



(formerly Hillcrest Petroleum Ltd.)

Consolidated Financial Statements

Years Ended

December 31, 2020 and 2019

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hillcrest Energy Technologies Ltd. (formerly Hillcrest Petroleum Ltd.)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Hillcrest Energy Technologies Ltd. (formerly Hillcrest Petroleum Ltd.), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019 and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Hillcrest Energy Technologies Ltd. as at December 31, 2020 and 2019 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that Hillcrest Energy Technologies Ltd. incurred a net loss of \$2,247,237 during the year ended December 31, 2020 and has accumulated losses of \$15,320,724 since inception. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on Hillcrest Energy Technologies Ltd.'s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A handwritten signature in black ink that reads "De Visser Gray LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants

Vancouver, BC, Canada

April 30, 2021

HILLCREST ENERGY TECHNOLOGIES LTD.**(formerly Hillcrest Petroleum Ltd.)****Consolidated Statements of Financial Position**

(Expressed in Canadian dollars)

	December 31, 2020	December 31, 2019
	(\$)	(\$)
ASSETS		
Current assets		
Cash	676,087	41,749
Receivables	121,312	87,919
Due from related party (Note 9)	129,805	-
Prepaid expenses	45,067	37,627
Right-of-use asset (Note 18)	103,128	12,532
Total current assets	1,075,399	179,827
Non-current assets		
Oil and gas interests (Note 4)	733,233	684,071
TOTAL ASSETS	1,808,632	863,898
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	1,496,098	1,411,071
Loans (Notes 6, 7 and 9)	244,265	1,234,542
Embedded derivative liabilities (Note 6 and 8)	-	91,439
Lease liability (Note 18)	29,581	11,265
Current portion of convertible debentures (Note 8)	-	76,657
Total current liabilities	1,769,944	2,824,974
Convertible debentures (Note 8)	-	39,763
Lease liability (Note 18)	78,095	-
Other liability (Note 8)	-	116,000
Decommissioning liability (Note 10)	388,190	373,187
TOTAL LIABILITIES	2,236,229	3,353,924
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 11)	12,431,471	8,980,016
Shares subscribed (Note 11)	672,500	-
Contributed surplus (Note 11)	1,605,683	1,357,361
Reserves (Note 11)	183,473	246,084
Deficit	(15,320,724)	(13,073,487)
Total shareholders' deficiency	(427,597)	(2,490,026)
TOTAL LIABILITIES & SHAREHOLDERS' DEFICIENCY	1,808,632	863,898

Nature of operations and going concern (Note 1)

Commitments (Note 12)

Subsequent events (Note 19)

On behalf of the Board of Directors:

"Michael Krzus"
Director

"Thomas Milne"
Director

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

HILLCREST ENERGY TECHNOLOGIES LTD.
(formerly Hillcrest Petroleum Ltd.)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	Year Ended	
	December 31,	
	2020	2019
	(\$)	(\$)
Revenue and costs		
Oil sales	696,749	1,042,327
Royalties	(160,692)	(279,327)
Operating costs	(463,280)	(673,914)
Depletion and depreciation (Note 4)	(160,012)	(169,403)
	(87,235)	(80,317)
General and administrative expenses		
Management and consulting fees (Note 9)	748,918	534,223
Office and general	900,147	522,653
Share-based payments (Note 11)	423,403	6,444
	2,072,468	1,063,320
Loss from operations	(2,159,703)	(1,143,637)
Financing expenses (Notes 6, 7 and 18)	(125,402)	(332,990)
Impairment of intangible asset	(20,000)	-
Change in fair value of embedded derivative liabilities (Notes 6 and 8)	(53,143)	(11,280)
Change in fair value of other liability (Notes 8)	116,000	-
Gain on disposal of equipment	-	46,212
Foreign exchange gain (loss)	(4,989)	3,916
Loss for the year before other item	(2,247,237)	(1,437,779)
Other item		
Forgiveness of debt	-	235,850
Net loss	(2,247,237)	(1,201,929)
Item that may be subsequently reclassified to net loss		
Exchange differences on translating foreign operations	3,389	(3,389)
Comprehensive loss for the period	(2,243,848)	(1,205,318)
Basic and diluted loss per share	(0.02)	(0.01)
Weighted average common shares outstanding:		
Basic	144,159,918	91,461,993
Diluted	144,159,918	91,461,993

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

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars)

