



**Condensed Interim Consolidated Financial Statements**

**Nine Month Period Ended**

**September 30, 2020**

(Expressed in Canadian Dollars)

(Unaudited)

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

(Expressed in Canadian dollars) (Unaudited)

	September 30, 2020	December 31, 2019
	(\$)	(\$)
<b>ASSETS</b>		
Current assets		
Cash	342,065	41,749
Receivables (Note 9)	139,410	87,919
Prepaid expenses	56,148	37,627
Right-of-use asset	-	12,532
Total current assets	537,623	179,827
Non-current assets		
Property and equipment (Note 4)	648,144	684,071
<b>TOTAL ASSETS</b>	<b>1,185,767</b>	<b>863,898</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	1,603,463	1,411,071
Loans (Notes 6, 7 and 9)	807,748	1,234,542
Embedded derivative liabilities (Note 6 and 8)	138,000	91,439
Lease liability	-	11,265
Current portion of convertible debentures (Note 8)	-	76,657
Total current liabilities	2,549,211	2,824,974
Convertible debentures (Note 8)	-	39,763
Other liability (Note 8)	116,000	116,000
Decommissioning liability (Note 10)	379,247	373,187
<b>TOTAL LIABILITIES</b>	<b>3,044,458</b>	<b>3,353,924</b>
<b>SHAREHOLDERS' DEFICIENCY</b>		
Share capital (Note 11)	11,106,355	8,980,016
Contributed surplus (Note 11)	1,740,874	1,357,361
Subscriptions receivable (Note 11)	(45,500)	-
Reserves (Note 11)	249,473	246,084
Deficit	(14,909,893)	(13,073,487)
Total shareholders' deficiency	(1,858,691)	(2,490,026)
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' DEFICIENCY</b>	<b>1,185,767</b>	<b>863,898</b>

Nature of operations and going concern (Note 1)

Commitments (Note 12)

Subsequent events (Note 17)

On behalf of the Board of Directors:

"Michael Krzus"  
Director

"Thomas Milne"  
Director

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

(Expressed in Canadian dollars) (Unaudited)

	Three Month Period Ended		Nine Month Period Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	(\$)	(\$)	(\$)	(\$)
<b>Revenue and costs</b>				
Oil sales	198,811	377,620	445,213	716,828
Royalties	(41,265)	(104,930)	(88,878)	(188,522)
Operating costs	(170,319)	(252,936)	(350,825)	(458,679)
Depletion and depreciation (Note 4)	(45,961)	(85,300)	(133,473)	(159,131)
	(58,734)	(65,546)	(127,963)	(89,504)
<b>General and administrative expenses</b>				
Management and consulting fees (Note 9)	548,376	98,222	599,591	285,294
Office and general	383,180	98,090	532,591	331,267
Share-based payments (Note 11)	383,513	-	383,513	744
Exploration and evaluation expenditures	1,600	-	1,600	-
	1,316,669	196,312	1,517,295	617,305
<b>Loss from operations</b>	(1,375,403)	(261,858)	(1,645,258)	(706,809)
Financing expenses (Notes 6, 7 and 17)	(42,185)	(62,545)	(119,894)	(226,375)
Change in fair value of embedded derivative liabilities (Notes 6 and 8)	(53,143)	-	(53,143)	-
Foreign exchange gain	(16,236)	(251)	(18,111)	2,273
<b>Net loss</b>	(1,486,967)	(324,654)	(1,836,406)	(930,911)
<b>Item that may be subsequently reclassified to net loss</b>				
Exchange differences on translating foreign operations	2,317	3	3,389	(10)
<b>Comprehensive loss for the period</b>	(1,484,650)	(324,651)	(1,833,017)	(930,921)
<b>Basic and diluted loss per share</b>	(0.01)	(0.00)	(0.01)	(0.01)
<b>Weighted average common shares outstanding:</b>				
Basic	137,039,416	91,217,270	132,742,443	89,366,486
Diluted	137,039,416	91,217,270	132,742,443	89,366,486

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

**HILLCREST PETROLEUM LTD.**

**Consolidated Statements of Changes in Shareholders' Deficiency**

(Expressed in Canadian dollars) (Unaudited)

