



Hillcrest Petroleum

(formerly Hillcrest Resources Ltd.)

Consolidated Financial Statements

December 31, 2015 and 2014 *(Restated)*

(Expressed in Canadian Dollars)



April 29, 2016

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 statement of financial position as at December 31, 2015 and the consolidated statement of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the year 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 audit. We conducted our audit 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 is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP

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"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, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

We have also audited the adjustments to the consolidated financial statements (restated) for the year ended December 31, 2014 arising from the correction of errors described in Note 21. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements (restated) for the year ended December 31, 2014 other than with respect to the adjustments described above and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements (restated) for the year ended December 31, 2014 taken as a whole.

Emphasis of matter paragraphs

As discussed in Note 21 to the consolidated financial statements, the consolidated financial statements for the year ended December 31, 2014 have been restated to correct errors.

Without qualifying our opinion, we draw attention to Note 1 in the 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.

Other matter

The consolidated financial statements as at December 31, 2014 and for the year then ended were audited by other auditors who expressed an opinion without reservation in their report dated April 30, 2015.

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

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HILLCREST PETROLEUM LTD.

(formerly Hillcrest Resources Ltd.)

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	December 31, 2015	December 31, 2014
	(\$)	(Restated) (\$)
ASSETS		
Current assets		
Cash	198,581	619,317
Accounts receivable	305,095	480,890
GST receivable	5,953	12,004
Short-term investments (Note 4)	34,659	-
Prepaid expenses	228,338	249,035
Restricted Cash (Note 12)	-	2,320,201
Total current assets	772,626	3,681,447
Non-current assets		
Restricted Cash (Note 12)	2,456,013	-
Deferred financing costs	-	63,792
Exploration and evaluation assets (Note 7)	87,545	1,417,260
Property and equipment (Notes 6 and 21)	11,892,067	22,796,886
TOTAL ASSETS	15,208,251	27,959,385
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	4,667,255	3,015,457
Secured loan (Note 9)	418,841	1,000,000
Current portion of decommissioning liability (Note 12)	2,061,484	898,053
Current portion of unsecured loans (Note 10)	227,583	45,498
Total current liabilities	7,375,163	4,959,008
Unsecured loans (Note 10)	212,176	-
Decommissioning liability (Note 12)	11,578,388	13,418,575
TOTAL LIABILITIES	19,165,727	18,377,583
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 13)	5,708,384	5,707,184
Share subscription receivable	-	(46,000)
Contributed surplus	949,834	949,834
Reserves	1,112,538	(3,507)
Deficit (Note 21)	(11,728,232)	2,974,291
	(3,957,476)	9,581,802
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY (DEFICIENCY)	15,208,251	27,959,385

Nature of operations and going concern (Note 1)**Commitments and contingencies (Note 14)****Subsequent events (Note 22)**

These consolidated financial statements were authorized for issue by the Board of Directors on April 29, 2016.

They were signed on the Board's behalf by:

"Don Currie"

Director

"Thomas Milne"

Director

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

HILLCREST PETROLEUM LTD.

(formerly Hillcrest Resources Ltd.)

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

(Expressed in Canadian dollars)

	Year Ended December 31, 2015	Year Ended December 31, 2014
	(\$)	(Restated) (\$)
Revenue, net of royalties	3,925,785	1,163,004
Expenses		
Operating costs	3,015,467	495,632
Financing expenses (Notes 20 and 21)	745,814	347,521
Consulting fees (Note 11)	737,939	290,223
Depletion and depreciation (Note 6)	2,791,793	696,579
Office and general (Note 20)	2,004,349	422,249
Stock-based compensation	-	11,779
	9,295,362	2,263,983
Loss from operations	(5,369,577)	(1,100,979)
Bargain purchase gain (Note 21)	-	7,468,992
Interest Income	29	79
Impairment of oil and gas properties (Note 6)	(7,790,717)	-
Impairment of exploration and evaluation assets (Note 7)	(826,501)	-
Impairment of short-term investments (Note 4)	(162,642)	-
Overriding royalty interest on secured loan (Note 9)	(35,912)	(44,875)
Acquisition costs	-	(15,769)
Loss on disposal of oil and gas properties	-	(38,970)
Loss on disposal of exploration and evaluation assets	(421,083)	(3,350)
Foreign exchange gain (loss)	(96,120)	14,289
Income (loss) for the year	(14,702,523)	6,279,417
Item that may be subsequently reclassified to net loss		
Exchange differences on translating foreign operations	1,116,045	(34,127)
Comprehensive income (loss)	(13,586,478)	6,245,290
Earnings (loss) per share:		
Basic	(0.29)	0.16
Diluted	(0.29)	0.16
Weighted average common shares outstanding:		
Basic	50,295,655	39,657,025
Diluted	50,295,655	39,905,619

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

HILLCREST PETROLEUM LTD.

(formerly Hillcrest Resources Ltd.)