	Share Capital			Reserves				Shareholders' Deficiency
	Number of Shares	Amount	Shares subscribed	Contributed Surplus	Warrants	Foreign Currency Translation	Deficit	
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Balance at December 31, 2018	87,293,226	7,681,347	-	1,350,917	47,550	119,923	(11,872,229)	(2,672,492)
Impact on adopting IFRS 16 (Notes 3(p) and 18)	-	-	-	-	-	-	671	671
Restated opening balances under IFRS 16	87,293,226	7,681,347	-	1,350,917	47,550	119,923	(11,871,558)	(2,671,821)
Proceeds from private placements	24,844,446	823,333	-	-	-	-	-	823,333
Value of warrants issued pursuant to private placements	-	(78,000)	-	-	78,000	-	-	-
Conversion of convertible debentures	11,541,627	577,081	-	-	-	-	-	577,081
Share issuance costs	-	(23,745)	-	-	4,000	-	-	(19,745)
Vesting of stock options	-	-	-	6,444	-	-	-	6,444
Comprehensive loss for the period	-	-	-	-	-	(3,389)	(1,201,929)	(1,205,318)
Balance at December 31, 2019	123,679,299	8,980,016	-	1,357,361	129,550	116,534	(13,073,487)	(2,490,026)
Conversion of convertible debentures	2,600,000	130,000	-	-	-	-	-	130,000
Proceeds from exercise of stock options	2,800,000	315,081	-	(175,081)	-	-	-	140,000
Proceeds from exercise of warrants	22,594,445	1,203,222	-	-	(66,000)	-	-	1,137,222
Proceeds from private placement	20,442,000	1,022,100	-	-	-	-	-	1,022,100
Shares issued for debt	10,120,190	531,310	-	-	-	-	-	531,310
Shares issued on convertible debenture conversion	2,684,762	278,950	-	-	-	-	-	278,950
Vesting of stock options	-	-	-	423,403	-	-	-	423,403
Share issuance costs	-	(29,208)	-	-	-	-	-	(29,208)
Shares subscribed for relating to private placement	-	-	672,500	-	-	-	-	672,500
Net loss and comprehensive loss for the period	-	-	-	-	-	3,389	(2,247,237)	(2,243,848)
Balance at December 31, 2020	184,920,696	12,431,471	672,500	1,605,683	63,550	119,923	(15,320,724)	(427,597)

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

HILLCREST ENERGY TECHNOLOGIES LTD.**(formerly Hillcrest Petroleum Ltd.)****Consolidated Statements of Cash Flows**

(Expressed in Canadian dollars)

	Years Ended December 31,	
	2020	2019
	(\$)	(\$)
Net loss for the period	(2,247,237)	(1,201,929)
Adjusted for items not involving cash:		
Accretion expense	10,817	60,580
Accrued interest expense	122,476	263,934
Change in fair value of embedded derivative liabilities	53,143	11,280
Change in fair value of other liability	(116,000)	-
Depletion and depreciation	160,012	169,403
Write-off of deposits	20,000	-
Share-based payments	423,403	6,444
Revaluation of decommissioning liability	3,690	-
Bad debt expense	-	(143,203)
Gain on disposal of equipment	-	(46,212)
Unrealized foreign exchange loss	3,389	(3,389)
Changes in non-cash working capital:		
Prepaid expenses	(27,440)	78,062
Receivables	(33,393)	68,789
Due from related party	(129,805)	-
Accounts payable and accrued liabilities	184,777	254,137
Cash flows used in operating activities	(1,572,168)	(482,104)
Proceeds from disposal of oil and gas property interest	-	170,000
Property and equipment expenditures	(184,546)	(101,132)
Cash flows provided by (used in) investing activities	(184,546)	68,868
Proceeds from convertible debentures	-	55,000
Proceeds from private placement	962,100	823,333
Subscriptions received	672,500	-
Proceeds from loans	5,000	60,000
Proceeds from exercise of stock options	140,000	-
Proceeds from exercise of warrants	1,137,222	-
Share issuance costs	(29,208)	(2,146)
Repayment of lease liability	(11,368)	(23,732)
Repayment of convertible debenture principal and interest	(10,356)	(151,107)
Repayment of loan principal and interest	(474,838)	(327,711)
Cash flows provided by financing activities	2,391,052	433,637
Change in cash	634,338	20,401
Cash, beginning of the period	41,749	21,348
Cash, end of the period	676,087	41,749

Supplemental cash flow information (Note 16)

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

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Hillcrest Energy Technologies (formerly “Hillcrest Petroleum Ltd”). (the “Company”) was incorporated on May 2, 2006 under the Business Corporations Act of British Columbia, and is in the business of acquiring, exploring, and developing exploration interests in oil and gas projects located in North America. The Company is transitioning its business from oil and gas production to clean energy technology development and deployment, and is currently building its capability to expand the scope of the Company’s activities in several new technology fields. The Company’s registered office is Suite 1910 – 1030 West Georgia Street, Vancouver, BC, V6E 2Y3. The Company’s shares are listed for trading on the Canadian Securities Exchange (“CSE”) under the symbol “HEAT” and on the OTC pink sheets under the symbol “HLRTF”.

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

These consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company recorded a net loss of \$2,247,237 (2019: \$1,201,929), an accumulated deficit of \$15,320,724 (2019 - \$13,073,487) and had a working capital deficiency of \$694,545 (2019 - \$2,645,147) as at and for the year ended December 31, 2020. The Company’s ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent on the continued financial support of its creditors and its shareholders and ultimately, the attainment of profitable operations. There is no certainty that the Company will continue to produce revenue due to the inherent production risks associated with the oil and natural gas industry. In the past, the Company has relied on sales of equity securities, debt instruments and asset sales to meet its cash requirements. There can be no assurance that funding from this or other sources will be sufficient in the future to satisfy operational requirements and cash commitments. Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to it. Failure to obtain such financing on a timely basis could cause the Company to reduce or terminate its operations.

