nil
Dale Miller COO	Options	350,000 0.4%	06/13/18	0.05	0.065	0.04	06/13/22	Nil Nil
Sean McGrath CFO and Corporate Secretary	Options	350,000 0.4%	02/21/17	0.05	0.07	0.04	02/21/22	Nil Nil

Note:

(1) L. Edward Parker served as a director of the Company from August 27, 2015 to December 15, 2017. Mr. Parker has been retained as a Consultant to the Company.

Option Repricing

At the Company's December 9, 2019 annual general meeting, shareholders approved the repricing of a total of 2,600,000 outstanding Options to Insiders of the Company to an amended exercise price of $0.05 per Share, and approval to the repricing of a total of 2,050,000 outstanding Options to Non-Insiders of the Company to an amended exercise price of $0.05 per Share.

Exercise of Compensation Securities by NEOs and Directors

Financial Year Ended December 31, 2019

There were no Options exercised by NEOs or directors of the Company during the financial year ended December 31, 2019.

Financial Year Ended December 31, 2018

The following table sets forth incentive stock options (option-based awards) that were exercised during the year ended December 31, 2018 by NEOs and directors of the Company who were not NEOs during the year ended December 31, 2018:

Exercise of Compensation Securities by NEOS and Directors							
Name and position	**Type of compensation security**	**Number of underlying securities exercised**	**Exercise price per security ($)**	**Date of Exercise M-D-Y**	**Closing price per security on date of exercise ($)**	**Difference between exercise price and closing price on date of exercise ($)**	**Total Value on exercise date ($) M-D-Y**
Donald J. Currie CEO and director	Options	Nil	N/A	N/A	N/A	N/A	N/A
Jason Oden former COO	Options	Nil	N/A	N/A	N/A	N/A	N/A
Michael Krzus Executive Chairman and director	Options	Nil	N/A	N/A	N/A	N/A	N/A
David M.R. Stone director	Options	Nil	N/A	N/A	N/A	N/A	N/A
Thomas J. Milne director	Options	Nil	N/A	N/A	N/A	N/A	N/A
Robert Lambert director	Options	Nil	N/A	N/A	N/A	N/A	N/A
L. Edward Parker former director	Options	Nil	N/A	N/A	N/A	N/A	N/A
Dale Miller COO	Options	Nil	N/A	N/A	N/A	N/A	N/A
Sean McGrath CFO and Corporate Secretary	Options	Nil	N/A	N/A	N/A	N/A	N/A

Employment, Consulting and Management Agreements

The Company does not have any employment, consulting or management agreements or arrangements with any of the Company's current directors or NEOs.

Pension Disclosure

The Company does not have a pension plan that provides for payments or benefits to the NEOs at, following, or in connection with retirement.

SCHEDULE "D"

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

(see attached)

Hillcrest Petroleum Ltd.

FORM 51-101F1
For the Year Ended December 31, 2019

STATEMENT OF RESERVES DATA
AND OTHER OIL AND GAS INFORMATION

TABLE OF CONTENTS

FORM 51-101F1
STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

PART 1 DATE OF STATEMENT

The effective date of the information being provided in this statement is as at December 31, 2019, and for the year ended December 31, 2019. The preparation date of the information being provided in this statement is April 13, 2020.

For a glossary of terminology and definitions relating to the information included within this statement (including the aforementioned dates) readers are referred to National Instrument 51-101 ("NI 51-101").

All dollar figures are Canadian Dollars, unless otherwise specified.

PART 2 DISCLOSURE OF RESERVES DATA

The following is a summary of the oil and natural gas reserves and net present values of future net revenue of Hillcrest Petroleum Ltd. and its subsidiaries (the "Company") as evaluated by Trimble Engineering Associates Ltd, ("TEAL"), an independent qualified reserves evaluator appointed by the Company pursuant to NI 51-101.

Readers should note that the totals in the following tables may not add due to rounding.

The estimated future net revenue figures contained in the following tables do not necessarily represent the fair market value of the Company's reserves. There is no assurance that the forecast price and cost assumptions contained in the TEAL report will be attained and variances could be material. Other assumptions relating to costs and other matters are included in the TEAL report. The recovery and reserves estimates attributed to the Company's properties described herein are estimates only. The actual reserves attributed to the Company's properties may be greater or less than those calculated.