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian dollars)

	Share Capital		Share Subscription Receivable	Contributed Surplus	Reserves		Deficit	Shareholders' Equity (Deficiency)
	Number of Shares	Amount			Warrants	Foreign Currency Translation		
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Balance, December 31, 2013	39,570,655	5,182,619	-	926,289	40,843	-	(3,305,126)	2,844,625
Issued for cash pursuant to the exercise of options	100,000	6,000	-	-	-	-	-	6,000
Issued for cash pursuant to private placements	10,625,000	531,250	(46,000)	-	-	-	-	485,250
Share issuance costs	-	(17,811)	-	-	6,669	-	-	(11,142)
Stock-based compensation	-	-	-	11,779	-	-	-	11,779
Transfer share capital on exercise options	-	5,126	-	(5,126)	-	-	-	-
Transfer expired warrants to contributed surplus	-	-	-	16,892	(16,892)	-	-	-
Currency translation adjustment	-	-	-	-	-	(34,127)	-	(34,127)
Income for the year (Note 21)	-	-	-	-	-	-	6,279,417	6,279,417
Balance, December 31, 2014 (Restated)	50,295,655	5,707,184	(46,000)	949,834	30,620	(34,127)	2,974,291	9,581,802
Cash received from share subscription	-	-	46,000	-	-	-	-	46,000
Currency translation adjustment	-	-	-	-	-	1,116,045	-	1,116,045
Share issuance cost recovery	-	1,200	-	-	-	-	-	1,200
Loss for the year	-	-	-	-	-	-	(14,702,523)	(14,702,523)
Balance, December 31, 2015	50,295,655	5,708,384	-	949,834	30,620	1,081,918	(11,728,232)	(3,957,476)

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

HILLCREST PETROLEUM LTD.
(formerly Hillcrest Resources Ltd.)
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year Ended December 31, 2015	Year Ended December 31, 2014
	(\$)	(Restated) (\$)
Income (loss) for the year	(14,702,523)	6,279,417
Adjusted for items not involving cash:		
Accretion	480,914	31,829
Accrued interest expense	597	1,498
Bargain purchase gain	-	(7,468,992)
Debt issue costs	78,375	127,584
Depletion and depreciation	2,791,955	696,579
Impairment of exploration and evaluation assets	826,501	-
Impairment of oil and gas properties	7,790,717	-
Impairment of short-term investments	162,642	-
Loss on disposal of oil and gas properties	-	38,970
Loss on disposal of exploration and evaluation assets	421,083	3,350
Stock-based compensation	-	11,779
Unrealized foreign exchange gain	238,484	(6,194)
Changes in non-cash working capital:		
Accounts receivable and other	122,310	400,614
Prepaid expenses	6,114	(31,661)
GST receivable	6,051	2,327
Accounts payable and accrued liabilities	1,180,382	(215,391)
Cash flows used in operating activities	(596,398)	(128,291)
Cash acquired upon acquisition of Hillcrest (GOM), net	-	429,546
Release of restricted cash	282,209	-
Proceeds from disposal of oil and gas properties	-	135,525
Proceeds from disposal of exploration and evaluation assets	52,049	359,103
Oil and gas property expenditures	-	(1,307,011)
Purchase of equipment	(7,888)	-
Exploration and evaluation expenditures	(38,429)	(121,740)
Cash flows provided by (used in) investing activities	287,941	(504,577)
Proceeds from exercise of stock options	-	6,000
Proceeds from issuance of common shares	-	485,250
Proceeds from share subscriptions	46,000	-
Proceeds from unsecured loan, net of repayments	393,000	44,000
Repayment of secured loan	(581,159)	-
Share issuance costs	-	(11,142)
Cash flows provided by (used in) financing activities	(142,159)	524,108
Change in cash	(450,616)	(108,760)
Effect of exchange rate changes on cash denominated in a foreign currency	29,880	5,362
Cash, beginning of the year	619,317	722,715
Cash, end of the year	198,581	619,317
Supplemental cash flow information (Note 19)		

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

Hillcrest Petroleum Ltd.

(formerly Hillcrest Resources Ltd.)

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

(Expressed in Canadian dollars)

1. Nature of Operations and Going Concern

Hillcrest Petroleum Ltd. (the "Company") was incorporated on May 2, 2006 under the Business Corporations Act of British Columbia, and is in the business of acquiring, exploring and developing exploration interests in oil and gas projects in the United States of America. Effective March 10, 2015, the Company changed its name from Hillcrest Resources Ltd. to Hillcrest Petroleum Ltd. The Company's registered office is suite 1700 – 3050 Post Oak Blvd, Houston, Texas 77056. The Company's shares are listed for trading on the TSX Venture Exchange ("TSX-V") under the symbol "HRH" and on the OTCQB Exchange under the symbol "HLRTF".

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

These consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company incurred a loss for the year of \$14,702,523 and had a working capital deficiency of \$6,602,537 during and as at the year ended December 31, 2015. The Company's ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent on the continued financial support of the creditors and the shareholders and ultimately, the attainment of profitable operations. There is no certainty that the Company will continue to produce revenue due to the inherent production risks associated with the oil and natural gas industry. In the past, the Company has relied on sales of equity securities, debt instruments and asset sales to meet its cash requirements. There can be no assurance that funding from this or other sources will be sufficient in the future to satisfy operational requirements and cash commitments. Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to it. Failure to obtain such financing on a timely basis could cause the Company to reduce or terminate its operations. Due to the conditions and events as noted above, there is material uncertainty casting significant doubt on the Company's ability to continue as a going concern. These 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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee effective for the Company's reporting for the year ended December 31, 2015.

These consolidated financial statements were authorized by the Audit Committee and Board of Directors of the Company on April 29, 2016.

Hillcrest Petroleum Ltd.

(formerly Hillcrest Resources Ltd.)