	Share Capital			Reserves				Shareholders' Deficiency
	Number of Shares	Amount	Subscriptions (receivable) received	Contributed Surplus	Warrants	Foreign Currency Translation	Deficit	
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Balance at December 31, 2018</b>	87,293,226	7,681,347	-	1,350,917	47,550	119,923	(11,872,229)	(2,672,492)
Proceeds from private placement	4,300,000	137,000	-	-	78,000	-	-	215,000
Share issuance costs	-	(6,146)	-	-	4,000	-	-	(2,146)
Vesting of stock options	-	-	-	744	-	-	-	744
Net loss and comprehensive loss for the period	-	-	-	-	-	(10)	(930,911)	(930,921)
<b>Balance at September 30, 2019</b>	91,593,226	7,812,201	-	1,351,661	129,550	119,913	(12,803,140)	(3,389,815)
<b>Balance at December 31, 2019</b>	123,679,299	8,980,016	-	1,357,361	129,550	116,534	(13,073,487)	(2,490,026)
Conversion of convertible debentures (Note 11)	2,600,000	130,000	-	-	-	-	-	130,000
Proceeds from exercise of stock options	2,500,000	125,000	15,000	-	-	-	-	140,000
Proceeds from exercise of warrants	17,479,668	873,983	-	-	-	-	-	873,983
Proceeds from private placement	20,442,000	1,022,100	(60,500)	-	-	-	-	961,600
Vesting of stock options	-	-	-	383,513	-	-	-	383,513
Share issuance costs	-	(24,744)	-	-	-	-	-	(24,744)
Net loss and comprehensive loss for the period	-	-	-	-	-	3,389	(1,836,406)	(1,833,017)
<b>Balance at September 30, 2020</b>	166,700,967	11,106,355	(45,500)	1,740,874	129,550	119,923	(14,909,893)	(1,858,691)

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

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

(Expressed in Canadian dollars) (Unaudited)

	Nine Month Periods Ended	
	September 30, 2020	September 30, 2019
	(\$)	(\$)
Net loss for the period	(1,836,406)	(930,911)
Adjusted for items not involving cash:		
Accretion expense	6,060	34,751
Accrued interest expense	58,993	37,743
Change in fair value of embedded derivative liabilities	53,143	-
Depletion and depreciation	133,473	159,131
Share-based payments	383,513	744
Changes in non-cash working capital:		
Prepaid expenses	(18,521)	(109,298)
Receivables	(51,491)	(322,812)
Accounts payable and accrued liabilities	204,046	958,099
<b>Cash flows provided by (used in) operating activities</b>	<b>(1,067,190)</b>	<b>(172,553)</b>
Proceeds from disposal of oil and gas property interest	-	170,000
Property and equipment expenditures	(97,546)	(106,132)
<b>Cash flows provided by (used in) investing activities</b>	<b>(97,546)</b>	<b>63,868</b>
Proceeds from convertible debentures	-	55,000
Proceeds from private placement, net of share issuance costs	961,600	210,000
Proceeds from exercise of stock options	140,000	-
Proceeds from exercise of warrants	873,983	-
Share issuance costs	(24,744)	(2,146)
Repayment of loan principal and interest	(485,787)	(148,444)
<b>Cash flows provided by financing activities</b>	<b>1,465,052</b>	<b>114,410</b>
<b>Change in cash</b>	<b>300,316</b>	<b>5,725</b>
<b>Effect of exchange rate changes on cash denominated in a foreign currency</b>	<b>-</b>	<b>(10)</b>
<b>Cash, beginning of the period</b>	<b>41,749</b>	<b>21,348</b>
<b>Cash, end of the period</b>	<b>342,065</b>	<b>27,063</b>

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

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

## **Hillcrest Petroleum Ltd.**

Notes to the Consolidated Financial Statements  
Nine Month Period Ended September 30, 2020  
(Expressed in Canadian dollars) (Unaudited)

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

Hillcrest Petroleum Ltd. (the “Company”) was incorporated on May 2, 2006 under the Business Corporations Act of British Columbia, and is in the business of acquiring, exploring and developing exploration interests in oil and gas projects located in North America. The Company’s registered office is Suite 1300 – 1030 West Georgia Street, Vancouver, BC, V6E 2Y3. The Company’s shares are listed for trading on the TSX Venture Exchange (“TSXV”) under the symbol “HRH” and on the OTC pink sheets under the symbol “HLRTF”.

