



**Condensed Interim Consolidated Financial Statements**

**Three and Nine Month Period Ended**

**September 30, 2021**

(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 third quarter 2021 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 ENERGY TECHNOLOGIES LTD.**  
**(formerly Hillcrest Petroleum Ltd.)**  
Condensed Interim Consolidated Statements of Financial Position  
(Expressed in Canadian Dollars)

	Notes	September 30, 2021	December 31, 2020
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 2,234,325	\$ 676,087
Receivables		293,934	121,312
Due from related party	7	-	129,805
Prepaid expenses		234,068	45,067
Right-of-use asset		183,490	103,128
<b>Total current assets</b>		2,945,817	1,075,399
<b>Non-current assets</b>			
Property, plant and equipment	4	402,585	-
Oil and gas interests	5	2,117,190	733,233
Intangible assets	6	1,550,000	-
<b>TOTAL ASSETS</b>		\$ 7,015,592	\$ 1,808,632
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	7	\$ 718,856	\$ 1,496,098
Loans		-	244,265
Lease liability		65,204	29,581
<b>Total current liabilities</b>		784,060	1,769,944
Lease liability		127,847	78,095
Decommissioning liability	8	363,629	388,190
<b>TOTAL LIABILITIES</b>		1,275,536	2,236,229
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>			
Share capital	9	25,854,754	12,431,471
Shares subscribed	9	-	672,500
Contributed surplus	9	4,157,105	1,605,683
Reserves	9	183,537	183,473
Deficit		(24,455,340)	(15,320,724)
<b>TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		5,740,056	(427,597)
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		\$ 7,015,592	\$ 1,808,632

Nature of operations and going concern (Note 1)  
Commitments (Note 10)  
Subsequent Events (Note 14)

On behalf of the Board of Directors:

"Kylie Dickson"  
Director

"Thomas Milne"  
Director

**HILLCREST ENERGY TECHNOLOGIES LTD.****(formerly Hillcrest Petroleum Ltd.)**

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Notes	Three Months Ended September 30		Nine Months Ended September 30	
		2021	2020	2021	2020
<b>Revenue and costs</b>					
Oil sales		\$ 20,487	\$ 198,811	\$ 575,935	\$ 445,213
Royalties		(11,555)	(41,265)	(141,442)	(88,878)
Operating costs		(58,049)	(170,319)	(249,994)	(350,825)
Depletion	5	(5,258)	(45,961)	(117,968)	(133,473)
		(54,375)	(58,734)	66,531	(127,963)
<b>General and administrative expenses</b>					
Management and consulting	7	273,575	548,376	1,082,446	599,591
Research and development		208,233	-	421,696	-
Office and general		431,301	383,180	1,549,612	532,591
Share-based compensation		385,445	383,513	6,109,482	383,513
Exploration and evaluation		-	1,600	-	1,600
		1,298,554	1,316,669	9,163,236	1,517,295
<b>Loss from operations</b>					
		(1,352,929)	(1,375,403)	(9,096,705)	(1,645,258)
Financing expenses		(17,539)	(42,185)	(27,146)	(119,894)
Change in fair value of embedded derivative liabilities		-	(53,143)	-	(53,143)
Foreign exchange gain (loss)		(7,679)	(16,236)	(10,765)	(18,111)
<b>Net loss</b>		<b>\$ (1,378,147)</b>	<b>\$ (1,486,967)</b>	<b>\$ (9,134,616)</b>	<b>\$ (1,836,406)</b>
<b>Items that may be subsequently reclassified to net loss</b>					
Exchange differences on translating foreign operations		(34)	2,317	64	3,389
<b>Comprehensive loss for the period</b>		<b>\$ (1,378,181)</b>	<b>\$ (1,484,650)</b>	<b>\$ (9,134,552)</b>	<b>\$ (1,833,017)</b>
<b>Basic and diluted loss per share</b>					
		(0.00)	(0.01)	(0.04)	(0.01)
<b>Weighted average common shares outstanding:</b>					
Basic		299,791,161	137,039,416	259,565,683	132,742,443
Diluted		299,791,161	137,039,416	259,565,683	132,742,443

**HILLCREST ENERGY TECHNOLOGIES LTD.**
**(formerly Hillcrest Petroleum Ltd.)**

 Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)  
 (Expressed in Canadian Dollars)