Due to the conditions and events as noted above, there is material uncertainty casting significant doubt on the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

2. BASIS OF PREPARATION

(a) Statement of Compliance

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

These consolidated financial statements were approved by the Audit Committee and the Board of Directors of the Company on April 30, 2021.

(b) Statement of Compliance

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

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

(c) Basis of Consolidation

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

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

(d) Functional and Presentation Currency

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

(e) Use of Estimates and Judgments

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

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

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

Depletion and Depreciation

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

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

(e) Use of Estimates and Judgments (continued)

Decommissioning provisions

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

Income taxes

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

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

Carrying value and the recoverability of exploration and evaluation assets

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

Fair value of stock options and other share-based payments

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

Going concern

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

Fair value of embedded derivatives and other liability

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

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

(e) Use of Estimates and Judgments (continued)

Carrying value and the recoverability of property and equipment

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

Determination of cash generating units

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

Right-of-Use Asset/Lease Liability

The incremental rate of borrowing used in the measurement of the lease liability was based on the interest rate of the Secured loans still outstanding at December 31, 2020. See Note 7.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign Currency Translation

Functional and presentation currency

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

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

Transactions and balances

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

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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) Oil and gas interests

Cost and valuation

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

Depletion

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.

(d) Decommissioning and Restoration Costs

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

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

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

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(e) Decommissioning and Restoration Costs

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

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

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

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

(f) Impairment of Non-Financial Assets

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

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

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

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

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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.

(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.

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

Financial Assets	
Cash	Amortized costs
Accounts receivable	Amortized costs
Financial Liabilities	
Accounts payable and accrued liabilities	Amortized costs
Embedded derivative liability	FVTPL
Lease liability	Amortized costs
Loans and convertible debentures	Amortized costs

(i) Provisions

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

(j) 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.

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Convertible Debentures

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

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

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

(l) Revenue Recognition

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

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

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

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

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Share-based Payments

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

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

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

(n) Joint Venture Activities and Joint Controlled Operations

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

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

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

(o) Taxes

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

Current income tax

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

Deferred income tax

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

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Taxes (continued)

Deferred tax is not recognized for the following temporary differences:

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

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

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

Sales tax

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

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

(p) Leases

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

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

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

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Leases (continued)

Right-of-use asset

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

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

Lease liability

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

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

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

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

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

See Note 18.

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

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

4. OIL AND GAS INTERESTS

	Total
	(\$)
Cost	
At January 1, 2019	1,931,960
Additions	-
Reclassification from exploration and evaluation assets	896,013
Revaluation of decommissioning liabilities	(65,675)
At December 31, 2019	2,762,298
Additions	193,696
At December 31, 2020	2,955,994
Accumulated depletion and depreciation	
At January 1, 2019	1,237,892
Depletion and depreciation for the year	146,267
At December 31, 2019	1,384,159
Depletion and depreciation for the year	144,534
At December 31, 2020	1,528,693
Impairment	
At January 1, 2019	694,068
Additions	-
At December 31, 2019 and December 31, 2020	694,068
Carrying amounts:	
At December 31, 2019	684,071
At December 31, 2020	733,233

West Hazel, Saskatchewan

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

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

From the joint venture agreement date through February 2019, the Company completed \$878,040 in required reactivation costs to earn the 75% pre-Payout working interest. In February 2019, the Company sold 17% of its interest in the West Hazel reactivation project for cash proceeds of \$170,000, reducing its pre-Payout interest to 62.25% and its post-Payout interest to

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

4. OIL AND GAS INTERESTS (continued)

41.5%. In addition, the Company completed the reactivation of four wells, and as a result the West Hazel project costs were reclassified to property and equipment.

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

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

During the year ended December 31, 2020, the Company incurred \$184,546 in recompletion and workover costs towards opening an additional well on the WH Property.

Flaxcombe, Saskatchewan

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

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

Impairment

The Company's oil production assets were assessed for impairment against the proved and probable reserves within the Company's producing wells. The valuation determined that the pre-tax net present value of oil and gas reserves at a discount rate of 10% is \$2.696 million.

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

At December 31, 2020, the Company's estimated total Proven and Probable Reserves were 288.6 Mboe. Assumptions for the fair value calculation included heavy oil prices ranging from US\$40 - 49 bbl (2021 - 2023) and an inflation rate of 2%.

During the year ended December 31, 2020, the Company reviewed the carrying value of its oil and gas interests and determined there were no indicators of impairment with respect to the performance and operating costs of the West Hazel wells.

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020	December 31, 2019
	(\$)	(\$)
Trade payables	1,249,413	885,655
Related party payables (Note 10)	-	69,431
Accrued liabilities	197,370	443,941
GST payable	49,315	12,044
	<u>1,496,098</u>	<u>1,411,071</u>

6. SECURED LOANS

ASI Loan

As at December 31, 2020, the Company has \$137,546 (December 31, 2019 - \$138,550) outstanding on a senior secured loan facility that bears interest at a rate of 20% per annum and is currently payable on demand. As part of the consideration for the loan facility, the lenders and the arranging agent receive an aggregate 10% overriding royalty interest in the Company's proceeds from all oil, gas and other hydrocarbons produced from any new wells developed on the Company's Hartburg Properties using any portion of the proceeds from the loan. The Company has fully impaired these Hartburg assets and they are no longer producing.