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

These consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company’s ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent on the continued financial support of its creditors and its shareholders and ultimately, the attainment of profitable operations. There is no certainty that the Company will continue to produce revenue due to the inherent production risks associated with the oil and natural gas industry. In the past, the Company has relied on sales of equity securities, debt instruments and asset sales to meet its cash requirements. There can be no assurance that funding from this or other sources will be sufficient in the future to satisfy operational requirements and cash commitments. Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to it. Failure to obtain such financing on a timely basis could cause the Company to reduce or terminate its operations.

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

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

### **2. BASIS OF PREPARATION**

#### **(a) Statement of Compliance**

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

These consolidated financial statements were approved by the Audit Committee and the Board of Directors of the Company on November 26, 2020.

#### **(b) Statement of Compliance**

The consolidated financial statements have been prepared on a historical cost basis, with the exception of the embedded derivatives in the 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 Petroleum Ltd.

Notes to the Consolidated Financial Statements  
Nine Month Period Ended September 30, 2020  
(Expressed in Canadian dollars) (Unaudited)

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### 2. BASIS OF PREPARATION (continued)

#### (c) Basis of Consolidation

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

<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. 2044573 Alberta Ltd.	Canada	Clean Technology
102031850 Saskatchewan Ltd.	Canada	Oil and Gas exploration
Hillcrest Resources (Arizona) Ltd. ("HARL")	USA	Oil and Gas exploration
		Dormant

#### (d) Functional and Presentation Currency

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

#### (e) Use of Estimates and Judgments

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

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

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

##### Depletion and Depreciation

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

## Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements  
Nine Month Period Ended September 30, 2020  
(Expressed in Canadian dollars) (Unaudited)

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### 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 Petroleum Ltd.

Notes to the Consolidated Financial Statements  
Nine Month Period Ended September 30, 2020  
(Expressed in Canadian dollars) (Unaudited)

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### 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 Credit Line.

### 3. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounts Standards ("IAS") 34, "Condensed Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The accounting policies applied in these condensed interim financial statements are consistent with those stated in the Company's most recent annual audited financial statements, except for any new standards and amendments adopted (Note 3). Accordingly, these condensed interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2019.

## Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements  
Nine Month Period Ended September 30, 2020  
(Expressed in Canadian dollars) (Unaudited)

### 4. PROPERTY AND EQUIPMENT

	Computers	Oil and Gas Interests	Total
	(\$)	(\$)	(\$)
At December 31, 2018	16,028	1,915,932	1,931,960
Reclassification from exploration and evaluation assets	-	896,013	896,013
Revaluation of decommissioning liabilities	-	(65,675)	(65,675)
<b>At December 31, 2019</b>	<b>16,028</b>	<b>2,746,270</b>	<b>2,762,298</b>
Additions	2,508	95,038	97,546
<b>At September 30, 2020</b>	<b>18,536</b>	<b>2,841,308</b>	<b>2,859,844</b>
<b>Accumulated depletion and depreciation</b>			
At December 31, 2018	16,028	1,221,864	1,237,892
Depletion and depreciation for the year	-	146,267	146,267
<b>At December 31, 2019</b>	<b>16,028</b>	<b>1,368,131</b>	<b>1,384,159</b>
Depletion and depreciation for the period	-	133,473	133,473
<b>At September 30, 2020</b>	<b>16,028</b>	<b>1,501,604</b>	<b>1,517,632</b>
<b>Impairment</b>			
At January 1, 2018	-	491,543	491,543
Additions	-	202,525	202,525
<b>At December 31, 2019 and September 30, 2020</b>	<b>-</b>	<b>694,068</b>	<b>694,068</b>
<b>Carrying amounts:</b>			
At December 31, 2019	-	684,071	684,071
<b>At September 30, 2020</b>	<b>2,508</b>	<b>645,636</b>	<b>648,144</b>

#### West Hazel, Saskatchewan

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

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

#### Flaxcombe, Saskatchewan

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

## Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements  
Nine Month Period Ended September 30, 2020  
(Expressed in Canadian dollars) (Unaudited)

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### 4. PROPERTY AND EQUIPMENT (continued)

#### Impairment

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

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

At September 30, 2020, the Company's estimated total Proven and Probable Reserves were 282.4 Mboe. Assumptions for the fair value calculation included heavy oil prices ranging from \$54 – 63 bbl (2020 – 2026) and an inflation rate of 2%.

During the period ended September 30, 2020, the Company reviewed the carrying value of its oil and gas interests and determined there were no indicators of impairment with respect to the performance and operating costs of the West Hazel wells.