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

(Expressed in Canadian dollars)

2. Basis of Preparation (continued)

(b) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, using the accrual basis of accounting, except for cash flow information and certain financial assets that are measured at fair value as explained in the significant accounting policies set out in Note 3.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars which is the functional currency of the parent, while the US dollar is the functional currency of the Company's subsidiaries.

(d) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its and its wholly-owned subsidiaries, Hillcrest Exploration Inc., Hillcrest Resources (Arizona) Ltd. and Hillcrest GOM Inc. (formerly Gulfsands Petroleum USA Inc.) ("HGOM"), including HGOM's wholly-owned subsidiary Darcy Energy LLC. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(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:

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.

Hillcrest Petroleum Ltd.

(formerly Hillcrest Resources Ltd.)

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

(Expressed in Canadian dollars)

2. Basis of Preparation (continued)

(e) Use of Estimates and Judgements (continued)

The Carrying Value of Exploration and Evaluation Assets and Oil and Gas Properties

Exploration and evaluation assets require judgment as to whether future economic benefits exist, including the existence of proven reserves and the ability to finance exploration and evaluation projects, where technical feasibility and commercial viability has not yet been determined. Amounts used for oil and gas properties impairment testing and calculations are based on estimates of future commodity prices, royalties, expected volumes, quantity of reserves and discount rate as well as future development and operating costs. These calculations require the use of estimates and assumptions which, by their nature, are subject to measurement uncertainty. Judgment is also exercised as to whether there have been indicators of impairment or impairment reversal. Indicators of impairment or impairment reversal may include, but are not limited to changes in market value of assets, estimate of future prices and costs, estimated quantity of reserves and appropriate discount rate.

Petroleum and Natural Gas Reserves

The Company's reserves are evaluated and reported on by independent reserve engineers. Reserve estimates have a material impact on depletion expense, testing for impairment, and decommissioning liabilities, all of which could possibly have a material impact on the consolidated financial statements. The estimation of economically recoverable oil and natural gas reserves is also based on a number of variable factors and assumptions, including historical production, production rates and declines, timing and amount of capital expenditures, marketability, future commodity prices, royalty rates and production costs. Management reviews information as it becomes available and makes changes to its estimations where necessary. Such changes may result in a material impact on the consolidated financial statements.

Decommissioning Liabilities

Amounts recorded for decommissioning obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognised in the period when it becomes probable that there will be a future cash outflow.

Share-based Payments

The fair value of stock options issued are subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Deferred income taxes

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. The Company has adequately provided for all income tax obligations, however, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in the Company's provision for deferred income taxes.

Hillcrest Petroleum Ltd.

(formerly Hillcrest Resources Ltd.)

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

(Expressed in Canadian dollars)

2. Basis of Preparation (continued)

(e) Use of Estimates and Judgements (continued)

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 to be the Canadian dollar, and that of each subsidiary to be the US dollar. Determination of the functional currency may involve certain judgments to determine the primary economic environment. The functional currency may change if there is a change in events and conditions which determines 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.

Carrying value and the recoverability of property and equipment

The Company reviews its equipment for impairment whenever there is a change in events or circumstances 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 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 month except for significant individual transactions which are translated at the rate of exchange in effect at the transaction date. All assets and liabilities, including fair value adjustments and goodwill arising on acquisition, are translated at the rate of exchange ruling at the reporting date. Differences arising on translation from the transition date are recognized as other comprehensive income.

Hillcrest Petroleum Ltd.

(formerly Hillcrest Resources Ltd.)

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

(Expressed in Canadian dollars)

3. Significant Accounting Policies

(a) Foreign Currency Translation (continued)

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of the net investment in a foreign operation and are recognized in other comprehensive income. On disposal of part or all of the operations, the proportionate share of the related cumulative gains and losses previously recognized in the comprehensive income are included in determining the profit or loss on disposal of that operation. The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency, while the US dollar is the functional currency of the Company's 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 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 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.

Hillcrest Petroleum Ltd.

(formerly Hillcrest Resources Ltd.)

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(c) Property and Equipment (continued)

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 if appropriate.

(d) Impairment of Non-Financial Assets

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

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

If the carrying amount exceeds the recoverable amount, the asset or CGU is recorded at its recoverable amount with the reduction recognized in net income (loss) 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.

(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.

Hillcrest Petroleum Ltd.

(formerly Hillcrest Resources Ltd.)

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(f) Decommissioning and Restoration Costs

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

As at December 31, 2015, the Company has accrued \$13,639,872 in asset retirement obligations (2014 - \$14,316,628) related to its oil and gas and mineral exploration properties.

(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 and the risks specific to the liability. Provisions are not recognised for future operating losses.

(h) 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.

Financial assets

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.

Hillcrest Petroleum Ltd.

(formerly Hillcrest Resources Ltd.)

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(h) Financial Instruments (continued)

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. All derivative financial instruments fall into this category. 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.
- *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 has classified short-term investments 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 Company currently does not hold financial liabilities in 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.

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3. Significant Accounting Policies (continued)

(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.

(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 service.

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

(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.

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(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(m) Taxes (continued)

Deferred income tax

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

Deferred tax is not recognized for the following temporary differences:

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

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

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) Adoption of New Standards and Interpretations, and Recent Accounting Pronouncements

Effective January 1, 2015, the following standards were adopted but have had no material impact on the financial statements:

IFRS 7, Financial Instruments – Disclosure

Amended to require additional disclosures on transition from IAS 39 to IFRS 9

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Year Ended December 31, 2015

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3. Significant Accounting Policies (continued)

(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 effective. The pronouncements are being assessed to determine their impact on the Company's results and financial position.