Notes	Share Capital		Reserves				Shareholders' Equity (Deficiency)	
	Number of shares	Amount	Shares subscribed	Contributed Surplus	Warrants	Foreign Currency Translation		Deficit
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Balance, December 31, 2019</b>	123,679,299	8,980,016	-	1,357,361	129,550	116,534	(13,073,487)	(2,490,026)
Exercise of options	2,500,000	125,000	15,000	-	-	-	-	140,000
Exercise of warrants	17,479,668	873,983	-	-	-	-	-	873,983
Private placement	20,442,000	1,022,100	(60,500)	-	-	-	-	961,600
Conversion of convertible debentures	2,600,000	130,000	-	-	-	-	-	130,000
Shared-based compensation	-	-	-	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)
<b>Balance, September 30, 2020</b>	166,700,967	11,106,355	(45,500)	1,740,874	129,550	119,923	(14,909,893)	(1,858,691)
<b>Balance, December 31, 2020</b>	184,920,696	12,431,471	672,500	1,605,683	63,550	119,923	(15,320,724)	(427,597)
Exercise of options	7,500,000	750,560	-	(375,560)	-	-	-	375,000
Exercise of warrants	46,019,534	4,379,453	-	-	-	-	-	4,379,453
Private placement	9(a) 25,340,000	1,267,000	(672,500)	-	-	-	-	594,500
Proceeds from equity facility	9(c) 13,176,470	2,240,000	-	-	-	-	-	2,240,000
Shares issued pursuant to joint development agreement	9(d) 2,750,000	591,250	-	-	-	-	-	591,250
Shares issued upon purchase of assets	9(b), 6 6,000,000	1,350,000	-	-	-	-	-	1,350,000
Conversion of convertible debentures	9(h) -	(164,805)	-	-	-	-	-	(164,805)
Redemption of RSUs	9(g) 14,200,000	3,182,500	-	(3,182,500)	-	-	-	-
Share-based compensation	-	-	-	6,109,482	-	-	-	6,109,482
Share issuance costs	588,235	(172,675)	-	-	-	-	-	(172,675)
Net loss and comprehensive loss for the period	-	-	-	-	-	64	(9,134,616)	(9,134,552)
<b>Balance, September 30, 2021</b>	300,494,935	25,854,754	-	4,157,105	63,550	119,987	(24,455,340)	5,740,056

**HILLCREST ENERGY TECHNOLOGIES LTD.**  
**(formerly Hillcrest Petroleum Ltd.)**  
Condensed Interim Consolidated Statements of Cash Flows  
(Expressed in Canadian Dollars)

	Three Months Ended September 30		Nine Months Ended September 30	
Notes	2021	2020	2021	2020
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>				
Net loss for the year	\$ (1,378,147)	\$ (1,486,967)	\$ (9,134,616)	\$ (1,836,406)
Adjusted for items not involving cash:				
Accretion expense	2,397	52	4,450	6,060
Accrued interest expense	5,642	71	13,807	58,993
Change in fair value of embedded derivative liabilities	-	53,143	-	53,143
Depletion and depreciation	19,072	29,220	149,461	133,473
Share-based compensation	385,445	383,513	6,109,482	383,513
Shares issued pursuant to joint development agreement	9(d) -	-	591,250	-
Decommissioning liability settled during the period	(39,856)	-	(39,856)	-
Unrealized foreign exchange	271	-	7	-
Changes in non-cash working capital items:				
Receivables	(20,352)	(41,769)	39,378	(51,491)
Prepaid expenses	(27,902)	(12,674)	(189,001)	(18,521)
Due from related party	-	-	(35,000)	-
License payments	-	15,000	-	-
Accounts payable and accrued liabilities	(571,836)	68,674	(923,331)	204,046
<b>Net cash flows used in operating activities</b>	<b>(1,625,266)</b>	<b>(991,737)</b>	<b>(3,413,969)</b>	<b>(1,067,190)</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>				
Additions to equipment	4 (364,280)	-	(404,506)	-
Additions to oil property	5 (106,646)	(67,100)	(1,345,000)	(97,546)
Intangible asset	6 -	-	(200,000)	-
<b>Net cash flows used in investing activities</b>	<b>(470,926)</b>	<b>(67,100)</b>	<b>(1,949,506)</b>	<b>(97,546)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Share subscriptions received in advance	-	(50,000)	-	-
Private placement	-	961,600	594,500	961,600
Exercise of options	30,000	140,000	375,000	140,000
Exercise of warrants	418,320	873,983	4,167,453	873,983
Proceeds from equity facility	-	-	2,240,000	-
Repayment of lease liability	(15,412)	-	(38,367)	-
Share issuance costs	-	(24,744)	(172,675)	(24,744)
Repayment of loan	-	(544,994)	(244,265)	(485,787)
Repayment of convertible debenture	-	(2,632)	-	-
<b>Net cash flows provided by financing activities</b>	<b>432,908</b>	<b>1,353,213</b>	<b>6,921,646</b>	<b>1,465,052</b>
<b>Effect of foreign exchange on cash</b>	<b>(31)</b>	<b>38</b>	<b>67</b>	<b>-</b>
<b>Increase (decrease) in cash</b>	<b>(1,663,315)</b>	<b>294,414</b>	<b>1,558,238</b>	<b>300,316</b>
<b>Cash, beginning of the period</b>	<b>3,897,640</b>	<b>47,651</b>	<b>676,087</b>	<b>41,749</b>
<b>Cash, end of the period</b>	<b>\$ 2,234,325</b>	<b>\$ 342,065</b>	<b>\$ 2,234,325</b>	<b>\$ 342,065</b>