During year ended December 31, 2020, the Company repaid \$1,004 (2019 - \$Nil) in loan principal and incurred \$28,025 (2019 - \$27,710) in interest expense.

Bridge Loan

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

During the year ended December 31, 2020, the Company incurred \$28,127 (2019 - \$45,406) in interest expense.

On October 28, 2020, the Company paid off the loan in full by issuing 8,220,190 common shares with a fair value of \$0.0525 per share.

Ballakilley Loan

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

On October 28, 2020, the principal portion was converted in full to 2,684,762 common shares with a fair value of \$0.0525. The remaining accrued interest of \$106,718 remained outstanding at December 31, 2020.

During the year ended December 31, 2020, the Company incurred \$40,898 (2019 - \$36,221) in interest expense and \$Nil (2019 - \$36,820) in accretion of the loan liability. At December 31, 2020, a total of \$106,718 interest (December 31, 2019 - \$140,950 principal and \$65,821 interest) remained outstanding.

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

6. SECURED LOANS (continued)

As at December 31, 2020, the loan conversion feature was valued at \$Nil (2019 - \$84,000), and during the year ended December 31, 2020, the Company recorded a loss of \$54,000 for changes in the loan conversion feature value prior to conversion (2019 - \$31,500) on the consolidated statement of loss and comprehensive loss.

Subsequent to the year end, the Company paid off the remaining interest portion in full.

Project Financing

In February 2017, the Company entered into an arrangement with a third party to provide potential debt financing of up to \$2,500,000. The Company incurred standby charges at a rate of 7% per annum for the availability of this potential debt financing for the acquisition and development of oil projects located in Canada. Upon making a draw down under the facility additional fees would be incurred resulting in an effective borrowing rate of 20% per annum. The Company did not borrow any funds but has incurred standby charges totalling \$Nil during the year ended December 31, 2020 (2019 - \$13,531).

The Company paid off the loan in full during the year. At December 31, 2020, a total of \$Nil (2019 - \$154,154) in standby charges and interest on standby charges remained outstanding.

1055328 BC Ltd. Loan

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

During the year ended December 31, 2020 the Company incurred \$6,673 (2019 - \$12,000) in interest expense.

The Company paid off the loan in full during the year. At December 31, 2020, a total of \$Nil (2018 - \$123,871) in loan principal and accrued interest remained outstanding.

7. UNSECURED LOANS

Significant unsecured loans are as follows:

Credit Line

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

During the year ended December 31, 2020, the Company incurred \$4,637 (2019 - \$10,156) in interest expense.

The Company paid off the loan in full during the year. At December 31, 2020, a total of \$Nil (2019 - \$95,859) in loan principal and accrued interest remained outstanding.

Proactive Advance

On December 16, 2019, the Company received \$60,000 from Proactive Investors. This advance bears interest at 4% per annum and is intended to be applied towards a future private placement. During the year ended December 31, 2020, the loan was applied to the Company's private placement and interest on the advance was waived.

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

8. CONVERTIBLE DEBENTURES

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

The cash received under the 2019 Convertible Debentures has been allocated between the fair value of the loan liability and the conversion feature. The value ascribed to the loan liability as at the loan date was \$27,341, and the value ascribed to the conversion feature was \$27,659. Additionally, the loan conversion feature was revalued to \$6,582 during the year ended December 31, 2020 prior to conversion (December 31, 2019 - \$7,439).

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

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

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

During the year ended December 31, 2020, debenture holders converted \$130,000 (2019 - \$577,081) of debenture principal and interest payable via the issuance of 2,600,000 common shares, including \$Nil (2019 - \$577,081) payable to the CEO of the Company and the Company repaid \$Nil (2019 - \$43,833) of debenture principal and \$10,319 (2019 - \$107,274) of debenture interest.

The Company paid off the loan in full by issuing 2,600,000 common shares at \$0.05 upon conversion. At December 31, 2020 a total of \$Nil (December 31, 2019 - \$131,656) in loan principal and accrued interest remained outstanding.

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

9. RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the years ended December 31, 2020 and 2019. Key management personnel included the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and directors and officers and companies controlled or significantly influenced by them:

Key management compensation

	<u>2020</u>	<u>2019</u>
	(\$)	(\$)
Management and consulting fees paid or accrued to directors, officers or corporations controlled by directors and officers of the Company*	415,301	271,350
Share-based payments paid to certain directors and officers of the Company in connection with the extension of the expiry dates of share purchase warrants and amendment of exercise prices of share purchase options	271,706	5,700
	<u>687,007</u>	<u>277,050</u>

- a) As at December 31, 2020, a total of \$Nil (December 31, 2019 - \$69,431) was included in accounts payable and accrued liabilities owing to the directors and officers or corporations controlled by directors and officers of the Company for unpaid consulting fees and reimbursable expenses. These liabilities are non-interest bearing and payable on demand.
- b) As at December 31, 2020 the Company owed a total of \$Nil (December 31, 2018 - \$51,805) in loan principal and interest to the Chairman of the Company pursuant to a December 27, 2018 loan agreement where the Company borrowed \$45,000 from the Chairman. The loan bears interest at 15% and is repayable on demand.
- c) During the year ended December 31, 2020, related parties forgave a net amount of \$Nil (2019 - \$235,850) in unpaid management and consulting fees accrued in prior years.
- d) As at December 31, 2020, the Company was owed \$129,805 (2019 - \$Nil) from the CEO.