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

IFRS 9, Financial instruments

This standard was issued in November 2009 and covers the classification and measurement of financial assets as part of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income.

IFRS 15, Revenue from Contracts with Customers

This standard was issued in May 2014 and will be the new standard for the recognition of revenue, replacing IAS 18, Revenue. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The following standards, amendments to standards and interpretations have been issued for annual periods beginning on or after January 1, 2019 but are not yet effective:

IFRS 16, Leases

This standard was issued in January 2016 and specifies how an issuer will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has an insignificant value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Company has not yet assessed the potential impact of the application of these standard, nor determined whether it will adopt the standards early.

4. Short-term Investments

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

During the year ended December 31, 2015, the Company recorded an impairment loss of \$162,642 (2014 - \$Nil). As at December 31, 2015, the Company held 250,000 common shares of Black Stallion with a fair value of \$34,659.

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Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars)

5. HGOM Acquisition

On December 19, 2014, the Company completed a Share Purchase Agreement (the "SPA") to acquire all of the issued and outstanding common shares of Hillcrest GOM Inc.,(formerly Gulfsands Petroleum USA) ("HGOM") in consideration of \$58,195 (US\$50,000) in cash. HGOM holds a portfolio of non-operated oil and gas properties, which are located in the Gulf of Mexico, within the shallow water "shelf" region offshore Louisiana. See note 21 for further disclosure.

6. Property and Equipment

	Computer	Oil and Gas Interests	Total
	(\$)	(\$)	(\$)
Cost			
At December 31, 2013	13,520	1,694,668	1,708,188
Additions	4,821	15,115,985	15,120,806
Change in decommissioning estimate	-	7,463,389	7,463,389
Disposals	-	(235,925)	(235,925)
At December 31, 2014	18,341	24,038,117	24,056,458
Additions	7,888	-	7,888
Change in decommissioning estimate	-	(4,060,913)	(4,060,913)
Foreign exchange movement	1,395	4,029,315	4,030,710
At December 31, 2015	27,624	24,006,519	24,034,143
Accumulated depletion and depreciation			
At December 31, 2013	13,155	593,508	606,663
Depletion and depreciation for the year	188	696,391	696,579
Disposals	-	(43,670)	(43,670)
At December 31, 2014	13,343	1,246,229	1,259,572
Depletion and depreciation for the year	5,262	2,786,531	2,791,793
Foreign exchange movement	284	300,297	300,581
At December 31, 2015	18,889	4,333,057	4,351,946
Impairment			
At December 31, 2013 and 2014	-	-	-
Impairment for the year	-	7,790,130	7,790,130
At December 31, 2015	-	7,790,130	7,790,130
Net book value			
At December 31, 2014	4,998	22,791,888	22,796,886
At December 31, 2015	8,735	11,883,332	11,892,067

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6. Property and Equipment (continued)

The Company included future development costs of \$3,336,944 (2014 - \$2,978,093) in property, plant and equipment costs subject to depletion.

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

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

The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates and commodity prices. A 1% increase (decrease) in the discount rate would have decreased (increased) the fair value estimate by \$584,534. In addition, a 10% increase (decrease) in the estimated future cash flows would have increased (decreased) the fair value estimate by \$1,953,523.

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

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

Gulf of Mexico Properties

On December 19, 2014, the Company completed the purchase of HGOM, a Texas based company that holds a portfolio of non-operated oil and gas properties located in the Gulf of Mexico, within the shallow water "shelf" region offshore Louisiana. These oil and gas properties comprise 7 leases containing 5 producing fields. Working interests in these leases range from approximately 4.0% to 26.3%.

Hartburg Project, Texas

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

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

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

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7. Exploration and Evaluation Assets

	Muddy Creek	Woodrow	Donner 4	Carrera Prospect	Total
	(\$)	(\$)	(\$)	(\$)	(\$)
Balance at December 31, 2013	481,100	897,493	250,087	297,272	1,925,952
Additions	-	-	729,775	103,848	833,623
Reclassified to oil & gas properties	-	-	(979,862)	-	(979,862)
Disposals	(135,394)	(227,059)	-	-	(362,453)
Balance at December 31, 2014	345,706	670,434	-	401,120	1,417,260
Additions	-	-	-	38,429	38,429
Disposals	-	(670,434)	-	-	(670,434)
Impairment	(345,706)	-	-	(480,795)	(826,501)
Foreign exchange movement	-	-	-	128,791	128,791
Balance at December 31, 2015	-	-	-	87,545	87,545

Muddy Creek Project with Longshot Oil, LLC – Montana

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

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

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

Woodrow Project with Bakken Oil Holdings LLC – Montana

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

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

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

On October 2, 2015, the Company sold its remaining 50% interest to Black Stallion Oil and Gas, Inc. (“Black Stallion”) in exchange for \$65,062 (US\$50,000) cash and 500,000 common shares of Black Stallion, payable 250,000 common shares upon closing and 250,000 common shares upon Black Stallion spudding a well on the property. As at December 31, 2015, a total of 250,000 common shares of Black Stallion have been received. No new wells have been drilled on the property (Note 4).