Item 2.1 Reserves Data (Forecast Prices and Costs)

1. <u>Breakdown of Reserves (Forecast Case)</u> - The following summarizes the aggregate gross and net reserves of the Company, which are all contained in the West Hazel field located in Saskatchewan:

Hillcrest Petroleum Ltd.
Summary of Oil and Gas Reserves
As of December 31, 2019
Forecast Prices and Costs

Reserves	Light and Medium Oil		Heavy Oil		Natural Gas (Non-associated and Associated		Natural Gas Liquids	
Reserve Category	Gross (Mbbl)	Net (Mbbl)	Gross (Mbbl)	Net (Mbbl)	Gross (Mbbl)	Net (Mbbl)	Gross (Mbbl)	Net (Mbbl)
Proved Developed Producing P(DP)	-	-	25.1	12.1	-	-	-	-
Proved Developed Non-Producing P(DNP)	-	-	72.2	28.5	-	-	-	-
Proved Developed P(D)			97.3	40.6				
Proved Undeveloped P(UD)	-	-	322.6	139.2	-	-	-	-
Proved P	-	-	419.9	179.8	-	-	-	-

2. Net Present Value of Future Net Revenue (Forecast Case) – The following summarizes the future net revenue attributable to the Company's proved reserves disclosed in section 1, estimated using forecast prices and costs before deducting future income tax expenses, if any, calculated without discount and using discounts as presented:

Hillcrest Petroleum Ltd.
Summary of Net Present Values of Future Net Revenue
As of December 31, 2019
Forecast Prices and Costs - $CAD Dollars

	Net Present Values of Future Net Revenue Before Income Taxes Discounted at (%/Year)				
Reserve Category	0 (M$)	5 (M$)	10 (M$)	15 (M$)	20 (M$)
Proved (DP)	(1,179.1)	(1,012.8)	(879.5)	(771.2)	(682.1)
Proved (DNP)	996.7	940.3	889.8	844.4	803.3
Proved (UD)	3,848.0	3,381.2	2,984.2	2,644.4	2,351.8
Total Proved	3,665.6	3,308.7	2,994.5	2,717.6	2,473.0
Total Probable	2,061.2	1,768.4	1,530.9	1,336.3	1,175.6
Total Proved and Probable	5,726.8	5,077.1	4,525.4	4,053.9	3,648.6

3. Additional Information Concerning Undiscounted Future Net Revenue (Forecast Case) – The following summarizes by reserve category (Proved, Probable or Possible) the elements using forecast pricing and costs of the undiscounted future net revenue and the per unit value of future net revenue before income tax:

Hillcrest Petroleum Ltd.
Total Future Net Revenue
(Undiscounted)
As of December 31, 2019
Forecast Prices and Costs - $CAD Dollars

Reserve Category	Revenue (M$)	Royalties (M$)	Operating Costs (M$)	Development Costs (M$)	ARO Costs (M$)	Future Net Revenue Before Income Taxes (M$)	Income Taxes (M$)	Future Net Revenue After TOTI (M$)
Proved (DP)	951.4	255.3	1,512.7	30.0	332.4	(1,179.1)	-	(1,179.1)
Proved (DNP)	2,299.1	637.0	414.7	187.5	63.3	996.7	149.6	847.1
Proved (UD)	10,015.2	1,529.0	2,137.9	2,362.0	138.3	3,848.0	1,086.2	2,761.8
Total Proved	13,265.7	2,421.3	4,065.3	2,579.5	534.0	3,665.6	1,235.8	2,429.8
Total Probable	3,970.8	961.8	936.7	-	11.1	2,061.2	489.3	1,571.9
Total Proved and Probable	17,236.5	3,383.1	5,002.0	2,579.5	545.1	5,726.8	1,725.1	4,001.7

Item 2.2 Supplementary Disclosure (Constant Prices and Costs)