10. DECOMMISSIONING LIABILITY

The decommissioning liability relates to the expected present value of costs of plugging and abandoning the oil and gas held by Hillcrest. The provision for decommissioning is estimated after taking account of inflation, years to abandonment and an appropriate discount rate. As at December 31, 2020, the oil and gas properties had estimated abandonment dates between 2024 and 2028.

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

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

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

10. DECOMMISSIONING LIABILITY (continued)

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

	Hartburg, Texas	West Hazel, Saskatchewan	Flaxcombe, Saskatchewan	Total
	(\$)	(\$)		(\$)
Balance, January 1, 2019	43,694	369,700	51,090	464,484
Change in estimate	-	(65,675)	-	(65,675)
Accretion	867	7,320	1,012	9,199
Disposal	(35,249)	-	-	(35,249)
Foreign exchange movement	428	-	-	428
Balance, December 31, 2019	9,740	311,345	52,102	373,187
Change in estimate	760	9,150	3,530	13,440
Accretion	56	1,806	302	2,164
Foreign exchange movement	(601)	-	-	(601)
Balance, December 31, 2020	9,955	322,301	55,934	388,190
Current portion	-	-	-	-
Non-current portion	9,955	322,301	55,934	388,190
	9,955	322,301	55,934	388,190

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Hartburg Project was \$9,167 (US\$7,200) (December 31, 2019 - \$10,957 (US\$8,436)) as at December 31, 2020. The provision has been estimated using a risk-free discount rate of 0.33% (December 31, 2019 - 1.98%) and an inflation rate of 2.00% (December 31, 2019 - 2.00%).

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Flaxcombe Project was \$50,000 (December 31, 2019 - \$60,950) at December 31, 2020. The provision has been estimated using a risk-free discount rate of 0.58% (December 31, 2019 - 1.98%) and an inflation rate of 2.00% (December 31, 2019 - 2.00%).

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the West Hazel Project was \$306,491 (December 31, 2019 - \$338,391) at December 31, 2020. The provision has been estimated using a risk-free discount rate of 0.58% (December 31, 2019 - 1.68%) and an inflation rate of 2.00% (December 31, 2019 - 2.00%).

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

11. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value.

Issued and outstanding

Year Ended December 31, 2020

- a) The Company issued 2,600,000 common shares in connection with the conversion of a \$130,000 portion of the remaining outstanding Convertible Debentures at \$0.05 per share.
- b) On August 4, 2020, the Company closed a private placement of 20,442,000 units at a price of \$0.05 per unit for gross proceeds of \$1,022,100. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant will be exercisable into an additional common share of the Company at \$0.07 for a period of two years.
- c) During 2020, the Company closed an early warrant exercise incentive program intended to encourage the early exercise of up to 22,894,446 outstanding common share purchase warrants of the Company. 17,479,667 eligible warrants were exercised resulting in the Company receiving gross proceeds of \$873,984. The \$66,000 fair value of these warrants was reclassified from reverses to share capital upon issuance. In addition to receiving a Company common share upon exercise, each warrant holder who exercised warrants under the early warrant exercise incentive program received a new warrant exercisable at \$0.10 per share for two years after issuance.
- d) During the year, the Company issued 2,800,000 common shares in connection with exercising stock options at \$0.05 for gross proceeds of \$140,000. The \$175,082 fair value of these options was reclassified from contributed surplus to share capital upon issuance.
- e) On October 28, 2020, the Company issued 10,120,190 common shares to settle accounts payable and loans payable in the amount of \$531,310.
- f) On October 28, 2020, the Company issued 2,684,762 common shares upon the conversion of Ballakilley loan principal totaling \$140,950 to shares. A record \$138,000 conversion feature derivative liability was reclassified to share capital upon conversion.
- g) In November 2020, the Company issued 5,114,778 shares in connection with exercising warrants for gross proceeds of \$263,238.

Year Ended December 31, 2019

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

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

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

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

- c) The Company issued 11,141,627 common shares in connection with the conversion of a \$557,081 portion of the outstanding Convertible Debentures at \$0.05 per share.
- d) The Company completed a non-brokered private placement wherein it issued an aggregate of 20,944,446 units at \$0.03 per unit for gross proceeds of \$628,333. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at \$0.05 for one year from the date of closing of the placement. The Company used the residual method to determine the value of the warrants issued as part of the private placement. It was determined that the warrants issued as part of the private placement had a value of \$Nil.