### 5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2020	December 31, 2019
	(\$)	(\$)
Trade payables	1,046,978	885,655
Related party payables (Note 10)	-	69,431
Accrued liabilities	533,685	443,941
GST payable	22,800	12,044
	<u>1,603,463</u>	<u>1,411,071</u>

### 6. SECURED LOANS

#### ASI Loan

As at September 30, 2020, the Company has \$138,550 (September 30, 2019 - \$138,550) outstanding on a senior secured loan facility that bears interest at a rate of 20% per annum and is currently payable on demand. As part of the consideration for the loan facility, the lenders and the arranging agent receive an aggregate 10% overriding royalty interest in the Company's proceeds from all oil, gas and other hydrocarbons produced from any new wells developed on the Company's Hartburg Properties using any portion of the proceeds from the loan. The Company has fully impaired these Hartburg assets and they are no longer producing.

During the nine months ended September 30, 2020, the Company repaid \$Nil (2019 - \$Nil) in loan principal and incurred \$21,232 (2019 - \$20,726) in interest expense.

#### Bridge Loan

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

During the nine months ended September 30, 2020, the Company incurred \$37,831 (2019 - \$33,446) in interest expense and paid \$Nil (2019 - \$Nil) in accrued interest. At September 30, 2020 a total of \$441,265 (December 31, 2019 - \$403,433) in loan principal and accrued interest remained outstanding.

## Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements  
Nine Month Period Ended September 30, 2020  
(Expressed in Canadian dollars) (Unaudited)

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### 6. SECURED LOANS (continued)

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

#### Ballakilley Loan

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

During the nine months ended September 30, 2020, the Company incurred \$21,161 (September 30, 2019 - \$59,161) in interest expense, including \$Nil (September 30, 2019 - \$36,820) in accretion of the loan liability. At September 30, 2020, a total of \$227,932 (December 31, 2019 - \$206,771) in loan principal and accrued interest remained outstanding. Additionally, on the basis of the private placement completed by the Company in December 2019 at \$0.03 per share, the loan conversion feature has been revalued to \$138,000 (December 31, 2019 - \$84,000), and the Company has recorded a loss of \$54,000 (2019 - \$Nil) on the consolidated statement of loss and comprehensive loss for the nine months ended September 30, 2020.

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

#### Project Financing

In February 2017, the Company entered into an arrangement with a third party to provide potential debt financing of up to \$2,500,000. The Company incurred standby charges at a rate of 7% per annum for the availability of this potential debt financing for the acquisition and development of oil projects located in Canada. Upon making a draw down under the facility additional fees would be incurred resulting in an effective borrowing rate of 20% per annum. The Company did not borrow any funds but has incurred standby charges totalling \$Nil during the nine months ended September 30, 2020 (2019 - \$Nil). The arrangement is still currently in place but there are no funds currently incurring standby charges as at September 30, 2020 and December 31, 2019. At September 30, 2020, a total of \$Nil (December 31, 2019 - \$154,154) in standby charges and interest on standby charges remained outstanding.

#### 1055328 BC Ltd. Loan

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

During the nine months ended September 30, 2020, the Company incurred \$6,674 (2019 - \$6,674) in interest expense. At September 30, 2020, a total of \$Nil (December 31, 2019 - \$123,871) in loan principal and accrued interest remained outstanding.

### 7. UNSECURED LOANS

Significant unsecured loans are as follows:

#### Credit Line

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

## Hillcrest Petroleum Ltd.

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### 7. UNSECURED LOANS (continued)

During the nine months ended September 30, 2020, the Company incurred \$4,683 (2019 - \$5,728) in interest expense, including \$Nil (2018 - \$Nil) in accretion of the loan liability. At September 30, 2020, a total of \$Nil (December 31, 2019 - \$95,859) in loan principal and accrued interest remained outstanding.

#### Proactive Advance

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

During the nine months ended September 30, 2020, the lender converted the principle amount of the loan in the July 2020 private placement.

### 8. CONVERTIBLE DEBENTURES

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

The cash received under the 2019 Convertible Debentures has been allocated between the fair value of the loan liability and the conversion feature. The value ascribed to the loan liability as at the loan date was \$27,341, and the value ascribed to the conversion feature was \$27,659. Additionally, the loan conversion feature was revalued to \$6,582 at September 30, 2020 (December 31, 2019 - \$7,439), and the Company recorded a gain of \$857 (2019 - \$Nil) on the consolidated statement of loss and comprehensive loss for the nine months ended September 30, 2020.