Not applicable

Item 2.3 Reserves Disclosure Varies with Accounting

Not applicable

Item 2.4 Future Net Revenue Disclosure Varies with Accounting

Not applicable

Part 3 PRICING ASSUMPTIONS

Item 3.1 Constant Prices Used in Supplemental Estimates

Not applicable

Item 3.2 Forecast Prices Used In Estimates

1. The following summarizes the pricing assumptions by product used in estimating reserves data disclosed in Item 2.1:

Hillcrest Petroleum Ltd.
Summary of Pricing and
Inflation Rate Assumptions
As of December 31, 2019
Forecast Prices and Costs

Year	WTI Cushing Oil Price US$/BBL	WCS CDN$/BBL	Inflation Rate %/Yr	Exchange Rate US$/Cdn$
2020	61.00	60.00	2.00	0.76
2021	65.00	63.00	2.00	0.77
2022	68.00	65.00	2.00	0.78
2023	70.00	67.00	2.00	0.79
2024	71.00	69.00	2.00	0.80
2025	72.00	71.00	2.00	0.80
Thereafter	esc 2.0%	esc 2.0%	2.00	0.80

PART 4 RECONCILIATION OF CHANGES IN RESERVES

Item 4.1 Reserves Reconciliation

As no reserves were reported in 2018, this is an initial reserves report and no reconciliation is required.

PART 5. ADDITIONAL INFORMATION RELATING TO RESERVES DATA

Item 5.1 Undeveloped Reserves

Undeveloped reserves are attributed for a 6 development wells, with 4 wells assumed to be drilled in 2020 and 2 assumed to be drilled in 2021.

Item 5.2 Significant Factors or Uncertainties Affecting *Reserves Data*

See notes to the Company's financial statements for the year ended December 31, 2019, for a discussion of some of the important economic factors and significant uncertainties likely to affect the components of oil and gas information and the reserves data disclosed herein. In addition, such components may be affected by material fluctuations in commodity prices, material changes in current taxation or royalty rates and/or federal regulations governing the conduct of oil and gas activities.

Item 5.3 Future Development Costs

Development costs associated with Proved and Proved + Probable reserves are:

2020	$1,967,500
2021	$ 612,000

Development costs are expected to be funded through either equity or debt funding, likely supported by cash flow from production.

PART 6. OTHER *OIL AND GAS* INFORMATION

Item 6.1 Oil and Gas Properties and Wells

The Company currently has 4 Gross and 3 Net producing oil wells located in the West Hazel field in Saskatchewan.

Item 6.2 Properties with no Attributed Reserves

Not applicable

Item 6.2.1 Significant Factors or Uncertainties Relevant to Properties with No Attributed Reserves

Not applicable

Item 6.3 Forward Contracts

Not applicable

Item 6.4 Additional Information Concerning Abandonment and Reclamation Costs

The Company's abandonment and reclamation costs are ascertained by estimating the costs using current techniques to fulfill the current obligations in regard to wells that are under appraisal or pending development. The Company routinely estimates and provides for asset retirement obligations with respect to all property interests, including oil and natural gas properties, in its consolidated financial statements in accordance with Canadian generally accepted accounting principles (See Notes to Consolidated financial statements for the year ended December 31, 2019).

At December 31, 2019, the Company reported its undiscounted liability for asset retirement obligations as $373,187. The costs were estimated based on an abandonment price per foot of well depth in the area of production less salvage value. The oil and gas properties had estimated abandonment dates between 2024 and 2028.

Item 6.5 Tax Horizon

Based on current reserves, the Company currently does not estimate that income taxes are likely to become payable before 2021, subject to current assumptions of production levels, operating and capital expense deductions, commodity prices and currently available operating loss carry forwards. There are no income taxes associated with the estimated future net cash flows estimated from current proved reserves based on the Company's basis in its assets and net operating loss carry forwards available to offset taxable income within its consolidated group.

Item 6.6 Costs Incurred

In the year ending December 31, 2019, the Company made the following expenditures (whether capitalized or charged to expense):

In Thousand Canadian dollars	Canada
	($)
Property acquisition costs – proved properties	-
Development costs – proved properties	997.1
Property acquisition costs – proved properties	-
Pipeline engineering and design costs	-
Exploration costs	-
	997.1

Item 6.7 Exploration and Development Activities

No exploration or development activity was undertaken in 2019.