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7. Exploration and Evaluation Assets (continued)

Carrera Prospect, Newton County, Texas

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

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

8. Accounts Payable and Accrued Liabilities

	December 31, 2015	December 31, 2014
	(\$)	(\$)
Trade payables	2,420,465	412,174
Accrued liabilities	2,246,790	2,603,283
	<u>4,667,255</u>	<u>3,015,457</u>

Included in accrued liabilities at December 31, 2015 is a provision for repair of a drilling rig and offshore platform totaling \$1,732,938 (December 31, 2014 - \$1,450,125). The provision has been accrued for costs and expenses related to the operation of a certain property in the Gulf of Mexico for which the operator has billed but are disputed by the Company as the expenditures were incurred without the consent of the working interest partners. The Company is currently in settlement discussions with the insurance carrier and the operator to resolve the disputed charges and does not expect to be responsible for the full amount.

9. Secured Loan

On July 19, 2013, the Company closed its initial draw of \$1,000,000 (the "Initial Draw") pursuant to a senior secured loan facility of up to \$2,000,000 arranged with Ascendant Securities Inc. ("ASI") on behalf of a group of clients of ASI (the "Lenders"). In connection with the Initial Draw, the Company issued senior secured debentures of the Company (the "Debentures") in an aggregate principal amount of \$1,000,000. The Debentures had a two year term, bore interest at a rate of 15% per annum, compounded monthly, and were secured by a general security agreement over all of the Company's assets. The principal amount of the Debentures matured on July 18, 2015 without being fully repaid, but with the lender orally agreeing to extend the loan under the existing repayment terms.

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

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9. Secured Loan (continued)

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

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

During the year ended December 31, 2015, the Company incurred \$170,091 (2014 - \$170,000) and \$35,912 (2014 - \$44,875) in interest expense and overriding royalty payments, respectively. At December 31, 2015, a total of \$409,500 (2014 - \$1,000,000) in loan principal remained outstanding.

10. Unsecured Loans

On September 8, 2014, the Company obtained an unsecured loan of \$50,000. The loan carried an interest rate of 10% per annum and was payable on maturity. The Company agreed to a monthly payment of \$3,000 commencing on October 8, 2014, and the loan was repaid in full in October 2015. On November 17, 2015, the Company borrowed an additional \$50,000 from the same lender under similar terms. The loan matures on December 8, 2016.

On December 10, 2015, the Company obtained access to an unsecured line of credit bearing interest at an annual rate calculated semi-annually which is equal to the lending rate of the Canadian Imperial Bank of Commerce ("CIBC"). The credit line has a term of 30 months, and it is a non-revolving facility of up to \$400,000 that requires monthly repayments equal to the lesser of i) \$15,000 and ii) the aggregate principal and interest outstanding. In addition, the Company must issue 1,000,000 common shares as consideration to the lender. During the year ended December 31, 2015, the Company borrowed \$390,000 under the credit line. The cash received has been allocated between the fair value of the loan liability and the liability to issue 1,000,000 common shares. The fair value of the common share liability 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, 2015, the Company incurred \$4,675 (2014 - \$1,498) in interest expense, including \$664 in accretion of the loan liability. At December 31, 2015, a total of \$439,759 (2014 - \$45,498) in loan principal and accrued interest remained outstanding.

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11. Related Party Transactions

The following summarizes the Company's related party transactions during the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
	(\$)	(\$)
Consulting fees paid or accrued to a director of the Company	-	10,000

Key Management Compensation

	<u>2015</u>	<u>2014</u>
	(\$)	(\$)
Consulting fees paid or accrued to the Executive Chairman of the Company	193,794	20,000
Consulting fees paid or accrued to the Chief Executive Officer ("CEO") of the Company	306,447	90,000
Professional and consulting fees paid or accrued to a corporation controlled by the Chief Financial Officer ("CFO") of the Company	98,075	-
Professional and consulting fees paid to two corporations controlled by the former CFO of the Company	17,500	78,000
Salary and consulting fees paid to the Chief Operating Officer of the Company	310,187	42,056
	<u>926,003</u>	<u>230,056</u>

- a) As at December 31, 2015, a total of \$66,302 (2014 - \$10,618) was included in accounts payable and accrued liabilities owing to the CEO of the Company for consulting fees and reimbursable expenses.
- b) As at December 31, 2015, a total of \$50,602 (2014 - \$Nil) was included in accounts payable and accrued liabilities owing to the Executive Chairman of the Company for consulting fees.
- c) As at December 31, 2015, a total of \$6,600 (2014 - \$Nil) was included in accounts payable and accrued liabilities owing to a corporation controlled by the CFO of the Company for consulting fees.
- d) Amounts owing to related parties were non-interest bearing and due on demand.

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12. 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, 2015, the oil and gas properties had estimated abandonment dates between 2016 and 2034.

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

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

	Hartburg Project, Texas	Gulf of Mexico Properties	Total
	(\$)	(\$)	(\$)
Balance, December 31, 2013	51,766	-	51,766
Additions	47,256	-	47,256
Assumed upon acquisition of HGOM	-	6,737,176	6,737,176
Change in estimate	-	7,448,601	7,448,601
Accretion	5,244	26,585	31,829
Balance, December 31, 2014	104,266	14,212,362	14,316,628
Accretion	10,916	469,334	480,250
Change in estimate	41,202	(4,102,115)	(4,060,913)
Paid during the year	-	(85,247)	(85,247)
Foreign exchange movement	-	2,989,154	2,989,154
Balance, December 31, 2015	156,384	13,483,488	13,639,872
Current portion	14,329	2,047,155	2,061,484
Non-current portion	142,055	11,436,333	11,578,388
	156,384	13,483,488	13,639,872

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Hartburg Project and the Gulf of Mexico Properties is \$159,708 (US\$115,200) and \$14,260,558 (US\$10,286,405), respectively, as at December 31, 2015. The provision has been estimated using a risk-free discount rate of 1.5% and an inflation rate of 1.0%.