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

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

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

During the nine months ended September 30, 2020, debenture holders converted \$130,000 (year ended December 31, 2019 - \$577,081) of debenture principal and interest payable via the issuance of 2,600,000 common shares, including \$Nil (year ended December 31, 2019 - \$557,081) payable to the CEO of the Company via the issuance of nil common shares (year ended December 31, 2019 - 11,141,627 common shares), and the Company repaid \$Nil (year ended December 31, 2019 - \$43,833) of debenture principal and \$5,874 (year ended December 31, 2019 - \$107,274) of debenture interest during the nine months ended September 30, 2020. During the nine months ended September 30, 2020, the Company incurred \$8,663 (2019 - \$55,709) in interest and accretion expense. At September 30, 2020 a total of \$Nil (September 30, 2019 - \$769,733) in loan principal and accrued interest remained outstanding.

## Hillcrest Petroleum Ltd.

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### 9. RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the period ended September 30, 2020 and 2019. Key management personnel included the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and directors and officers and companies controlled or significantly influenced by them:

#### Key management compensation

	<b>September 30, 2020</b>	<b>September 30, 2019</b>
	<b>(\$)</b>	<b>(\$)</b>
Management and consulting fees paid or accrued to directors, officers or corporations controlled by directors and officers of the Company	286,736	192,416
	<b>286,736</b>	<b>192,416</b>

- a) As at September 30, 2020, a total of \$Nil (December 31, 2019 - \$69,431) was included in accounts payable and accrued liabilities owing to the directors and officers or corporations controlled by directors and officers of the Company for unpaid consulting fees and reimbursable expenses. These liabilities are non-interest bearing and payable on demand.
- b) As at September 30, 2020, the Company owed a total of \$Nil (December 31, 2019 - \$51,805) in loan principal and interest to the Chairman of the Company pursuant to a December 27, 2018 loan agreement where the Company borrowed \$45,000 from the Chairman. The loan bears interest at 15% and is repayable on demand.
- c) As at September 30, 2020, the Company was owed \$54,805 (2019: \$Nil) from the CEO.

### 10. DECOMMISSIONING LIABILITY

The decommissioning liability relates to the expected present value of costs of plugging and abandoning the oil and gas held by Hillcrest. The provision for decommissioning is estimated after taking account of inflation, years to abandonment and an appropriate discount rate. As at September 30, 2020, the oil and gas properties had estimated abandonment dates between 2024 and 2028.

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

**Hillcrest Petroleum Ltd.**

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**10. DECOMMISSIONING LIABILITY (continued)**

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

	<b>Hartburg, Texas</b>	<b>West Hazel, Saskatchewan</b>	<b>Flaxcombe, Saskatchewan</b>	<b>Total</b>
	<b>(\$)</b>	<b>(\$)</b>		<b>(\$)</b>
Balance, January 1, 2018	42,844	-	-	42,844
Accretion	850	-	992	1,842
Additions	-	369,700	50,098	419,798
Balance, December 31, 2018	43,694	369,700	51,090	464,484
Change in estimate	-	(65,675)	-	(65,675)
Accretion	867	7,320	1,012	9,199
Disposal	(35,249)	-	-	(35,249)
Foreign exchange movement	428	-	-	428
Balance, December 31, 2019	9,740	311,345	52,102	373,187
Accretion	663	4,623	774	6,060
Balance, September 30, 2020	10,403	315,968	52,876	379,247
Current portion	-	-	-	-
Non-current portion	10,403	315,968	52,876	379,247
	10,403	315,968	52,876	379,247

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Hartburg Project was \$10,957 (US\$8,436) as at September 30, 2020 (December 31, 2019 - \$10,957 (US\$8,436)). The provision has been estimated using a risk-free discount rate of 1.98% (December 31, 2019 - 1.98%) and an inflation rate of 2.00% (December 31, 2019 - 2.00%) at September 30, 2020.

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the Flaxcombe Project was \$60,950 (December 31, 2019 - \$60,950) at September 30, 2020. The provision has been estimated using a risk-free discount rate of 1.98% (December 31, 2019 - 1.98%) and an inflation rate of 2.00% (December 31, 2019 - 2.00%).

