

MOUNTAINVIEW ENERGY LTD

Q1 2014 Consolidated Financial Statements

For the Three Months Ended March 31, 2014 and 2013

**Expressed in US Dollars
(unaudited)**



May 29, 2014

**To the Audit Committee of
Mountainview Energy Ltd.**

In accordance with our engagement letter dated May 21, 2014, we have reviewed the interim consolidated financial statements (interim financial statements) of Mountainview Energy Ltd. and its subsidiaries (together the "Company") consisting of:

- the consolidated statement of financial position as at March 31, 2014;
- the consolidated statement of comprehensive loss for the three-month period ended March 31, 2014;
- the consolidated statement of cash flows for the three-month period ended March 31, 2014;
- the consolidated statement of changes in equity for the three-month period ended March 31, 2014;
- and
- the related notes.

These interim financial statements are the responsibility of the Company's management.

We performed our review in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor. Such an interim review consists principally of applying analytical procedures to financial data, and making inquiries of, and having discussions with, persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the financial statements; accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on our review, we are not aware of any material modification that needs to be made for these interim financial statements to be in accordance with International Financial Reporting Standards applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting..

As auditor of Mountainview Energy Ltd. for the year ended December 31, 2013, we did not review the consolidated statement of financial position as at March 31, 2013, and the comparative consolidated statements of comprehensive loss, changes in equity, and cash flows for the three-month period then ended and the related notes.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



This report is solely for the use of the Audit Committee of the Company to assist it in discharging its regulatory obligation to review these interim financial statements, and should not be used for any other purpose. Any use that a third party makes of this report, or any reliance or decisions made based on it, are the responsibility of such third parties. We accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this report.

PricewaterhouseCoopers LLP

Chartered Accountants

MOUNTAINVIEW ENERGY LTD
Consolidated Statements of Financial Position
(Expressed in US Dollars)
(unaudited)

	Notes	March 31, 2014	December 31, 2013
ASSETS			
Cash at bank		\$ 4,018,522	\$ 5,409,820
Short-term investments		5,624	5,590
Trade and other receivables	4	4,790,947	4,636,402
Prepaid expense		59,613	30,000
Crude oil inventory		124,091	115,039
Assets held for sale	7	2,649,544	2,613,523
		11,648,341	12,810,374
Non-current assets			
Reclamation Deposits		266,047	265,436
Exploration and evaluation	5	27,435,141	27,613,975
Property, plant and equipment	6	50,864,822	44,054,182
TOTAL ASSETS		\$ 90,214,351	\$ 84,743,967
LIABILITIES			
Trade payables and other liabilities	8	\$ 6,381,906	\$ 8,039,804
Line of credit	9	8,680,000	8,660,000
Liabilities held for sale	7	1,152,654	1,136,797
Promissory notes payable	11	767,596	-
Current portion of long-term debt	11	108,686	109,187
Short-term derivative liability	19	201,696	101,518
Total current liabilities		17,292,538	18,047,306
Non-current liabilities			
Long-term derivative liability	19	22,411	25,020
Long-term debt	11	255,773	281,980
Credit facility	11	46,079,997	38,203,410
Promissory notes payable	11	9,315,239	9,886,533
Convertible debenture	10	2,233,460	2,211,746
Decommissioning obligations	12	1,529,544	1,166,131
TOTAL LIABILITIES		76,728,962	69,822,126
SHAREHOLDERS' EQUITY			
Common shares	13	24,945,036	24,945,036
Convertible common shares	13	2,558,126	2,558,126
Contributed surplus	13	5,025,275	4,919,309
Deficit		(19,043,048)	(17,500,630)
TOTAL EQUITY		13,485,389	14,921,841
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 90,214,351	\$ 84,743,967

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:
Patrick M. Montalban (signed)

Keith Macdonald (signed)

MOUNTAINVIEW ENERGY LTD
Consolidated Statements of Comprehensive Loss
(Expressed in US Dollars)
(unaudited)