## **HILLCREST ENERGY TECHNOLOGIES LTD.**

**(formerly Hillcrest Petroleum Ltd.)**

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Period Ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Hillcrest Energy Technologies Ltd. (formerly "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 is transitioning its business from oil and gas production to clean energy technology development and deployment and is currently building its capability to expand the scope of its activities in several new technology fields. The Company's registered office is Suite 1910 – 1030 West Georgia Street, Vancouver, BC, V6E 2Y3.

On March 30, 2021, the Company delisted from the TSX Venture Exchange and listed on the Canadian Securities Exchange ("CSE"), trading under the symbol "HEAT". Concurrent with the new listing on the CSE, the Company changed its name from Hillcrest Petroleum Ltd. to Hillcrest Energy Technologies Ltd.

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 November 24, 2021.

#### **(b) Basis of Measurement**

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments carried at fair value.

## HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Period Ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

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### 2. BASIS OF PREPARATION (continued)

#### (c) Basis of Consolidation

These consolidated financial statements include the accounts of the parent company, Hillcrest Energy Technologies 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.

<b>Name of Subsidiary</b>	<b>Jurisdiction of Incorporation</b>	<b>Principal Activity</b>
Hillcrest Exploration Ltd. ("HEL")	USA	Oil and Gas exploration
ALSET Innovation Ltd. 1198007 B.C. Ltd. ("ANIGO")	Canada	Clean Technology
2044573 Alberta Ltd.	Canada	Clean Technology
102031850 Saskatchewan Ltd.	Canada	Oil and Gas exploration
Hillcrest Resources (Arizona) Ltd. ("HARL")	USA	Oil and Gas exploration Dormant

#### (d) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars. The functional currency of the parent, ALSET Innovation Ltd., ANIGO, 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

In preparing these condensed consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ. Significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied in the most recent annual audited consolidated financial statements for the year ended December 31, 2020.

### 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, 2020.



**HILLCREST ENERGY TECHNOLOGIES LTD.****(formerly Hillcrest Petroleum Ltd.)**

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Period Ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

**4. PROPERTY, PLANT AND EQUIPMENT**

		R&D Equipment		IT Infrastructure		Office Furniture and Equipment		Total
<b>Cost</b>								
At December 31, 2020	\$	-	\$	-	\$	-	\$	-
Additions		327,842		48,256		28,408		404,506
<b>At September 30, 2021</b>	<b>\$</b>	<b>327,842</b>	<b>\$</b>	<b>48,256</b>	<b>\$</b>	<b>28,408</b>	<b>\$</b>	<b>402,506</b>
<b>Accumulated Depreciation</b>								
At December 31, 2020	\$	-	\$	-	\$	-	\$	-
Depreciation for the period		-		1,921		-		1,921
<b>At September 30, 2021</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>1,921</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>
<b>Net book value</b>								
At December 31, 2020	\$	-	\$	-	\$	-	\$	-
<b>At September 31, 2021</b>	<b>\$</b>	<b>327,842</b>	<b>\$</b>	<b>46,335</b>	<b>\$</b>	<b>28,408</b>	<b>\$</b>	<b>402,585</b>