The total undiscounted amount of estimated cash flows required to settle the provision for decommissioning liability for the West Hazel Project was \$338,391 (December 31, 2019 - \$338,391) at September 30, 2020. The provision has been estimated using a risk-free discount rate of 1.68% (December 31, 2019 - 1.68%) and an inflation rate of 2.00% (December 31, 2019 - 2.00%).

## Hillcrest Petroleum Ltd.

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### 11. SHARE CAPITAL

#### Authorized

Unlimited number of common shares without par value

#### Issued and Outstanding

##### Nine Month Period Ended September 30, 2020

- a) The Company issued 2,600,000 common shares in connection with the conversion of a \$130,000 portion of the outstanding Convertible Debentures at \$0.05 per share.
- b) On August 4, 2020, the Company closed a private placement of 20,442,000 units at a price of \$0.05 per unit for gross proceeds of \$1,022,100. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant will be exercisable into an additional common share of the Company at \$0.07 for a period of two years. \$60,500 was received subsequent to the period end.
- c) On August 4, 2020, the Company closed an early warrant exercise incentive program intended to encourage the early exercise of up to 22,894,446 outstanding common share purchase warrants of the Company. 17,479,667 eligible warrants were exercised resulting in the Company receiving gross proceeds of \$873,984. In addition to receiving a Company common share upon exercise, each warrant holder who exercised warrants under the early warrant exercise incentive program received a new warrant exercisable at \$0.10 per share for two years after issuance.
- d) The Company issued 2,500,000 shares in connection with exercising stock options at \$0.05 for gross proceeds of \$125,000. As at September 30, 2020, the Company received \$15,000 and issued 300,000 shares subsequent to the period end, see Note 17(b).

#### Share Purchase Warrants

##### Nine Month Period Ended September 30, 2020

- a) A total of 4,396,000 share purchase warrants exercisable at \$0.05 expired unexercised on February 27, 2020.
- b) A total of 600,000 share purchase warrants exercisable at \$0.10 expired unexercised on March 23, 2020.
- c) A total of 500,000 share purchase warrants exercisable at \$0.07 expired unexercised on August 17, 2020.
- d) A total of 500,000 share purchase warrants exercisable at \$0.10 expired unexercised on August 17, 2020

The following table summarizes the share purchase warrants outstanding as at September 30, 2020:

<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Expiry Date</u>	<u>Weighted Average Remaining Contractual Life</u>
	<u>(\$)</u>		<u>(yrs)</u>
10,221,000	\$0.07	July 14, 2022	1.79
450,000	0.05	May 10, 2021	0.61
272,000*	0.10	May 10, 2021	0.61
17,479,668	0.07	December 4, 2020	0.18
4,964,778	0.05	December 4, 2020	0.18
586,666*	0.05	December 4, 2020	0.18
<u>33,974,112</u>	<u>0.05</u>		<u>0.68</u>

\*Finder's warrants



## Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements  
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### 11. SHARE CAPITAL (continued)

See Note 17.

#### Stock Options

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

On July 24, 2020, the Company granted 7,100,000 stock options pursuant to the share option plan of the Company. The options are exercisable on or before July 8, 2025 at an exercise price of \$0.05 per share. The Company recognized \$383,513 in stock-based compensation in relation to this grant.

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

	<b>2020</b>
Risk-free interest rate	0.25%
Expected life of options	5 years
Volatility	142%
Expected Dividend yield	Nil
Forfeiture rate	Nil
Weighted average fair value	\$0.05

The following table summarizes the stock options outstanding and exercisable as at September 30, 2020:

<b>Number of Options Outstanding</b>	<b>Number of Options Exercisable</b>	<b>Weighted Average Exercise Price (\$)</b>	<b>Expiry Date</b>	<b>Weighted Average Remaining Contractual Life (yrs)</b>
300,000	300,000	0.06	April 3, 2021	0.51
1,250,000	1,250,000	0.05	February 21, 2022	1.39
300,000	300,000	0.05	May 1, 2022	1.58
7,100,000	7,100,000	0.05	July 8, 2025	4.77
8,950,000	8,950,000	0.05		4.05

See Note 18.