	Notes	Three Months Ended March 31	
		2014	2013
Revenues			
Oil and natural gas sales		\$ 6,107,944	\$ 2,008,999
Miscellaneous revenue		45,912	11,381
Royalties		(1,078,066)	(273,706)
Revenues, net of royalties		5,075,790	1,746,674
Expenses			
Production and operating expenditures		2,271,918	753,335
General and administrative		645,989	591,187
Depletion and depreciation		1,381,654	847,665
Foreign exchange (gain) loss		(3,426)	(76,714)
(Gain) loss on disposal of PP&E		-	(5,639)
Exploration and evaluation expiries		266,747	-
Share-based compensation		105,966	140,494
		4,668,848	2,250,328
Income (loss) from operations		406,942	(503,654)
Other (income) expense			
Finance income		(948)	(878)
Finance expense		1,820,015	878,051
Loss on derivatives	19	130,293	-
		1,949,360	877,173
Net income (loss) and comprehensive income (loss)		\$ (1,542,418)	\$ (1,380,827)
Net income (loss) per share			
Basic and diluted		\$ (0.02)	\$ (0.02)
Weighted average number of common shares outstanding	13	87,820,443	87,245,443

See accompanying notes to the consolidated financial statements

MOUNTAINVIEW ENERGY LTD
Consolidated Statements of Changes in Equity

(Expressed in US Dollars)
(unaudited)

	Notes	Common Shares	Convertible Common Shares	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
Balance at December 31, 2013		\$ 24,945,036	\$ 2,558,126	\$ 4,919,309	\$ (17,500,630)	\$ 14,921,841
Share-based compensation		-	-	105,966	-	105,966
Net loss for the period		-	-	-	(1,542,418)	(1,542,418)
Balance at March 31, 2014		\$ 24,945,036	\$ 2,558,126	\$ 5,025,275	\$ (19,043,048)	\$ 13,485,389

	Notes	Common Shares	Convertible Common Shares	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
Balance at December 31, 2012		\$ 24,596,977	\$ 2,558,126	\$ 4,603,406	\$ (11,526,480)	\$ 20,232,029
Share-based compensation		-	-	140,494	-	140,494
Net loss for the period		-	-	-	(1,380,827)	(1,380,827)
Balance at March 31, 2013		\$ 24,596,977	\$ 2,558,126	\$ 4,743,900	\$ (12,907,307)	\$ 18,991,696

See accompanying notes to the consolidated financial statements

MOUNTAINVIEW ENERGY LTD
Consolidated Statements of Cash Flows
(Expressed in US Dollars)
(Unaudited)

	Notes	Three Months Ended March 31	
		2014	2013
Operating			
Net and comprehensive income (loss)		\$ (1,542,418)	\$ (1,380,827)
Items not affecting cash:			
Depletion and depreciation		1,381,654	847,665
Share-based compensation		105,966	140,494
Loss on disposal of property, plant and equipment		-	(5,639)
Exploration and evaluation expiries		266,747	-
Unrealized loss on derivatives		97,569	-
Changes in non-cash working capital	16	(1,244,857)	(3,811,202)
		(935,339)	(4,209,509)
Financing			
Increase in line of credit		20,000	166,000
Proceeds from borrowings under Credit Facility		8,690,000	13,034,432
Repayments of Credit Facility		(1,488,852)	-
Increase (decrease) in long-term debt		(25,582)	87,415
Finance expense		930,020	191,106
		8,125,586	13,478,953
Investing			
Exploration and evaluation expenditures		(87,913)	11,855,738
Reclamation deposit		(611)	(693)
Property, plant and equipment expenditures		(8,166,050)	(23,870,837)
Short-term investments		(34)	99,881
Capitalized interest		-	106,669
Changes in non-cash working capital	16	(326,937)	4,081,505
		(8,581,545)	(7,727,737)
Change in cash		(1,391,298)	1,541,707
Cash, beginning of year		5,409,820	460,720
Cash, end of period		\$ 4,018,522	\$ 2,002,427

See accompanying notes to the consolidated financial statements

MOUNTAINVIEW ENERGY LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars) (unaudited)
For the three months ended March 31, 2014 and 2013

1. NATURE OF OPERATIONS AND GOING CONCERN

Mountainview Energy Ltd. ("Mountainview" or "the Company") was incorporated under the laws of the Province of British Columbia, Canada and was continued into the Province of Alberta in May 2012. Its principal business is the exploration, acquisition, development and production of petroleum and natural gas reserves in the State of Montana, and the State of North Dakota USA. Mountainview's shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol "MVW" and the Company's head office is located at 2400, 525 8th Avenue S.W, Calgary, Alberta T2P 1G1 Canada.