**5. OIL AND GAS INTERESTS****Cost**

At December 31, 2019	\$	2,762,298
Additions		193,696
At December 31, 2020		2,955,994
Additions		1,501,925
<b>At September 30, 2021</b>	<b>\$</b>	<b>4,457,919</b>

**Accumulated depletion**

At December 31, 2019	\$	1,384,159
Depletion for the period		144,534
At December 31, 2020		1,528,693
Depletion for the period		117,968
<b>At September 30, 2021</b>	<b>\$</b>	<b>1,646,661</b>

**Impairment**

<b>At December 31, 2020 and September 30, 2021</b>	<b>\$</b>	<b>694,068</b>
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**Carrying amounts**

At December 31, 2020	\$	733,233
<b>At September 30, 2021</b>	<b>\$</b>	<b>2,117,190</b>

## HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Period Ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

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### 5. OIL AND GAS INTERESTS (continued)

#### West Hazel, Saskatchewan

In February 2019, three wells under the West Hazel 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. 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%

During the nine-month period ended September 30, 2021, the Company incurred costs of \$1,501,925 related to drilling a short horizontal lateral oil well with multi-zone production potential.

#### Impairment

During the year ended December 31, 2020 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 \$2.695 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, 2020, the Company's estimated total Proven and Probable Reserves were 288.6 Mboe. Assumptions for the fair value calculation are based on the 2020 year end reserves report and included heavy oil prices ranging from \$42 – \$52 bbl. (2021 – 2026) and an inflation rate of 2%.

During the nine month period ended September 30, 2021, the Company reviewed the carrying value of its oil and gas interests and determined there were no indicators of impairment.

### 6. INTANGIBLE ASSETS

On April 7, 2021, the Company acquired all of the issued and outstanding shares in the capital of ANIGO Technologies Inc. ("ANIGO"), an engineering product development company in the business of developing proven electric machine control software intellectual property ("IP"). The aggregate purchase price of \$1,550,000 for ANIGO was comprised of a cash consideration of \$200,000 and the issuance of 6,000,000 common shares of the Company at a price of \$0.225, for a fair value of \$1,350,000. The Company, through ANIGO, acquired a portfolio of software IP. Management determined all the value was attributable to the software IP acquired.

### 7. RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the three and nine month period ended September 30, 2021 and 2020. 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:

**HILLCREST ENERGY TECHNOLOGIES LTD.****(formerly Hillcrest Petroleum Ltd.)**

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Period Ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

**7. RELATED PARTY TRANSACTIONS (continued)**Key management compensation

	<b>Three Month Period Ended</b>		<b>Nine Month Period Ended</b>	
	<b>September 30, 2021</b>	<b>September 30, 2020</b>	<b>September 30, 2021</b>	<b>September 30, 2020</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Management salaries and consulting fees paid or accrued to officers or corporations, controlled by officers of the Company	202,645	238,838	444,645	286,736
Director fees paid or accrued to directors	34,480	-	67,918	-
Share based payments	154,857	271,706	3,917,102	271,706
	<b>391,982</b>	<b>510,544</b>	<b>4,429,665</b>	<b>558,442</b>

- a) As at September 30, 2021, a total of \$36,909 (December 31, 2020 - \$Nil) 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, 2021, the Company was owed \$Nil (December 31, 2020 - \$129,805) from the CEO.

**8. DECOMMISSIONING LIABILITY**

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Hartburg Project was \$8,924 (US\$7,200) as at September 30, 2021 (September 30, 2020 - \$10,957 (US\$8,436)). The provision has been estimated using a risk-free discount rate of 0.33% (September 30, 2020 - 1.98%) and an inflation rate of 2.00% (September 30, 2020 - 2.00%).

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Flaxcombe Project was \$50,000 as at September 30, 2021 (September 30, 2020 - \$60,950). The provision has been estimated using a risk-free discount rate of 0.58% (September 30, 2020 - 1.98%) and an inflation rate of 2.00% (September 30, 2020 - 2.00%).

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the West Hazel assets was \$283,690 as at September 30, 2021 (September 30, 2020 - \$338,391). \$39,856 was settled during the period ending September 30, 2021. The provision has been estimated using a risk-free discount rate of 0.58% (September 30, 2020 - 1.68%) and an inflation rate of 2.00% (September 30, 2020 - 2.00%).