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

- e) The Company repriced a total of 6,140,600 existing share purchase warrants to \$0.05 per warrant, including:
- 3,636,887 share purchase warrants expiring February 27, 2020 from \$0.10 per warrant;
 - 553,713 share purchase warrants expiring March 23, 2020 from \$0.10 per warrant; and
 - 1,950,000 share purchase warrants expiring May 10, 2021 from \$0.10 per warrant.
- f) The Company repriced a total of 2,600,000 existing stock options to \$0.05 per option, including:
- 1,950,000 stock options expiring February 21, 2022 from \$0.07 per option;
 - 300,000 stock options expiring May 1, 2022 from \$0.06 per option; and
 - 350,000 stock options expiring June 13, 2022 from \$0.065 per option.

Share Purchase Warrants

Year Ended December 31, 2020

- a) The Company issued 10,221,000 share purchase warrants in connection with a non-brokered private placement. Each warrant originally entitled the holder to acquire a common share of the Company at \$0.07 per share until August 4, 2022.
- b) On August 4, 2020, the Company closed an early warrant exercise incentive program intended to encourage the early exercise of up to 22,894,446 outstanding common share purchase warrants of the Company. 17,479,667 eligible warrants were exercised resulting in the Company receiving gross proceeds of \$873,984. In addition to receiving a Company common share upon exercise, each warrant holder who exercised warrants under the early warrant exercise incentive program received a new warrant exercisable at \$0.10 per share for two years after issuance.
- c) A total of 4,396,000 share purchase warrants exercisable at \$0.05 expired unexercised on February 27, 2020.
- d) A total of 600,000 share purchase warrants exercisable at \$0.10 expired unexercised on March 23, 2020.
- e) A total of 500,000 share purchase warrants exercisable at \$0.07 expired unexercised on August 17, 2020.
- f) A total of 500,000 share purchase warrants exercisable at \$0.10 expired unexercised on August 17, 2020.
- g) A total of 586,667 share purchase warrants exercisable at \$0.05 expired unexercised on December 4, 2020.

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

Year Ended December 31, 2019

- a) The Company issued 1,950,000 share purchase warrants in connection with a non-brokered private placement. Each warrant originally entitled the holder to acquire a common share of the Company at \$0.10 per share until May 10, 2021. In September 2019, the exercise price of these warrants was repriced to \$0.05 per share. Pursuant to the same private placement, the Company also issued 272,000 finder's share purchase warrants exercisable on the same terms as the private placement warrants.
- b) The Company issued 20,944,446 share purchase warrants in connection with a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at \$0.05 per share until December 4, 2020. Pursuant to the same private placement, the Company also issued 586,666 finder's share purchase warrants exercisable on the same terms as the private placement warrants.

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

	Number of Warrants	Weighted Average Exercise Price (\$)
Balance, January 1, 2019	13,243,429	0.09
Issued	23,753,112	0.05
Repriced – original prices	(6,140,600)	0.10
Repriced – amended prices	6,140,600	0.05
Expired	(7,247,429)	0.09
Balance, December 31, 2019	29,749,112	0.05
Issued	27,700,668	0.09
Exercised	(22,594,445)	0.05
Expired	(6,582,667)	0.06
Balance, December 31, 2020	28,272,668	0.09

The following table summarizes the share purchase warrants outstanding as at December 31, 2020:

Number of Warrants	Weighted Average Exercise Price (\$)	Expiry Date	Weighted Average Remaining Contractual Life (yrs)
272,000*	0.10	May 10, 2021	0.36
300,000	0.05	May 10, 2021	0.36
10,221,000	0.07	July 14, 2022	1.53
17,479,668	0.10	September 1, 2022	1.67
28,272,668	0.08		1.59

*Finder's warrants

Stock Options

Effective November 4, 2010, the Company adopted a stock option plan to grant stock options to its directors, officers, employees and consultants. In accordance with the policies of the TSXV, the aggregate number of securities reserved for

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

issuance under the plan, at any point in time, will be 10% of the number of common shares of the Company issued and outstanding at the time the option is granted, less any common share reserved for issuance under share options granted under share compensation arrangements other than the plan. The exercise price of option grants will be determined by the Board of Directors, but will not be less than the closing market price of the common shares on the Exchange at the time of grant. All unexercised options granted under the plan will expire no later than five years from the date of grant.

The Company granted an aggregate of 9,100,000 stock options during the year ended December 31, 2020. The options vest immediately, and the Company expensed \$418,827 as share-based compensation.

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

	2020
Risk-free interest rate	0.37-0.47%
Expected life of options	5 years
Volatility	141-143%
Expected Dividend yield	Nil
Forfeiture rate	Nil
Weighted average fair value	\$0.05

During the year ended December 31, 2020, the Company expensed \$4,756 as share-based compensation for the incremental value of repricing 2,050,000 stock options with prices originally ranging from \$0.06 to \$0.07 per option to amended prices of \$0.05 per option. The incremental value was determined using the Black-Scholes option pricing model under the following weighted average assumptions:

	2020
Risk-free interest rate	1.62%
Expected life of options	1.55-2.43 years
Volatility	86-129%
Expected Dividend yield	Nil
Forfeiture rate	Nil
Weighted average fair value	\$0.002