These interim consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company has experienced losses in the periods ended March 31, 2014 and December 31, 2013. As at March 31, 2014 and December 31, 2013, the Company had a deficit of \$19,043,048 and \$17,500,630 respectively, and a working capital (deficit) of (\$5,644,197) and (\$5,236,932) respectively. Continuing operations, as intended, are dependent on management's ability to raise required funding through future equity issuances, credit facilities, asset sales or a combination thereof, which is not assured, especially in today's volatile and uncertain financial markets. There can be no assurance that management's plans will be successful. These uncertainties cast substantial doubt on the Company's ability to continue as a going concern. These interim 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.

2. BASIS OF PREPARATION

a) Preparation

These interim consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim consolidated financial statements, including IAS 34, *Interim Financial Reporting*, and have been prepared following the same accounting policies as the annual consolidated financial statements for the year ended December 31, 2013 except as described in Note 3. The disclosures provided below are incremental to those included with the annual consolidated financial statements. Certain information and disclosures included in the notes to the annual consolidated financial statements are condensed herein or are disclosed on an annual basis only. Accordingly, these interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013.

These interim consolidated financial statements are prepared in US dollars. The functional currency of the Company and its wholly owned subsidiaries is the US dollar. Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are charged to comprehensive income.

The accompanying unaudited condensed consolidated interim financial statements of Mountainview Energy, Ltd. have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements for the quarter ended March 31, 2013 in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

MOUNTAINVIEW ENERGY LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars) (unaudited)
For the three months ended March 31, 2014 and 2013

These financial statements were authorized for issue by the Board of Directors on May 29, 2014.

3. NEW ACCOUNTING POLICIES

Estimation Uncertainty and Assumptions

Oil and gas properties

Oil and gas properties are depreciated using the unit-of-production method. In applying the unit-of-production method, oil and gas properties in general are depleted over total proved reserves. Prior to January 1, 2014, the Company depleted oil and gas properties over proved producing reserves. Subsequently, the depletion base was changed to include both proved producing and proved undeveloped reserves for those oil and gas properties with significant proved undeveloped reserves to better reflect the increased investment by the Company in those assets. The calculation of the unit-of-production rate of amortization could be impacted to the extent that actual production in the future is different from current forecasted production based on proved reserves. This would generally result from significant changes in any of the following:

- Changes in reserves;
- The effect on reserves of differences between actual commodity prices and commodity price assumptions; and/or
- Unforeseen operational issues.

The Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements follows below:

- IAS 32 Financial Instruments: Presentation — The Company adopted, as required, amendments to IAS 32. The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. IAS 32 did not impact the Company's interim financial statements.
- IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units "CGUs" is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments will only impact Mountainview's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.
- IAS 39 "Financial Instruments: Recognition and Measurement" has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on Mountainview's financial statements.
- IFRIC 21 "Levies" was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on Mountainview's financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Future Accounting Policy Changes

In February 2014, the IASB tentatively decided to require an entity to apply IFRS 9 "Financial Instruments" for annual periods beginning on or after January 1, 2018. IFRS 9 is still available for early adoption. The full impact of the standard on Mountainviews's financial statements will not be known until changes are finalized.

