



Consolidated Financial Statements

December 31, 2017 and 2016

(Expressed in Canadian Dollars)



April 30, 2018

Independent Auditor's Report

To the Shareholders of Hillcrest Petroleum Ltd.

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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



Opinion

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

Emphasis of matter

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

(Signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants

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

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

Nature of operations and going concern (Note 1)

Commitments (Note 12)

Subsequent events (Note 20)

These consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2018.

They were signed on the Board's behalf by:

"Don Currie"
Director

"Thomas Milne"
Director

HILLCREST PETROLEUM LTD.**Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**

(Expressed in Canadian dollars)

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

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)

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

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

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

(Expressed in Canadian dollars)

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

Supplemental cash flow information (Note 16)

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

1. Nature of Operations and Going Concern

Hillcrest Petroleum Ltd. (the “Company”) was incorporated on May 2, 2006 under the Business Corporations Act of British Columbia, and is in the business of acquiring, exploring and developing exploration interests in oil and gas projects located in North America. Effective March 10, 2015, the Company changed its name from Hillcrest Resources Ltd. to Hillcrest Petroleum Ltd. The Company’s registered office is suite 1300 – 1030 West Georgia Street, Vancouver, BC, V6E 2Y3. The Company’s shares are listed for trading on the TSX Venture Exchange (“TSX-V”) under the symbol “HRH” and on the OTCQB Exchange under the symbol “HLRTF”.

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

These consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company reported net income for the year of \$5,284,533, however all of this income related to the loss of control of a former subsidiary. Other than this the Company had a loss for the year of \$1,602,479 and had a working capital deficiency of \$1,155,779 as at December 31, 2017. The Company’s ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent on the continued financial support of its creditors and its shareholders and ultimately, the attainment of profitable operations. There is no certainty that the Company will continue to produce revenue due to the inherent production risks associated with the oil and natural gas industry. In the past, the Company has relied on sales of equity securities, debt instruments and asset sales to meet its cash requirements. There can be no assurance that funding from this or other sources will be sufficient in the future to satisfy operational requirements and cash commitments. Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to it. Failure to obtain such financing on a timely basis could cause the Company to reduce or terminate its operations.

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

2. Basis of Preparation

(a) Statement of Compliance

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

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

2. Basis of Preparation (continued)

(b) Basis of Measurement

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

(c) Basis of Consolidation

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

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

(d) Functional and Presentation Currency

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

(e) Use of Estimates and Judgements

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

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

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

2. Basis of Preparation (continued)

(e) Use of Estimates and Judgements (continued)

Depletion and Depreciation

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

Decommissioning provisions

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

Income taxes

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

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

Determination of functional currency

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

Carrying value and the recoverability of exploration and evaluation assets

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

2. Basis of Preparation (continued)

(e) Use of Estimates and Judgements (continued)

Fair value of stock options and other share-based payments

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

Fair value of embedded derivatives

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

Carrying value and the recoverability of property and equipment

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

Determination of cash generating units

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

3. Significant Accounting Policies

(a) Foreign Currency Translation

Functional and presentation currency

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

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(a) Foreign Currency Translation (continued)

Transactions and balances

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

(b) Exploration and Evaluation

Exploration and evaluation ("E&E") costs are capitalized for projects after the Company has acquired the legal right to explore but prior to their technical feasibility and commercial viability being confirmed, generally determined as the establishment of proved or probable reserves. These costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses, including remuneration of production personnel and supervisory management, the projected costs of retiring the assets, and any activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources.

Once technical feasibility and commercial viability are confirmed the E&E asset is then reclassified to property and equipment and tested for impairment. For purposes of impairment testing, E&E assets are allocated to the appropriate cash-generating units based on geographic proximity. Expired lease costs are expensed as part of depletion and depreciation expense as they occur and costs incurred prior to the legal right to explore are charged to net income (loss).

(c) Property and Equipment

Cost and valuation

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

Equipment includes computer equipment which is recorded at cost on initial acquisition. Cost includes the purchase price and the directly attributable costs of acquisition required to bring an asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management. Subsequent expenditure relating to an item of equipment is capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditure is recognized as repairs and maintenance expenses during the period in which they are incurred.