Development costs above are associated with re-activating production form the previously shut in field.

Item 6.8 Production Estimates

The gross volume of production estimated for the year ended December 31, 2020 included in future net revenue calculations for gross proved reserves and gross probable reserves estimated under Item 2.1 is 18,230 bbl..

Item 6.9 Production History

The West Hazel field was shut in prior to 2019.

Quarterly oil production (bbl) during 2019 was:

Q1	3,731
Q2	5,467
Q3	11,343
Q4	11,130
Total	31,671

Average unit per bbl value metrics ($CDN/bbl) for 2019 were:

Price received	$53.80
Royalties	$13.75
Production Costs	$36.67
Netback	$3.38

SCHEDULE “E”

REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR

(see attached)

FORM 51-101F2
REPORT ON RESERVES DATA
BY
INDEPENDENT QUALIFIED RESERVES EVALUATOR

To the board of directors of Hillcrest Petroleum Ltd. (the "Company"):

1. We have evaluated the Company's reserves data as at December 31, 2019. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2019, estimated using forecast prices and costs.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

3. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook as amended from time to time (the "COGE Handbook") maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter).

4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

5. The following table shows the net present value of future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2019, and identifies the respective portions thereof that we have evaluated and reported on to the Company's management:

Independent Qualified Reserves Evaluator or Auditor	Effective Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate) Audited	$$ Cdn. Evaluated	Reviewed	$$ Cdn. Total
Trimble Engineering Associates Ltd.	Reserve and Present Worth Appraisal Effective December 31, 2019 Prepared April 13, 2020	Canada	nil	$4,525,400	nil	$4,525,400

6. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.

7. We have no responsibility to update our reports referred to in paragraph 5 for events and circumstances occurring after their respective preparation dates.

8. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

Calgary, Alberta / Canada, April 15, 2020
Trimble Engineering Associates Ltd.

Original Signed by Dzintra Ziemelis

Dzintra Ziemelis, P.Eng

SCHEDULE "F"

REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION

(see attached)

REPORT OF MANAGEMENT AND DIRECTORS
ON RESERVES DATA AND OTHER INFORMATION
(FORM 51-101F3)

Terms to which a meaning is ascribed in National Instrument 51-101 have the same meaning herein.

Management of Hillcrest Petroleum Ltd. (the "Company") are responsible for the preparation and disclosure, or arranging for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

(a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2019; using forecast prices and costs; and

(ii) the related estimated future net revenue; and

Independent qualified reserves evaluators have evaluated and reviewed the Company's reserves data. The report of the independent qualified reserves evaluators will be filed with securities regulatory authorities concurrently with this report.

The Board of Directors of the Company has:

(a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluators;

(b) met with the independent qualified reserves evaluators to determine whether any restrictions affected the ability of the independent qualified reserves evaluators to report without reservation; and

(c) reviewed the reserves data with management and the independent qualified reserves evaluators.

The Board of Directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management.

The Board of Directors has approved:

(a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;

(b) the filing of the report of the independent qualified reserves evaluators on the reserves data; and

(c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

"Signed"
Don Currie, CEO and Director

"Signed"
Aaron Triplett, CFO

"Signed"
Michael Krzus – Director

"Signed"
David Stone – Director

"Signed"
Tom Milne – Director

"Signed"
Robert Lambert – Director

June 15, 2020

SCHEDULE "G"

CERTIFICATE OF HILLCREST PETROLEUM LTD.

Pursuant to a resolution duly passed by its Board of Directors, Hillcrest Petroleum Ltd. hereby applies for the listing of the above mentioned securities on the Canadian Securities Exchange. The foregoing contains full, true and plain disclosure of all material information relating to Hillcrest Petroleum Ltd. It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated at Vancouver, British Columbia
this 23rd day of March, 2021.

"Michael Krzus"	*"Don Currie"*
Michael Krzus Executive Chairman and Director	Don Currie Chief Executor Officer, Director
"David Stone"	*"Aaron Triplett"*
David Stone Director	Aaron Triplett Chief Financial Officer