In addition, the Company had \$2,456,013 (US\$1,771,568) in escrow as security for reclamation bonds held with ACE Wealth Management as at December 31, 2015. These funds will be released to the Company upon completion of decommissioning activities on certain properties held by the Company.

Hillcrest Petroleum Ltd.*(formerly Hillcrest Resources Ltd.)*

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

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13. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and Outstanding

2015

During the year ended December 31, 2015, the Company did not issue any common shares.

2014

On July 25, 2014, the Company issued 100,000 common shares pursuant to the exercise of 100,000 options at \$0.06 per share for total proceeds of \$6,000.

On December 30, 2014, the Company closed a non-brokered private placement and issued 10,625,000 common shares at \$0.05 per unit for aggregate gross proceeds of \$531,250. Each unit consists of one common share and one-half of one common share purchase warrant, with each full warrant being exercisable to acquire one common share at \$0.08 per share until December 30, 2016. The Company also paid a finders' fee of \$8,000 and issued 160,000 Agent's warrants. The Agent's warrants have an exercise price of \$0.08 per share and are exercisable until December 30, 2015. The Agent's warrants were valued at \$6,669 using the Black Scholes option pricing model with weighted average assumptions of an expected life of one year, dividend yield of 0%, expected volatility of 126%, and risk-free rate of return of 1.02%.

(c) Share Purchase Warrants

During the year ended December 31, 2015, the Company extended the expiry date of 853,111 share purchase warrants to February 28, 2016. Each warrant is exercisable for one common share at \$0.12 per share.

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

	Number of Warrants	Weighted Average Exercise Price
		(\$)
Balance, December 31, 2013	853,111	0.12
Issued	5,312,500	0.08
Balance, December 31, 2014 and 2015	6,165,611	0.09

The following table summarizes the share purchase warrants outstanding as at December 31, 2015:

Number of Options	Weighted Average Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life
	(\$)		(yrs)
853,111	0.12	February 28, 2016	0.16
5,312,500	0.08	December 30, 2016	1.00
6,165,611	0.09		0.88

On December 30, 2014, the Company issued 5,312,500 share purchase warrants pursuant to private placements. Each warrant is exercisable for one common share at \$0.08 per share until December 30, 2016.

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13. Share Capital (continued)

(d) Agent's Warrants

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

	Number of Warrants	Weighted Average Exercise Price (\$)
Balance, December 31, 2013	1,311,600	0.11
Issued	160,000	0.08
Expired	(111,600)	0.18
Balance, December 31, 2014	1,360,000	0.10
Expired	(1,360,000)	0.10
Balance, December 31, 2015	-	-

On December 30, 2014, the Company issued 160,000 Agent's warrants with an exercise price of \$0.08 per share and exercisable until December 30, 2015, pursuant to a non-brokered private placement. These Agent's warrants all expired without being exercised.

(e) Stock Options

Effective November 4, 2010, the Company adopted a stock option plan to grant stock options to its directors, officers, employees and consultants. In accordance with the policies of the TSX Venture Exchange (the "Exchange"), the aggregate number of securities reserved for issuance under the plan, at any point in time, will be 10% of the number of common shares of the Company issued and outstanding at the time the option is granted (on a diluted basis), less any common share reserved for issuance under share options granted under share compensation arrangements other than the plan. The exercise price of option grants will be determined by the Board of Directors, but will not be less than the closing market price of the common shares on the Exchange at the time of grant. All options granted under the plan will expire no later than five years from the date of grant.

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

	Number of Stock Options	Weighted Average Exercise Price (\$)
Balance, December 31, 2013	4,600,000	0.12
Cancelled	(1,800,000)	0.15
Exercised	(100,000)	0.06
Balance, December 31, 2014 and 2015	2,700,000	0.11

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13. Share Capital (continued)

- (e) Stock Options (continued)

The following table summarizes the stock options outstanding and exercisable as at December 31, 2015:

Number of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price (\$)	Expiry Date	Weighted Average Remaining Contractual Life (yrs)
650,000	650,000	0.20	March 22, 2016	0.22
1,550,000	1,550,000	0.06	September 9, 2018	2.69
500,000	500,000	0.06	November 26, 2018	2.91
2,700,000	2,700,000	0.11		2.14

14. Commitments and Contingencies

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

	Annual Base Rent (US\$)
January 1, 2016 to July 31, 2016	57,228
August 1, 2016 to July 31, 2017	101,031
	158,259

In addition to the base rent, the Company's share of operating costs is estimated at approximately US\$5,300 per month.