Depletion and depreciation

The provision for depletion for oil and natural gas assets is calculated based on each asset's production for the period divided by the Company's estimated total proved and probable oil and natural gas reserve volumes before royalties for that asset, taking into account estimated future development costs. Production and reserves of natural gas and associated liquids are converted at the energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of oil. Changes in estimates used in prior periods, such as proven and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Equipment is depreciated on a declining balance basis over the estimated useful life of the asset at the rate of 33% to 55% per annum. Where components of an asset have a different useful life and cost that is significant to the total cost of the asset, depreciation is calculated on each separate component. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date, and adjusted on a prospective basis if appropriate.

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(d) Decommissioning and Restoration Costs

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

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

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

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

(e) Impairment of Non-Financial Assets

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

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

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

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(f) Impairment of Financial Assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

(g) Financial Instruments

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

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

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

Financial assets

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

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

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

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

- *Financial assets at fair value through profit or loss* – Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The Company currently does not hold financial assets in this category.
- *Loans and receivables* – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method less any provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash, accounts receivable, GST receivable, other receivables and restricted cash fall into this category of financial instruments.

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(g) Financial Instruments (continued)

- *Held-to-maturity investments* – Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables. Investments are classified as held-to-maturity if the Company has the intention and ability to hold them until maturity. The Company currently does not hold financial assets in this category.
- *Available-for-sale financial assets* – Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company currently does not hold financial assets in this category.

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

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

Financial liabilities

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

- *Financial liabilities at fair value through profit or loss* – Financial liabilities at fair value through profit or loss include financial liabilities that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Liabilities in this category are measured at fair value with gains or losses recognized in profit or loss. The embedded derivative in the Ballakilley loan falls into this category.
- *Other financial liabilities* – Other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process. The Company's accounts payable and secured and unsecured loans fall into this category of financial instruments.

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

(h) Provisions

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

(i) Basic and Diluted Earnings (Loss) Per Share

Earnings (loss) per share are calculated using the weighted-average number of common shares outstanding during the year. In calculating diluted earnings (loss) per share, the Company considers the potential exercise of outstanding share purchase options and warrants to the extent each option, warrant or contingent issuance was dilutive. Potentially dilutive securities were excluded in the computation of diluted loss per share as their inclusion would be anti-dilutive.

(j) Joint Operations

Oil and natural gas operations are conducted jointly with external parties and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(k) Revenue Recognition

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

(l) Share-based Payments

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

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

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

(m) Taxes

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

Current income tax

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

Deferred income tax

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

Deferred tax is not recognized for the following temporary differences:

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(m) Taxes (continued)

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

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

Sales tax

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

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

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

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

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

IFRS 9, Financial instruments

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

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

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

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

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

IFRS 15, Revenue from Contracts with Customers

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

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

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

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

IFRS 16, Leases

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

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

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

4. Exploration and Evaluation Assets

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

4. Exploration and Evaluation Assets (continued)

Flaxcombe - Saskatchewan

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

Carrera Prospect - Texas

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

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

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

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

Pettit Project - Louisiana

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

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

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

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements
Year Ended December 31, 2017
(Expressed in Canadian dollars)

5. Property and Equipment

	Computers	Oil and Gas Interests	Total
	(\$)	(\$)	(\$)
Cost			
At January 1, 2016	27,624	24,006,519	24,034,143
Disposals	-	(19,889,477)	(19,889,477)
Change in decommissioning estimate	-	(80,205)	(80,205)
Foreign exchange movement	(331)	(767,502)	(767,833)
At December 31, 2016	27,293	3,269,335	3,296,628
Disposals	(10,886)	(1,555,928)	(1,566,814)
Foreign exchange movement	(379)	-	(379)
At December 31, 2017	16,028	1,713,407	1,729,435
Accumulated depletion and depreciation			
At January 1, 2016	18,889	4,333,057	4,351,946
Depletion and depreciation for the year	4,967	801,951	806,918
Disposals	-	(2,586,082)	(2,586,082)
Foreign exchange movement	(56)	(202,921)	(202,977)
At December 31, 2016	23,800	2,346,005	2,369,805
Depletion and depreciation for the year	-	3,588	3,588
Disposals	(7,510)	(1,127,729)	(1,135,239)
Foreign exchange movement	(262)	-	(262)
At December 31, 2017	16,028	1,221,864	1,237,892
Impairment			
At January 1, 2016	-	7,790,130	7,790,130
Impairment for the year	-	332,865	332,865
Disposals	-	(7,192,475)	(7,192,475)
Foreign exchange movement	-	(276,227)	(276,227)
At December 31, 2016	-	654,293	654,293
Disposals	-	(162,750)	(162,750)
At December 31, 2017	-	491,543	491,543
Carrying amounts:			
At December 31, 2016	3,493	269,037	272,530
At December 31, 2017	-	-	-