4. TRADE AND OTHER RECEIVABLES

A reconciliation of trade and other receivables is set out below:

	Note	March 31, 2014	December 31, 2013
Value-added tax receivables		\$ 15,096	\$ 11,286
Sale of crude petroleum		2,885,680	2,838,574
Joint interests		1,420,771	1,373,871
Related party joint interest receivable	14	407,826	351,097
Employee loan		800	800
Due from related party	14	60,774	60,774
		\$ 4,790,947	\$ 4,636,402

5. EXPLORATION AND EVALUATION ASSETS

A reconciliation of the carrying amount of exploration and evaluation assets is set out below:

	Note	Exploration and evaluation assets
Cost		
At December 31, 2012		\$ 42,593,713
Additions		4,935,923
Disposals		(24,000)
Exploration and evaluation expiries		(2,513,784)
Transfers to oil and gas properties	6	(17,366,817)
Transfers to held for sale assets		(11,060)
At December 31, 2013		27,613,975
Additions		87,913
Exploration and evaluation expiries		(266,747)
At March 31, 2014		\$ 27,435,141

Exploration and evaluation ("E&E") assets consist of the Company's land and exploration projects which are pending the determination of technical feasibility and commercial viability. In the period ended March 31, 2014, the Company recognized an expense of \$266,747 (\$2.5 million – December 31, 2013) for 1,524 net acres of current land expiries for which management has neither budgeted for nor planned further exploration.

Exploration and evaluation costs are excluded from depletion until proved reserves are determined.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. PROPERTY, PLANT AND EQUIPMENT

Cost:	Note	Oil and gas properties	Oil and gas development assets	Water disposal assets	Corporate assets	Total
Balance at December 31, 2012		\$ 14,781,981	\$ 813,323	\$ 716,437	\$ 27,165	\$ 16,338,906
Additions		29,806,712	302,723	14,347	188,969	30,312,751
Change in decommissioning provision	12	1,003,138	-	-	-	1,003,138
Transfers from E&E	5	17,377,877	-	-	-	17,377,877
Transfer to held for sale assets		(2,602,463)	-	-	-	(2,602,463)
Disposals		-	(174,707)	-	-	(174,707)
Balance at December 31, 2013		\$ 60,367,245	\$ 941,339	\$ 730,784	\$ 216,134	\$ 62,255,502
Additions		7,769,470	48,577	3,717	800	7,822,564
Change in decommissioning provision	12	334,604	-	-	-	334,604
Balance at March 31, 2014		\$ 68,471,319	\$ 989,916	\$ 734,501	\$ 216,934	\$ 70,412,670

Accumulated depletion, depreciation and impairment losses:

At December 31, 2012	\$ (11,305,788)	\$ (505,526)	\$ (187,489)	\$ (21,276)	\$ (12,020,079)
Depletion and depreciation	(5,743,071)	(102,464)	(143,286)	(11,401)	(6,000,222)
Impairment expense	(281,029)	-	-	-	(281,029)
Disposals	-	100,010	-	-	100,010
At December 31, 2013	(17,329,888)	(507,980)	(330,775)	(32,677)	(18,201,320)
Depletion and depreciation	(1,262,593)	(34,324)	(35,822)	(13,789)	(1,346,528)
At March 31, 2014	\$ (18,592,481)	\$ (542,304)	\$ (366,597)	\$ (46,466)	\$ (19,547,848)

Net Carrying Value:

At December 31, 2012	\$ 3,476,193	\$ 307,797	\$ 528,948	\$ 5,889	\$ 4,318,827
At December 31, 2013	\$ 43,037,357	\$ 433,359	\$ 400,009	\$ 183,457	\$ 44,054,182
At March 31, 2014	\$ 49,878,838	\$ 447,612	\$ 367,904	\$ 170,468	\$ 50,864,822

The Company has capitalized \$41,854 of general and administrative expenses or share based compensation expenses directly related to development and production activities for the periods ended March 31, 2014 and \$Nil December 31, 2013.

Future development costs on total proved reserves of \$74.0 million at March 31, 2014 are included in the calculation of depletion. Future development costs on proved developed producing of \$0.5 million at December 31, 2013 were included in the calculation of depletion. See Note 3 for additional disclosure on the change in estimate.

At March 31, 2014, the Company assessed for indicators of impairment for all of its CGUs, and determined there are none.

MOUNTAINVIEW ENERGY LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. ASSETS HELD FOR SALE

Assets held for sale

Balance, December 31, 2013	\$ 2,613,523
Additions	71,147
Depletion and depreciation	(35,126)
Balance, March 31, 2014	\$ 2,649,544

The company is focusing its capital program on operated drilling opportunities in Divide County and, as a result, the Company is strategically disposing of non-core assets. The assets held for sale are being marketed publicly and the Company has engaged a third party to market the assets on the its behalf. This transaction is expected to close by the middle of the second quarter, 2014. The recorded liabilities on assets held for sale of \$1.1 million represent outstanding joint interest bills for non-operated wells, as well as the discounted present value of the estimated future abandonment costs associated with the assets.