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

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

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

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

	Number of Options	Weighted Average Exercise Price (\$)
Balance, January 1, 2019	4,925,000	0.07
Repriced – original prices	(2,600,000)	0.06
Repriced – amended prices	2,600,000	0.06
Cancelled	(275,000)	0.06
Balance, December 31, 2019	4,650,000	0.06
Issued	9,100,000	0.05
Repriced – original prices	(2,050,000)	0.07
Repriced – amended prices	2,050,000	0.05
Exercised	(2,800,000)	0.05
Balance, December 31, 2020	10,950,000	0.05

The following table summarizes the stock options outstanding and exercisable as at December 31, 2020:

Number of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price (\$)	Expiry Date	Weighted Average Remaining Contractual Life (yrs)
300,000	300,000	0.05	April 3, 2021	0.25
1,250,000	1,250,000	0.05	February 21, 2022	1.14
300,000	300,000	0.05	May 1, 2022	1.33
7,100,000	7,100,000	0.05	July 8, 2025	4.52
1,000,000	1,000,000	0.05	Oct 7, 2025	4.77
1,000,000	1,000,000	0.05	Nov 9, 2025	4.86
10,950,000	10,950,000	0.05		3.98

12. COMMITMENTS

The Company had the following commitments as at December 31, 2020:

- a) The Company has an office rental agreement with a term of 72 months, terminating on February 28, 2023. The landlord issued a notice of termination to the Company effective January 31, 2019 and has sent a demand for payment of \$43,961 (US\$32,245) representing unpaid rental charges under the rental agreement. The Company has recognized the full liability as at December 31, 2020.
- b) On August 21, 2020, the Company signed a Financial and Advisory Services Agreement with a New York-based capital and advisory firm. The agreement has a term of one (1) year at a cost of US\$15,000 per quarter.

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

13. GEOGRAPHICAL SEGMENTED INFORMATION

The Company is engaged in one business activity, being the acquisition, exploration, development and production of oil and gas reserves in Canada and the United States. For the year ended December 31, 2020, all revenues were derived from operations in Canada and all non-current assets were located in Canada (2019 - all revenues were derived from operations in Canada and all non-current assets were located in Canada).

14. CAPITAL MANAGEMENT

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

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

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

There were no changes in the Company's approach to capital management during the year ended December 31, 2020. The Company is not subject to externally imposed capital requirements.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Risk Management

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

The fair value hierarchy has the following levels:

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

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and loans.

The fair value of cash, receivables and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments. The carrying amounts of the loans approximate fair value as the applicable interest rates, which were negotiated between the Company and arm's length third parties, are similar to market interest rates which would be available to the Company at the balance sheet date. The fair value of the convertible debentures has been determined after deducting transaction costs and allocating the portion of the proceeds applicable to the retained profit interest.

Financial Instrument Risk Exposure

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

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk

The Company's credit risk is primarily attributable to cash and accounts receivable. The Company's maximum exposure to credit risk at the end of the reporting period is the carrying value of these assets. Substantially all of the Company's customers are in the oil and natural gas industry and are subject to normal industry credit risks. The remaining customers are related to the recovery of shared office rent and share subscription proceeds. The Company has minimal collection risk related to these receivables and expects to collect the outstanding receivables in the normal course of operations. At December 31, 2020, the maximum credit exposure is the carrying amount of trade receivables of \$88,915 (December 31, 2019 - \$87,919).

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

Market risk

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

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, 2020, the Company had a working capital deficiency of \$694,545 (December 31, 2019 - \$2,645,147). The Company finances its operations through a combination of cash, loans, equity and convertible debentures. The Company's ability to continue as a going concern is dependent upon the ongoing support from its lenders and its ability to fund the repayment of its debt by generating positive cash flows from operations, securing funding from additional debt, equity financing, disposing of assets or making other arrangements. Refer to Note 1 for further discussion.

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

	<u>2020</u>	<u>2019</u>
	(\$)	(\$)
Less than 1 year	1,769,944	2,824,974
Between 1 – 2 years	35,498	39,763
Between 2 – 5 years	42,597	-
	<u>1,848,039</u>	<u>2,864,737</u>

Foreign currency risk

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

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

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

16. SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2020</u>	<u>2019</u>
	(\$)	(\$)
Non-cash investing and financing activities:		
Change in estimate of asset retirement obligation for the West Hazel property	-	65,675
Common shares issued upon the conversion of convertible debentures	130,000	577,081
Common shares issued to settle outstanding liabilities	672,260	-
Exploration and evaluation assets reclassified to property and equipment	-	896,013
Interest paid during the year	238,434	263,714
Income taxes paid during the year	<u>-</u>	<u>-</u>

17. INCOME TAXES**a) Provision for Income Taxes**

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

	<u>2020</u>	<u>2019</u>
	(\$)	(\$)
Income (loss) for the year	(2,247,237)	(1,201,929)
Expected income tax expense (recovery) at 27%	(607,000)	(325,000)
Non-deductible items	100,000	(46,000)
Change in unrecognized deductible temporary differences	507,000	371,000
Income tax expense	<u>-</u>	<u>-</u>

b) Deferred Income Taxes

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

	<u>2020</u>	<u>2019</u>
	(\$)	(\$)
Non-capital losses carry-forwards	3,143,000	2,759,000
Property and equipment	406,000	364,000
Share issuance costs	12,000	9,000
Other	-	57,000
	<u>3,561,000</u>	<u>3,189,000</u>