**9. SHARE CAPITAL****Authorized**

Unlimited number of common shares without par value

**Issued and outstanding**Nine Month Period Ended September 30, 2021

- a) The Company issued 25,340,000 units in connection with a private placement at \$0.05 per unit for gross proceeds of \$1,267,000, \$672,500 of which were received during 2020. Each unit consists of one common share and one share purchase warrant. Each warrant will be exercisable into an additional common share of the Company at a price of \$0.10 per share for a period of two years.

**HILLCREST ENERGY TECHNOLOGIES LTD.****(formerly Hillcrest Petroleum Ltd.)**

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Period Ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

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**9. SHARE CAPITAL** (continued)

- b) The Company acquired ANIGO and issued 6,000,000 common shares as part of the acquisition (Note 6).
- c) The Company closed an equity facility agreement, which provides for unit private placement offerings over a 12-month period commencing April 9, 2021. Each unit consists of one common share and one-half of one common share purchase warrant. On April 9, 2021, the Company closed the First Tranche in the amount of \$2,240,000, pursuant to which the Company issued 13,176,470 units consisting of 13,176,470 common shares and 6,588,235 warrants exercisable at a price of \$0.26 per common share until April 9, 2023. In connection with the First Tranche, the Company issued an investor fee of CDN \$100,000, paid in 588,235 common shares.
- d) The Company issued 2,750,000 common shares and 2,000,000 performance-based warrants to Systematec GmbH ("Systematec") as part of a Joint Development Agreement under which the Company and Systematec would engage in joint development activities. The warrants issued are exercisable at \$0.24 per share, which will vest when the Company's value from joint development commercialization revenues exceeds funds contributed to the collaboration with Systematec to that date.
- e) A total of 7,500,000 stock options were exercised for gross proceeds of \$375,000.
- f) A total of 46,019,534 warrants were exercised for gross proceeds of \$4,379,453.
- g) A total of 14,200,000 Restricted Share Units ("RSUs") vested and were redeemed into 14,200,000 common shares.
- h) Included in share capital is \$164,805 related to the Company's reimbursement of its CEO of the cost of paying, substantially on behalf of the Company, a debt owing to a third-party creditor for amounts initially advanced to the Company, in the name of the CEO, under a convertible debenture. This debenture had converted to common shares in 2019; however, the aggregate proceeds realized at current market value were deficient, by this above-noted amount, relative to the remaining outstanding debt then owed to the third-party creditor.

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 on 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.
- 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 common shares in connection with the exercising of stock options at \$0.05 for gross proceeds of \$125,000.

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**9. SHARE CAPITAL** (continued)**Share Purchase Warrants**Nine Month Period Ended September 30, 2021

- a) A total of 26,015,200 warrants were issued at \$0.10 per share for a period of two years.
- b) A total of 2,000,000 performance-based warrants were issued at \$0.24 per share, which will vest when the Company's value from joint development commercialization revenues exceeds funds contributed to the collaboration with Systematec to that date (Note 9(d)).
- c) A total of 46,019,534 share purchase warrants were exercised for gross proceeds of \$4,379,453.
- d) A total of 200,000 share purchase warrants exercisable at \$0.05 and 32,000 share purchase warrants exercisable at \$0.10 expired unexercised on May 10, 2021.
- e) A total of 14,781,500 incentive warrants were issued at \$0.25 per share for a period of one and a half years.

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

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>
		(\$)
Balance, December 31, 2019	29,749,112	0.05
Issued	27,700,668	0.09
Exercised	(22,594,445)	0.05
Expired	(6,582,667)	0.06
Balance, December 31, 2020	28,272,668	0.09
Issued	42,796,700	0.16
Exercised	(46,019,534)	0.10
Expired	(232,000)	0.06
<b>Balance, September 30, 2021</b>	<b>24,817,834</b>	<b>0.20</b>

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**9. SHARE CAPITAL** (continued)

The following table summarizes the share purchase warrants outstanding as at September 30, 2021:

Number of Warrants	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
	(\$)		(yrs)
2,971,000	0.07	July 14, 2022	0.79
593,334	0.10	September 1, 2022	0.92
14,781,500	0.25	January 5, 2023	1.27
4,472,000	0.10	January 18, 2023	1.30
2,000,000	0.24	April 30, 2026	4.58
24,817,834	0.20		1.48

**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 plan, the aggregate number of securities reserved for issuance under the plan, at any point in time, will not exceed 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 CSE at the time of grant. All unexercised options granted under the plan will expire by the date fixed by the Board of Directors at the time the option is granted.