8. TRADE PAYABLES AND OTHER LIABILITIES

A reconciliation of trade and other liabilities is set out below:

	March 31,	December 31,
	2014	2013
Trade accounts payable	\$ 3,536,896	\$ 4,663,056
Accrued liabilities	117,146	126,927
Due to related party	14 48,577	-
Accounts payable - capital costs	1,656,688	2,318,229
Royalties payable	682,286	582,898
Production taxes payable	340,313	348,694
	\$ 6,381,906	\$ 8,039,804

9. LINE OF CREDIT

On April 17, 2012, the Company entered into a revolving line of credit for \$5,500,000 and on June 27, 2012, increased the line of credit to \$8,700,000. The outstanding balance at March 31, 2014 was \$8,680,000. The Company's US subsidiary provided a general security over its assets and, a director and officer of the Company and major shareholder have provided security over the assets of the Company as collateral for the line of credit. The carrying amount of the collateral is \$16,639,973. Interest is payable monthly at a variable rate of prime plus 1.25%. The minimum interest rate is 5.25%. Subsequent to the period ended March 31, 2014 the line of credit was extended to August 17, 2014.

10. CONVERTIBLE DEBENTURE

On May 28, 2012, the Company acquired from a related company, a compressor, plant and equipment for consideration of \$2,660,000. The Company paid \$283,000 and agreed to issue a \$2,377,000 debenture convertible into common shares of the Company at a price of \$2.50 per common share (the actual convertible debenture issued was \$2,072,053, which was reduced by costs incurred of \$304,947 on behalf of the related company prior to the transaction closing). During the year ended December 31, 2013 the original Convertible Debenture was cancelled and a new Convertible Debenture was signed to extend the maturity date to June 1, 2015. As at March 31, 2014 the convertible debenture was \$2,072,053 plus accrued interest of \$161,407. At March 31, 2014, if the

MOUNTAINVIEW ENERGY LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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convertible debenture had been converted the Company would have issued 828,821 additional common shares of the Company.

11. DEBT AND CREDIT AGREEMENTS

Principal balances outstanding on the Company's debt and credit agreements consists of the following:

	March 31, 2014	December 31, 2013
Credit Facility	\$ 46,484,588	\$ 39,283,441
Long term debt	\$ 364,459	\$ 391,167
Promissory notes	\$ 8,905,153	\$ 8,905,153
	\$ 55,754,200	\$ 48,579,761

Credit Facility

The Company entered into a senior secured advancing credit facility (the "Facility") for up to a maximum of \$75.0 million. At March 31, 2014 the Company had \$51.5 million available on the Facility, with \$46.5 million drawn. The Facility matures on July 1, 2015, and amounts borrowed bear interest at a floating rate with an 8% minimum. Monthly repayments of outstanding interest plus principle are required based on 85% of net profits from the 12-Gage Project. In connection with the Facility, the lender and the Company will have an area of mutual interest ("AMI"), which will be in northern Divide County, North Dakota. In addition, pursuant to the Facility, upon the earlier of the maturity date or the date the Facility is paid in full, the Lender will trigger the start of a 39% after pay-out net profits interest (the "NPI") in all of the Company's oil and gas properties within Divide County, North Dakota.

The NPI is defined as all revenues, less all operating costs, production taxes, and capital costs incurred by the Company. Payments on the NPI commence upon repayment in full of the outstanding Facility. The NPI will be reduced from 39% to 20% once the lender achieves a 0.65 x return on investment (ROI is based on principal plus interest and fees). At March 31, 2014 the return on investment required to trigger this reduction in NPI is \$33.25 million. The Facility is secured by a first priority mortgage and security interest in the 12-Gage properties. The carrying amount of the collateral is \$64,351,974. The borrowing base under the Facility will be subject to re-determination in the absolute discretion of the lender. The Company's US subsidiary, Mountain Divide LLC, is required to maintain a current ratio of 1.0: 1.0. At March 31, 2014 the US subsidiary's current ratio was 1.66:1.0.