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

	Annual Base Rent (\$)
January 1, 2016 to November 30, 2016	16,115
December 1, 2016 to November 30, 2017	18,250
	34,365

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

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14. Commitments and Contingencies (continued)

- c) On February 12, 2015, the Company entered into an Installment Agreement with the United States Department of the Interior and through the Office of Natural Resources Revenue (ONRR) in connection with a civil penalty assessed for failure to timely file corrections to monthly reports for plant products sold during the period of 2007-2008. The Company agreed to pay the balance of civil penalties of US\$313,176 in 60 monthly installments of US\$5,220 beginning on March 12, 2015. A total of \$361,741 remains unpaid at December 31, 2015 (December 31, 2014 - \$382,833) and is included within accounts payable and accrued liabilities.
- d) During the year ended December 31, 2015, the Company has disputed certain amounts included on Joint Interest Billing statements received from the operator of one of the assets in the Gulf of Mexico in which Hillcrest has an interest. The Company has determined that it does not have a contractual obligation for these amounts under the relevant Joint Operating Agreement. As a result, the disputed amounts, which total \$953,434 (US\$687,730) as at December 31, 2015 (December 31, 2014 - \$Nil) have not been included within accounts payable and accrued liabilities.

15. Geographical Segmented Information

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

16. 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, 2015. The Company is not subject to externally imposed capital requirements.

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Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

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17. Financial Instruments and Risk Management

Financial Risk Management

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

The fair value hierarchy has the following levels:

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

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

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

Financial Instrument Risk Exposure

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

Credit risk

The Company's credit risk is primarily attributable to cash and accounts receivable. The Company's maximum exposure to credit risk at the end of the reporting period is the carrying value of these assets. Substantially all of the Company's customers are in the oil and natural gas industry and are subject to normal industry credit risks. The Company has minimal collection risk related to these receivables and expects to collect the outstanding receivables in the normal course of operations. At December 31, 2015, the maximum credit exposure is the carrying amount of the accounts receivable of \$305,095 (December 31, 2014 - \$480,890). Furthermore, there were no receivables overdue, and thus no allowance for doubtful debt recorded.

The Company has no significant concentration of credit risk arising from operations. Cash is held with reputable financial institutions, from which management believes the risk of loss to be remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquid capital to meet its current liabilities as they come due. At December 31, 2015, the Company had a working capital deficiency of \$6,602,537 (2014 - \$1,277,561), refer to note 1 for further discussion.

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Notes to the Consolidated Financial Statements

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17. Financial Instruments and Risk Management (continued)

As at December 31, 2015, the Company's financial liabilities had contractual maturities as follows:

	2015	2014
	(\$)	(\$)
Less than 6 months	4,821,172	3,668,956
Between 6 – 12 months	181,000	81,830
Between 1 – 2 years	266,834	36,332
Between 2 – 5 years	220,248	273,838
	<u>5,489,255</u>	<u>4,060,955</u>

Market risk

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

Interest rate risk

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

Foreign currency risk

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

The Company was exposed to the following foreign currency risk as at December 31, 2015 and 2014:

	2015	2014
	(US\$)	(US\$)
Cash	249,259	485,732
Accounts receivable	188,269	359,639
Restricted cash	1,771,568	2,000,000
Accounts payable and accrued liabilities	<u>(3,254,122)</u>	<u>(2,379,703)</u>
	<u>(1,045,026)</u>	<u>465,668</u>

The following foreign exchange rates applied for the years ended December 31, 2015 and 2014:

	2015	2014
Year-to-date average USD to CAD	1.2783	1.1046
As at	<u>1.3864</u>	<u>1.1601</u>

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17. Financial Instruments and Risk Management (continued)

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and US dollar, but also world economic events that dictate the levels of supply and demand. The Company closely monitors commodity prices of natural resources, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

18. Income Tax

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:

	2015	2014
	(\$)	(\$)
Income (Loss) for the year	(14,702,523)	6,279,417
Expected income tax expense (recovery) at 26% (2014 - 26%)	(3,822,656)	1,632,648
Income not subject to tax	-	(1,941,938)
Non-deductible items	216,652	197,000
Difference due to overseas tax rates and foreign exchange	(966,747)	(5,000)
Change in unrecognized deductible temporary differences	4,572,751	116,000
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:

	2015	2014
	(\$)	(\$)
Non-capital losses carry-forward	21,707,000	12,060,000
Property and equipment	1,935,000	(1,465,000)
Share issuance costs	46,000	132,000
Other	23,000	-
	23,711,000	10,727,000

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

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19. Supplemental Cash Flow Information

	2015	2014
	(\$)	(\$)
Non-cash investing and financing activities:		
Increase (reduction) in oil and gas interests through change in estimate of decommissioning liabilities	(4,060,914)	7,463,389
Interest paid during the year	179,013	155,150
Income taxes paid during the year	-	-

20. Expense By Nature

Office and general expenses for the years ended December 31, 2015 and 2014 are comprised of the following:

	2015	2014
	(\$)	(\$)
Administration	189,376	29,736
Investor relations and business development	196,788	121,370
Professional fees	281,741	139,117
Rent	244,631	16,798
Transfer and filing fees	45,425	21,247
Travel	85,966	65,896
Wages and benefits	960,422	28,085
	2,004,349	422,249

Financing expenses for the years ended December 31, 2015 and 2014 are comprised of the following:

	2015	2014
	(\$)	(\$)
Accretion	480,914	31,829
Bank charges and interest	12,424	4,666
Debt issue costs	78,375	139,528
Interest expense on secured loan	170,091	170,000
Interest expense on unsecured loans	4,010	1,498
	745,814	347,521

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Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

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21. Restatement Of Previously Issued Financial Statements

These consolidated financial statements have been restated as at and for the year ended December 31, 2014 to correct for errors identified in the acquisition of HGOM which occurred on December 19, 2014. The acquisition was determined to be a business combination under IFRS 3, and accordingly the Company was required to use the acquisition method. The Company has subsequently determined that certain assets and liabilities identified in the allocation of the purchase price did not accurately reflect their fair value at the acquisition date and the result was the overstatement of the abandonment reserve and the lack of recognition of a bargain purchase gain. The specific items and differences are outlined in the following purchase price allocation.