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

5. Property and Equipment (continued)

Hartburg Project, Texas

The Company has the following working interests:

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

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

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

Gulf of Mexico Properties

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

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

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

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

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

Impairment

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

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

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

6. Accounts Payable and Accrued Liabilities

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

7. Secured Loans

ASI Loan

As at December 31, 2017, the Company has \$138,550 (December 31, 2016 - \$259,500) outstanding on a senior secured loan facility that bears interest at a rate of 20% per annum and is currently payable on demand. As part of the consideration for the loan facility, the lenders and the arranging agent receive an aggregate 10% overriding royalty interest in the Company's proceeds from all oil, gas and other hydrocarbons produced from any new wells developed on the Company's Hartburg Properties using any portion of the proceeds from the loan.

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

Bridge Loan

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

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

Ballakilley Loan

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

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

7. Secured Loans (continued)

Project Financing

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

1055328 BC Ltd. Loan

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

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

8. Unsecured Loans

Shares Subscriptions

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

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

Credit Line

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

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

Yesnik Loan

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

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

9. Decommissioning Liability

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

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

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

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

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

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

10. Related Party Transactions

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

Key management compensation

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

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

11. Share Capital

Authorized

Unlimited number of common shares without par value

Issued and outstanding

Year Ended December 31, 2017

- a) The Company completed the second tranche of a non-brokered private placement wherein it issued 8,900,000 units at a price of \$0.05 per unit for gross proceeds of \$445,000. Each unit consisted of one common share in the capital of the Company plus one half of one common share purchase warrant. Each whole warrant of this second tranche offering will entitle the holder to purchase one additional share at a price of \$0.08 until January 18, 2019. The Company paid cash costs of \$5,199 in connection with the closing of the second tranche.
- b) The Company completed a non-brokered private placement in two tranches wherein it issued an aggregate of 5,594,857 units at \$0.07 per unit for gross proceeds of \$391,640. Each unit is comprised of a common share and one half of a common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at \$0.10 for a period of two years from the date of closing. The Company paid cash costs of \$389 in connection with the closing of the placement.
- c) The Company issued 285,714 common shares valued at \$20,000 as consideration for consulting services.

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

11. Share Capital (continued)

Issued and outstanding (continued)

Year Ended December 31, 2016

- a) The Company issued 1,000,000 common shares with a fair value of \$30,000 to a lender as partial consideration for an unsecured loan.
- b) The Company issued 1,200,000 common shares with a fair value of \$60,000 to a lender as partial consideration for a secured loan. Furthermore, the Company issued 300,000 common shares with a fair value of \$15,000 as a syndication fee in connection with the secured loan.
- c) The Company completed the first tranche of a non-brokered private placement wherein it issued 7,300,000 units at \$0.05 per unit for gross proceeds of \$365,000. Each unit is comprised of a common share and one half of a common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at \$0.08 until December 8, 2018. No finder's fees were paid in connection with this placement.

Share Purchase Warrants

Year Ended December 31, 2017

- a) The Company issued 4,450,000 share purchase warrants in connection with a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at \$0.08 until January 19, 2019.
- b) The Company issued 1,997,429 share purchase warrants in connection with the first tranche of a non-brokered private placement of units. Each warrant entitles the holder to acquire a common share of the Company at \$0.10 until July 7, 2019.
- c) The Company issued 800,000 share purchase warrants in connection with the second tranche of a non-brokered private placement of units. Each warrant entitles the holder to acquire a common share of the Company at \$0.10 until July 14, 2019.
- d) The Company issued 1,000,000 warrants as partial compensation for services. A total of 500,000 warrants are exercisable at \$0.07 per share and the remainder are exercisable at \$0.10 per share. Each warrant entitles the holder to acquire a common share of the Company until August 17, 2020.