The Company incurred fees of \$401,875 representing 1.25% of the borrowing and paid \$10,000 in reimbursed expenses to the lender. A finder's fee was also incurred in conjunction with Facility. The finder's fee is payable at a rate of 4% based on each borrowing base increase up to the total amount available of \$75.0 million, \$1.29 million was accrued at March 31, 2014.

During the period ended March 31, 2014, the Company received proceeds of \$8,690,000 (December 31, 2013 - \$38,575,824) under the Facility. The transaction has been recorded as a borrowing and a sale of conveyance relating to the 20% NPI. The Company has determined the fair value of the conveyance portion of the arrangement using a relative percentage of the conveyed property's fair value determined at its acquisition date and has recorded this amount of \$2,819,132 (December 31, 2013 - \$2,810,249) as an adjustment to the property. The residual amount of the initial proceeds has been determined to be a borrowing and has been recorded as long-term debt based upon the expected terms of repayment. The discount to the face amount of the debt will be accreted over the term of the Facility. At March 31, 2014, the Company owed \$46,484,588 under the Facility.

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During the period ended March 31, 2014, the Company has repaid \$1,488,852 of the principal and has paid or accrued \$858,203 in interest.

The following table reconciles the face value of the credit facility to the carrying value:

	March 31, 2014	December 31, 2013
Opening balance	\$ 38,203,410	\$ 1,004,308
Proceeds received	8,690,000	38,575,824
Principal payments	(1,488,852)	(3,175,455)
Conveyance fee	(8,883)	(187,336)
Accretion	643,176	1,569,632
Deferred finance costs	-	-
Amortization of deferred finance costs	-	141,449
Interest accrual	41,146	274,988
Total	\$ 46,079,997	\$ 38,203,410

Long-term debt

The Company has various vehicle loans outstanding as at March 31, 2014 and December 31, 2013 of \$364,459 and \$391,167, respectively. The current portion of vehicle loans as at March 31, 2014 and December 31, 2013 is \$108,686 and \$109,187. There are twelve vehicle loans with fixed rates on the loans that vary from 0% interest to 3.90% and will be repaid after five years.

Promissory notes

The Company entered into two unsecured promissory notes payable with major shareholders of the Company, each for \$4,000,000 (total \$8,000,000), bearing interest at 9% per annum and drawdown of the full principal balance. The principal is payable on or before May 30, 2015. At March 31, 2014, the balance due on the promissory notes was \$7,850,000 plus accrued interest of \$1,093,907.

On March 12, 2013, the Company entered into two unsecured promissory notes payable with major shareholders of the Company and a Company with a director and officer in common, for \$250,000, bearing interest at 5% per annum. The principal is payable on or before March 12, 2015. At March 31, 2014, the balance due on the promissory notes is \$250,000 plus accrued interest of \$13,116.

On November 26, 2013, the Company signed three unsecured promissory notes payable with a major shareholder of the Company, for \$460,949, \$248,204, and \$96,000, bearing interest at 9% per annum. The principal is payable on or before March 15, 2015, May 7, 2015 and June 6, 2015. At March 31, 2014, the balance due on the promissory notes is \$805,123 plus accrued interest of \$70,659.

The following is a schedule of debt payments over the next five years:

As at March 31, 2014	Total	< 1 Year	1-3 years	4-5 years	After 5 years
Credit facility	\$ 46,484,588	\$ -	\$ 46,484,588	\$ -	\$ -
Promissory notes	10,082,835	767,596	9,315,239	-	-
Convertible Debenture	2,233,460	-	2,233,460	-	-
Vehicle loans	364,459	108,686	254,764	1,009	-
Total contractual obligations	\$ 59,165,342	\$ 876,282	\$ 58,288,051	\$ 1,009	\$ -