The Company granted an aggregate of 13,000,000 stock options during the period ended September 30, 2021. The options vested immediately, and the Company expensed \$2,852,018 as share-based compensation.

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

	<b>2021</b>
Risk-free interest rate	0.81-0.96%
Expected life of options	5 years
Volatility	142%
Expected Dividend yield	Nil
Forfeiture rate	5%
Weighted average fair value	\$0.23

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**9. SHARE CAPITAL** (continued)

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

	Number of Options	Weighted Average Exercise Price (\$)
Balance, December 31, 2019	4,650,000	0.06
Issued	9,100,000	0.05
Repriced – original prices	(2,050,000)	0.07
Repriced – amended prices	2,050,000	0.05
Exercised	(2,800,000)	0.05
Balance, December 31, 2020	10,950,000	0.05
Issued	13,000,000	0.23
Exercised	(7,500,000)	0.05
Balance, September 30, 2021	16,450,000	0.19

The following table summarizes the stock options outstanding and exercisable as at September 30, 2021:

Number of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price (\$)	Expiry Date	Weighted Average Remaining Contractual Life (yrs)
100,000	100,000	0.05	February 21, 2022	0.39
3,350,000	3,350,000	0.05	July 8, 2025	3.77
10,200,000	10,200,000	0.24	April 8, 2026	4.52
600,000	600,000	0.24	May 19, 2026	4.64
1,700,000	1,700,000	0.20	August 30, 2026	4.92
500,000	500,000	0.20	September 16, 2026	4.96
16,450,000	16,450,000	0.19		4.40

**Restricted Share Units ("RSUs")**

In November of 2019, the Company established a Restricted Share Unit ("RSU") plan known as the "Hillcrest Restricted Share Unit Plan," which provides for the issuance of RSUs in such amounts as approved by the Company's Board of Directors. The purpose of this Plan is to allow for certain discretionary bonuses and similar awards as an incentive and reward for selected Eligible Persons related to the achievement of long-term financial and strategic objectives of the Company and the resulting increases in shareholder value.

The aggregate maximum number of common shares made available for issuance under the plan shall not exceed 10% of the number of outstanding common shares. The plan is a "rolling plan" and therefore, when RSUs are cancelled, terminated, or redeemed, common shares will be available for issuance pursuant to RSUs granted under the plan.

The grant of an RSU award shall entitle the participant to the right to receive at the election of the Company, either one common share or an amount in cash equal to the market price of one common share on the settlement date. RSUs settled in common shares are equity-settled and the related share-based compensation expense is measured at fair value based on the Company's share price on the date of grant subject to vesting criteria.

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**9. SHARE CAPITAL** (continued)

The share-based compensation expense related to RSUs settled in cash are accrued over the vesting period of the units based on the Company's share price on the date of grant. As these awards will be settled in cash, the expense and liability are adjusted each reporting period for changes in the underlying share price.

On April 7, 2021, the Company granted 14,700,000 RSUs to certain directors, officers, consultants, and employees under the Hillcrest Restricted Share Unit Plan. 14,200,000 RSUs vested immediately and were redeemed for common stock of the Company. 500,000 RSUs are subject to vesting criteria and will be redeemed for common stock of the Company on a staggered vesting schedule. The Company recorded \$3,257,464 in total share-based compensation expense in 2021.

As at September 30, 2021, restricted share units were outstanding as follows:

	Number of Units	Weighted Average Fair Value (\$)
Balance, December 31, 2020	-	-
Issued	14,700,000	0.22
Redeemed	(14,200,000)	0.22
Balance, September 30, 2021	500,000	0.22

**10. COMMITMENTS**

The Company had the following commitments as at September 30, 2021:

- a) On November 19, 2020, the Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, commencing December 1, 2020 and terminating on November 30, 2023, to accommodate the Company's corporate operations. Pursuant to this agreement, the Company has a commitment to lease office space at a base rent rate of \$45,910 per annum, plus common costs and taxes. This rental agreement is being accounted for under IFRS 16 – Right-of-use asset and corresponding lease liability on the balance sheet.
- b) On July 19, 2021, the Company entered into an office and warehouse rental agreement in Vancouver, British Columbia with a term of 36 months, commencing September 1, 2021 and terminating on August 31, 2024, to develop its clean energy technology and IP. Pursuant to this agreement, the Company has a commitment to lease office space at a base rent rate of \$47,209 per annum, plus common costs and taxes. This rental agreement is being accounted for under IFRS 16 – Right-of-use asset and corresponding lease liability on the balance sheet.