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

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

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

17. INCOME TAXES (continued)**c) Unrecognized Deductible Temporary Differences and Unused Tax Losses**

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

	2020	2019
	(\$)	(\$)
Non-capital losses carry-forwards	11,670,000	10,249,000
Property and equipment	1,502,000	1,348,000
Share issuance costs	46,000	32,000
Other	-	211,000

18. RIGHT-OF-USE ASSET/LEASE LIABILITY

On November 19, 2020, the Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, commencing December 1, 2020 and terminating on November 30, 2023. Pursuant to this agreement, the Company has a commitment to lease office space at a base rent rate of \$45,910 per annum, plus common costs and taxes.

a) Right-of-use assets continuity

Changes in the Company's right-of-use assets during the years ended December 31, 2020 and 2019 were as follows:

	2020	2019
	\$	\$
Balance, beginning of year	12,532	-
IFRS 16 adoption	-	35,668
New premises lease	106,074	
Amortization	(15,478)	(23,136)
Balance, end of year	103,128	12,532

b) Lease liability

Minimum lease payments in respect of lease liabilities and the effect of discounting as at December 31, 2020 and 2019 were as follows:

	2020	2019
	\$	\$
Undiscounted minimum lease payments:		
Less than one year	45,910	11,369
One to three years	91,821	-
Effect of discounting	(30,055)	(104)
Present value of minimum lease payments	107,676	11,265

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

18. RIGHT-OF-USE ASSET/LEASE LIABILITY (continued)

c) Lease liability continuity

Changes in the Company's lease liabilities during the years ended December 31, 2020 and 2019 were as follows:

	2020	2019
	\$	\$
Balance, beginning of year	11,265	-
IFRS 16 adoption	-	34,997
New premises lease	106,074	-
Accrued interest unpaid	1,705	-
Principal payments	(11,368)	(23,732)
Balance, end of year	107,676	11,265

Interest of \$1,705 for the year ended December 31, 2020 (2019 – \$1,072) is included in financing expenses.

See Note 3(p).

19. SUBSEQUENT EVENTS

Subsequent to December 31, 2020:

- a) The Company issued 25,340,000 units in connection with a private placement at \$0.05 per unit for gross proceeds of \$1,267,000, \$672,500 of which were received during 2020. Each unit consists of one common share and one share purchase warrant. Each Warrant will be exercisable into an additional common share of the Company at a price of \$0.10 per share for a period of two years.
- b) A total of 2,650,000 stock options were exercised for gross proceeds of \$132,500.
- c) A total of 11,913,334 share purchase warrants were exercised for gross proceeds of \$968,833.
- d) On March 2, 2021, the Company entered into a non-binding term sheet under which a third party would, upon closing, commit to purchase up to \$5,000,000 of units from the Company. Each unit is to consist of one Company common share issued at a 20% discount to the Company's 20-day volume weighted average price ("VWAP") and one-half of one Company share purchase warrant exercisable for 24 months at a 50% premium to the 20-day VWAP. On April 9, 2021, the first tranche of financing under this term sheet closed, with the Company issuing 13,176,470 units at \$0.17 per unit for proceeds of \$2,240,000 and 588,235 finder's units valued at \$0.17 per unit to pay a \$100,000 financing fee
- e) On March 30, 2021, the Company delisted from the TSX Venture Exchange and listed on the Canadian Securities Exchange ("CSE"), trading under the symbol "HEAT". Concurrent with the new listing on the CSE, the Company changed its name from Hillcrest Petroleum Ltd. to Hillcrest Energy Technologies Ltd.
- f) On April 7, 2021, the Company acquired ANIGO Technologies Inc. ("ANIGO") by paying \$200,000 cash and issuing 6,000,000 Company common shares.
- g) On April 7, 2021, the Company granted 13,700,000 restricted share units ("RSUs") exercisable into Company common shares for nil proceeds to various Company directors, officers and consultants. The RSUs were exercised during April 2021 at a deemed value of \$0.22 per share.
- h) On April 8, 2021, the Company granted 10,700,000 share purchase options exercisable at \$0.24 per share for five years to various Company officers, directors and consultants.
- i) On April 13, 2021, the Company entered into a Joint Development Agreement with Systematec GmbH ("Systematec"), under which the Company and Systematec would engage in joint development activities and under which the Company is to issue to Systematec 2,750,000 Company common shares at a price of \$0.24 per

HILLCREST ENERGY TECHNOLOGIES LTD.

(formerly Hillcrest Petroleum Ltd.)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

19. SUBSEQUENT EVENTS (continued)

share for total value of \$660,000 and 2,000,000 Company common share purchase warrants exercisable at \$0.24 per share for 60 months after issuance.

- j) On April 16, 2021, the Company entered into a non-binding Memorandum of Intent under which the Company would have the opportunity to acquire up to a 51% interest in a Canadian private Company (“Privco”), with the intent of the Company and Privco together developing and commercializing energy efficiency projects and opportunities by combining IP and technologies.