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As at December 31, 2013	Total	< 1 Year	1-3 years	4-5 years	After 5 years
Credit facility	\$ 39,283,441	\$ -	\$ 39,283,441	\$ -	\$ -
Promissory notes	9,886,533	-	9,886,533	-	-
Convertible Debenture	2,211,746	-	2,211,746	-	-
Vehicle loans	391,167	109,187	273,717	8,263	-
Total contractual obligations	\$ 51,772,887	\$ 109,187	\$ 51,655,437	\$ 8,263	\$ -

12. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its decommissioning obligations is approximately \$2.7 million (2013 – \$2.3 million) which will be incurred over the operating lives of the assets, with the majority of costs to be incurred between 2016 and 2036. An inflation factor of 2.42% (December 31, 2013 – 2.42%) has been applied to the estimated decommissioning cost as at March 31, 2014 and December 31, 2013. The Company's risk-free rates used to calculate the fair value of the decommissioning liabilities ranged from 0.09% -3.56% at March 31, 2014 (December 31, 2013 0.63% - 3.79%).

A reconciliation of the decommissioning liability is provided below:

	March 31, 2014	December 31, 2013
Balance, beginning of year	\$ 1,166,131	\$ 276,291
Obligations acquired	-	-
Obligations incurred	249,281	787,597
Revisions of obligations	84,036	77,189
Accretion expenditure	30,096	25,054
Balance, end of year	\$ 1,529,544	\$ 1,166,131

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13. SHARE CAPITAL

a) Authorized

Unlimited common shares without par value
Unlimited preference shares without par value

b) Issued

	Note	March 31,		December 31,	
		Number of Shares	Amount	Number of Shares	Amount
Common shares, beginning of year		87,820,443	\$ 24,945,036	87,245,443	\$ 24,596,977
Stock options exercised		-	-	575,000	135,129
Share-based compensation		-	-	-	212,930
Common shares, end of year		87,820,443	\$ 24,945,036	87,820,443	\$ 24,945,036

c) Class B Shares

During the year ended December 31, 2012, the Company's subsidiary issued 7,822,727 Class B Shares, to a company whose shareholder is a Company Director and officer. The Class B shares can be exchanged at the option of the holder, on a share for share basis with common stock of the Company or, at the option of the Company, be paid by cash at the current market value calculated as weighted average price per common stock of the Company for 20 consecutive trading days of the TSX-V. The exchange dates are as follows:

- June 4, 2012 to June 4, 2013 33%
- June 5, 2013 to June 5, 2014 66%
- June 6, 2014 to June 7, 2019 100%
- June 8, 2019 to June 9, 2022 100% (mandatory exchangeable or payable by cash)

The effect of Class B shares has not been included in the EPS for the periods ended March 31, 2014 and 2013. As at March 31, 2014 none of the shares have been exchanged.

d) Share-based payments

The Company has a stock option plan (the "Plan") whereby employees and others in similar roles may be granted options to purchase one common share for each option granted. Under this plan, the Company is authorized to grant options to purchase common shares up to the equivalent of 10% of the number of common shares outstanding at the time of grant. Stock options granted under this plan vest immediately following the date of grant, and expire after a five year term. The exercise price of each option is equal to the market price of the Company's shares on the date of the grant. The following table summarizes the changes in stock options outstanding.

All stock-based compensation equity awards to employees and non-employee directors are currently granted under the 2012 Stock Plan (the "2012 Plan"). The fair value of option grants is determined utilizing the Black-Scholes option-pricing model for stock options. The aggregate number of options that are available to be issued

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under the plan is 10% of the outstanding common shares of the Company. At March 31, 2014 the Company had a remaining 2,412,044 shares that could be issued under the 2012 Plan.

During 2012, the Company amended its Plan. Under the new Plan the exercise price cannot be less than the fair market value per share of the Company's common shares on the grant date, the options vest over a three year period and options generally expire five years from the date of grant.

Option grants are accounted for using the fair value method. The fair value of each option granted is estimated using the Black-Scholes option pricing model and the amount is recognized as the options vest. The Company issued nil options during the period ended March 31, 2014.

As of March 31, 2014, the Company has \$469,710 in unrecognized stock-based compensation expenses related to unvested stock-based compensation awards. The compensation expense is expected to be recognized on a graded-vesting basis over the applicable remaining vesting periods. The full amount is expected to be recognized within three years.