**11. SEGMENTED INFORMATION**

Management determined that the Company has two reportable operating segments, being the acquisition, exploration, development and production of oil and gas reserves in Canada and the United States and the development and deployment of its clean energy technology in Canada and Europe. Corporate includes the Company's head office, general corporate administration and activity and intercompany eliminations. Determination of the operating segment was based on the level of financial reporting to the Company's chief decision makers. For the year ended December 31, 2020 and nine-month period ended September 30, 2021, all revenues were derived from operations in Canada. At December 31, 2020 all non-current assets were located in Canada and at September 30, 2020 \$6,930,680 of non-current assets were located in Canada and \$84,912 of non-current assets were in Europe (September 30, 2020 - all revenues were derived from operations in Canada and all non-current assets were located in Canada).



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**11. SEGMENTED INFORMATION (continued)**

<b>Nine months ended September 30, 2021</b>				
	Oil and Gas	Clean Energy	Corporate	Total
	\$	\$	\$	\$
Revenues	575,935	-	-	575,935
Cost of sales	(509,404)	-	-	(509,404)
Gross profit (loss)	66,531	-	-	66,531
General and administration	41,201	554,238	8,567,797	9,163,236
Income (loss) from operations	25,330	(554,238)	(8,567,797)	(9,096,705)
Net finance expenses	(7,935)	-	(19,211)	(27,146)
Non-operating expenses	-	-	(10,765)	(10,765)
Net income (loss)	17,395	(554,238)	(8,597,773)	(9,134,616)
Capital expenditures	1,345,000	578,355	26,151	1,949,506
Total assets	2,209,313	2,065,154	2,741,125	7,015,592

<b>Nine months ended September 30, 2020</b>				
	Oil and Gas	Clean Energy	Corporate	Total
	\$	\$	\$	\$
Revenues	445,213	-	-	445,213
Cost of sales	(573,176)	-	-	(573,176)
Gross profit (loss)	(127,963)	-	-	(127,963)
General and administration	150,033	-	1,367,262	1,517,295
Loss from operations	(277,996)	-	(1,367,262)	(1,645,258)
Net finance expenses	(4,623)	-	(115,271)	(119,894)
Non-operating expenses	-	-	(71,254)	(71,254)
Net loss	(282,619)	-	(1,553,787)	(1,836,406)
Capital expenditures	97,546	-	-	97,546
Total assets	860,327	-	325,440	1,185,767

**12. 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 and development of its clean energy technology. 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 clean technology, research and development activities 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 clean technology opportunities and seek to acquire an interest in additional technologies if it feels there is sufficient economic potential and if it has adequate available or committed financial resources to complete such acquisitions.

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**12. CAPITAL MANAGEMENT** (continued)

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, 2021. The Company is not subject to externally imposed capital requirements.

**13. FINANCIAL INSTRUMENTS***Fair values*

The Company's financial instruments include cash, receivables, accounts payable and accrued liabilities, loans, and lease obligations. The carrying amounts of these financial instruments are a reasonable estimate of their fair values based on their current nature and current market rates for similar financial instruments. Derivative financial instruments are the only instruments measured at fair value through profit and loss in accordance with IFRS 9 – Financial Instruments, which requires the classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

**14. SUBSEQUENT EVENTS**

- a) Subsequent to period end, the Company is exploring all opportunities related to its oil and gas production, including a potential exit. Consistent with the Company's commitment to environmental best practices and social responsibility, early well abandonment and remediation activities were commenced for non-commercial wells on the property with continued related site remediation activities planned for 2022. Analysis is ongoing to determine whether performance from the newly drilled well could support additional development wells. Although the Company does not intend any further development, if oil production potential from the Waseca zone can demonstrate sufficient drilling prospectivity, the Company may be able to divest its oil and gas assets for some positive value, as a preferred alternative to full field abandonment.
- b) Subsequent to period end, 500,000 share purchase warrants were exercised for gross proceeds of \$50,000.