### 12. COMMITMENTS

The Company had the following commitments as at September 30, 2020:

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

## Hillcrest Petroleum Ltd.

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### 12. COMMITMENTS (continued)

- b) The Company has an office rental agreement with a term of 72 months, terminating on February 28, 2023. The landlord issued a notice of termination to the Company effective January 31, 2019 and has sent a demand for payment of \$43,961 (US\$32,245) representing unpaid rental charges under the rental agreement. The Company has recognized the full liability as at September 30, 2020.
- c) On August 21, 2020, the Company signed a Financial and Advisory Services Agreement with a New York-based capital and advisory firm. The agreement has a term of one (1) year at a cost of US\$15,000 per quarter.

### 13. GEOGRAPHICAL SEGMENTED INFORMATION

The Company is engaged in one business activity, being the acquisition, exploration, development and production of oil and gas reserves in Canada and the United States. For the year ended December 31, 2019 and September 30, 2020, all revenues were derived from operations in Canada and all non-current assets were located in Canada September 30, 2019 - all revenues were derived from operations in Canada and all non-current assets were located in Canada).

### 14. CAPITAL MANAGEMENT

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

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

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

There were no changes in the Company's approach to capital management during the period ended September 30, 2020. The Company is not subject to externally imposed capital requirements.

### 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### 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.

## Hillcrest Petroleum Ltd.

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### 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

#### Financial Instrument Risk Exposure

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

#### Credit risk

The Company's credit risk is primarily attributable to cash and accounts receivable. The Company's maximum exposure to credit risk at the end of the reporting period is the carrying value of these assets. Substantially all of the Company's customers are in the oil and natural gas industry and are subject to normal industry credit risks. The remaining customers are related to the recovery of shared office rent and share subscription proceeds. The Company has minimal collection risk related to these receivables and expects to collect the outstanding receivables in the normal course of operations. At September 30, 2020, the maximum credit exposure is the carrying amount of Receivables of \$139,410 (December 31, 2019 - \$87,919).

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

#### Market risk

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

#### Interest rate risk

The Company is exposed to interest rate risk. The Company has an unsecured loan associated with a CIBC line of credit which has a variable interest rate, recalculated quarterly. A 1% change in market interest rates would result in an increase/decrease of \$1,602 on the Company's net loss.

#### Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquid capital to meet its current liabilities as they come due. At September 30, 2020, the Company had a working capital deficiency of \$1,991,588 (December 31, 2019 - \$2,645,147). The Company finances its operations through a combination of cash, loans, equity and convertible debentures. The Company's ability to continue as a going concern is dependent upon the ongoing support from its lenders and its ability to fund the repayment of its debt by generating positive cash flows from operations, securing funding from additional debt, equity financing, disposing of assets or making other arrangements. Refer to Note 1 for further discussion.

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	(\$)	(\$)
Less than 1 year	2,549,211	2,824,974
Between 1 – 2 years	-	39,763
Between 2 – 5 years	-	-
	<u>2,549,211</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.

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### 16. SUPPLEMENTAL CASH FLOW INFORMATION

	September 30, 2020	September 30, 2019
	(\$)	(\$)
<b>Non-cash investing and financing activities:</b>		
Common shares issued upon the conversion of convertible debentures	130,000	-
<b>Interest paid during the period</b>	42,766	50,641
<b>Income taxes paid during the period</b>	-	-

### 17. SUBSEQUENT EVENTS

The following events occurred subsequent to September 30, 2020:

- a) On October 7, 2020, the Company granted 1,000,000 stock options pursuant to the share option plan of the Company. The options are exercisable on or before October 7, 2025 at an exercise price of \$0.05 per share.
- b) On October 8, 2020, the Company issued 300,000 shares in connection with exercising stock options at \$0.05 for gross proceeds of \$15,000.
- c) On October 15, 2020, the Company issued 150,000 shares in connection with exercising warrants at \$0.05 for gross proceeds of \$7,500.
- d) On October 28, 2020, the Company issued 12,804,952 shares to settle accounts payable and loans payable in the amount of \$688,346.
- e) On November 9, 2020, the Company granted 1,000,000 stock options pursuant to the share option plan of the Company. The options are exercisable on or before November 9, 2025 at an exercise price of \$0.05 per share.
- f) On November 19, 2020, the Company entered into an office rental agreement in Vancouver, British Columbia. The term of the agreement is 36 months, and the Company will pay base rent of \$4,173 per month, plus common costs and taxes.
- g) On November 23, 2020, the Company issued 187,000 shares in connection with exercising warrants at \$0.05 for gross proceeds of \$7,500.