Year Ended December 31, 2016

- a) The Company extended the expiry date of 5,312,500 share purchase warrants to December 30, 2017. Accordingly, the Company recorded \$76,000 as a share-based payment. These warrants expired without being exercised.
- b) The Company issued 3,650,000 share purchase warrants in connection with a non-brokered private placement. Each warrant entitles the holder to acquire a common share of the Company at \$0.08 until December 8, 2018.

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

11. Share Capital (continued)**Share Purchase Warrants** (continued)

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

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

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

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

Stock Options

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

11. Share Capital (continued)

Stock Options (continued)

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

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

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

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

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

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

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

12. Commitments

- a) The Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, terminating on June 15, 2020. The remaining base rent payable under the lease is \$60,977 up until the lease expires. In addition to the base rent of \$2,067, the Company's share of operating costs is estimated at approximately \$1,608 per month.
- b) HEL entered into an office rental agreement with a term of 72 months, terminating on February 28, 2023. The remaining base rent payable under the lease is US\$145,289 up until the lease expires. In addition to the base rent, HEL's share of operating costs is estimated at approximately US\$1,568 per month.

13. Capital Management

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

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

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

There were no changes in the Company's approach to capital management during the year ended December 31, 2017. The Company is not subject to externally imposed capital requirements.

14. Segmented Information

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

15. Financial Instruments and Risk Management

Financial Risk Management

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

The fair value hierarchy has the following levels:

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

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

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

Financial Instrument Risk Exposure

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

Credit risk

The Company's credit risk is primarily attributable to cash and accounts receivable. The Company's maximum exposure to credit risk at the end of the reporting period is the carrying value of these assets. Substantially all of the Company's customers are in the oil and natural gas industry and are subject to normal industry credit risks. The remaining customers are related to the recovery of shared office rent. The Company has minimal collection risk related to these receivables and expects to collect the outstanding receivables in the normal course of operations. However, at year end there was a total of \$4,518 in overdue receivables, and accordingly an allowance for doubtful debt was recorded for the full amount. At December 31, 2017, the maximum credit exposure is the carrying amount of the accounts receivable of \$780 (2016 - \$29,402).

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

Market risk

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

15. Financial Instruments and Risk Management (continued)

Interest rate risk

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

Liquidity risk

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

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

	<u>2017</u>	<u>2016</u>
	<u>(\$)</u>	<u>(\$)</u>
Less than 1 year	1,334,699	6,358,902
Between 1 – 2 years	213,741	169,113
Between 2 – 5 years	120,000	91,314
	<u>1,668,440</u>	<u>6,619,328</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 and natural gas sales are denominated in United States dollars.

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

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

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

	<u>2017</u>	<u>2016</u>
Average USD to CAD	1.2955	1.3251
As at December 31	<u>1.2551</u>	<u>1.3467</u>

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

16. Supplemental Cash Flow Information,

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

17. Expenses By Nature

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

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

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

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

18. Income Taxes**a) Provision for Income Taxes**

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

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

b) Deferred Income Taxes

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

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

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

Hillcrest Petroleum Ltd.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(Expressed in Canadian dollars)

19. Loss of Control of HGOM

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

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

20. Subsequent Events

Subsequent to December 31, 2017, the Company:

- a) completed a non-brokered private placement in two tranches wherein it issued an aggregate of 9,992,000 units at a price of \$0.05 per unit for gross proceeds of \$499,600, of which \$127,000 has yet to be received. Each unit consisted of one common share in the capital of the Company plus one half of one common share purchase warrant. Each whole warrant of will entitle the holder to purchase one additional common share at a price of \$0.10 for a period of two years from the date of closing.
- b) issued 1,700,000 common shares at \$0.05 per share to settle \$85,000 of outstanding debts with certain creditors.
- c) issued 300,000 stock options exercisable at \$0.06 for a period of three years to Torrey Hills Capital pursuant to an investor relations contract.