	Previously Reported Amount	Restated Amount
	(\$)	(\$)
Cash	487,741	487,741
Restricted cash	2,321,601	2,321,601
Accounts receivable	827,015	827,015
Prepaid expenses	213,177	213,177
Oil and gas properties	13,450,688	13,450,688
Equipment	4,824	4,824
Accounts payable and accrued liabilities	(3,040,683)	(3,040,683)
Abandonment reserve	(14,206,168)	(6,737,176)
Net identifiable assets acquired	58,195	7,527,187
Bargain purchase gain	-	(7,468,922)
Purchase consideration	58,195	58,195

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Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

(Expressed in Canadian dollars)

21. Restatement Of Previously Issued Financial Statements (continued)**Effect on Consolidated Statements of Financial Position**

	December 31, 2014		
	As Previously Reported	Correction of errors	As Restated
	(\$)	(\$)	(\$)
ASSETS			
Current assets			
Cash	619,317	-	619,317
Accounts receivable	480,890	-	480,890
GST receivable	12,004	-	12,004
Prepaid expenses	249,035	-	249,035
Restricted Cash	2,320,201	-	2,320,201
Total current assets	3,681,447	-	3,681,447
Non-current assets			
Deferred financing costs	63,792	-	63,792
Exploration and evaluation assets	1,417,260	-	1,417,260
Property and equipment	15,333,497	7,463,389	22,796,886
TOTAL ASSETS	20,495,996	7,463,389	27,959,385
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	3,015,457	-	3,015,457
Secured loan	1,000,000	-	1,000,000
Current portion of decommissioning liability	898,053	-	898,053
Unsecured loan	45,498	-	45,498
Total current liabilities	4,959,008	-	4,959,008
Decommissioning liability	13,418,575	-	13,418,575
TOTAL LIABILITIES	18,377,583	-	18,377,583
SHAREHOLDERS' EQUITY			
Share capital	5,707,184	-	5,707,184
Share subscription receivable	(46,000)	-	(46,000)
Contributed surplus	949,834	-	949,834
Reserves	(3,507)	-	(3,507)
Deficit	(4,489,098)	7,463,389	2,974,291
	2,118,413	7,463,389	9,581,802
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	20,495,996	7,463,389	27,959,385

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Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

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21. Restatement Of Previously Issued Financial Statements (continued)**Effect on Consolidated Statements Of Loss And Comprehensive Loss**

	As Previously Reported	Year Ended December 31, 2014 Correction of errors	As Restated
	(\$)		(\$)
Revenue, net of royalties	1,163,004	-	1,163,004
Expenses			
Operating costs	495,632	-	495,632
Financing expenses	196,196	11,797	207,993
Consulting fees	290,223	-	290,223
Debt issue cost	139,528	-	139,528
Depletion and depreciation	696,579	-	696,579
Office and general	422,249	-	422,249
Stock-based compensation	11,779	-	11,779
	2,252,186	11,797	2,263,983
Loss from operations	(1,089,182)	(11,797)	(1,100,979)
Bargain purchase gain	-	7,468,992	7,468,992
Interest Income	79	-	79
Overriding royalty interest on secured loan	(44,875)	-	(44,875)
Acquisition costs	(15,769)	-	(15,769)
Loss on disposal of oil and gas properties	(38,970)	-	(38,970)
Loss on disposal of exploration and evaluation assets	(3,350)	-	(3,350)
Foreign exchange gain	8,095	6,194	14,289
Loss for the year	(1,183,972)	7,463,389	6,279,417
Item that may be subsequently reclassified to net loss			
Exchange differences on translating foreign operations	(34,127)	-	(34,127)
Comprehensive loss for the year	(1,218,099)	7,463,389	6,245,290
Basic and diluted earnings (loss) per share	(0.03)		0.16
Weighted average common shares outstanding:			
Basic	39,657,025		39,657,025
Diluted	39,657,025		39,905,619

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Notes to the Consolidated Financial Statements

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21. Restatement Of Previously Issued Financial Statements (continued)**Effect on Consolidated Statements of Changes in Shareholders' Equity**

The impact on opening deficit at January 1, 2015 reflects the impact on net loss for the year ended December 31, 2014 of \$7,463,389 arising from the gain on bargain purchase of HGOM, net of the increased accretion expense.

Effect on Consolidated Statements of Cash Flows

The restatement did not affect the cash flows used in operating activities and investing activities, or cash flows provided by financing activities, in the Company's consolidated statements of cash flows.

22. Subsequent Events

The following material events occurred subsequent to the end of the year:

- a) the Company amended the terms of the secured loan to eliminate the \$4,000 monthly bonus interest payment in exchange for increasing the stated interest rate from 15% to 20%, effective January 1, 2016;
- b) a total of 650,000 stock options expired unexercised;
- c) a total of 853,111 share purchase warrants expired unexercised; and,
- d) the Company borrowed an additional \$10,000 under the unsecured line of credit, and issued 1,000,000 common shares to the lender as partial consideration for the loan.