For the period ended March 31, 2014, Mountainview recorded non-cash share-based compensation expense of \$105,966 (March 31, 2013 \$140,494).

The following table summarizes information related to outstanding and exercisable options held by the Company's employees and directors at March 31, 2014:

	Shares	Weighted Average Exercise Price per Share (C\$)	Weighted Average Remaining Contractual Terms (In years)
Outstanding at December 31, 2012	6,195,000	\$ 0.75	3.70
Granted	750,000	0.50	
Expired	(575,000)	0.24	
Outstanding at December 31, 2013	6,370,000	0.77	3.25
Granted	-	0.50	
Exercised	-	0.24	
Outstanding at March 31, 2014	6,370,000	\$ 0.77	3.00
Exercisable at March 31, 2014	4,217,639	\$ 0.98	2.41

e) Contributed surplus

	March 31, 2014	December 31, 2013
Balance, beginning of year	\$ 4,919,309	\$ 4,603,406
Share-based compensation expensed	105,966	528,833
Stock options exercised	-	(212,930)
Balance, end of period	\$ 5,025,275	\$ 4,919,309

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f) Per Share Amounts

The following table summarizes the weighted average common shares used in calculating net loss per share:

	Three Months Ended March 31,	
	2014	2013
Net income (loss) for the year	\$ (1,542,418)	\$ (1,380,827)
Weighted average shares - basic and diluted	87,820,443	87,245,443
Income (loss) per share - basic and diluted	\$ (0.02)	\$ (0.02)

The impact of outstanding options is not included in the calculation of diluted common shares outstanding when a net loss is recorded, as the result would be anti-dilutive. Accordingly, nil common shares were added to the weighted average number of basic common shares outstanding due to the net loss reported in the current year.

14. RELATED PARTY TRANSACTIONS

During the period ended March 31, 2014 the Company paid or accrued \$1,133,995 (March 31, 2013 - \$2,455,571) to three companies owned by one of its major shareholders for services provided in the drilling and operating of the wells in the 12-Gage Property. These services were provided at a competitive market rate.

During the period ended March 31, 2014, the Company had a joint interest receivable of \$407,826 (March 31, 2013 - \$Nil) from two companies owned by two of its major shareholders. The companies are participants in certain joint venture activities.

During the period ended March 31, 2014, the Company had a joint interest receivable of \$60,774 (March 31, 2013 - \$Nil) from three companies owned by a Director and officer in common. The companies are participants in certain joint venture activities.

During the period ended March 31, 2014, the Company had a payable of \$48,577 (March 31, 2013 - \$Nil) due to a company owned by a Director and officer in common for the purchase of equipment.

During the period ended March 31, 2014, the Company had a joint interest payable of \$122,599 (March 31, 2013 - \$Nil) to two companies owned by two of its major shareholders. The companies are participants in certain joint venture activities.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Company include trade and other receivables (excluding value-added tax receivable), short-term investments, cash and cash equivalents, trade and other payables (excluding production taxes payable), convertible debenture, line of credit, credit facility, promissory note and long-term debt. Trade and other receivables (excluding value-added tax receivable), short-term investments and cash and cash equivalents are classified as loans and receivables and are measured at amortized cost. Trade and other payables (excluding production taxes payable), convertible debenture, line of credit, credit facility, promissory note and long-term debt are classified as other financial liabilities and are similarly measured at amortized cost. As at March 31, 2014, the fair values of these financial assets approximate their carrying value. The carrying values of the Company's financial liabilities may be higher than their fair value due to the Company's liquidity position (see Note 1).

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The Company classifies the fair value of the instruments according to the following fair value hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – Values are based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 – Values are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – Values are based on prices or valuation techniques that are not based on observable market data.

The Company is exposed to market risk (most significantly from changes in commodity prices, foreign exchange rates and interest rates), credit risk and liquidity risk which may impact the Company's future cash flows and value of its financial instruments. The Company manages risk through its policies and processes and may use derivative instruments to manage these risks.

a) Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand. A \$10.00 per bbl change in the price received for the Company's oil and natural gas liquids production is estimated to result in a \$559,630 change in the Company's net loss for the period ended March 31, 2014 (March 31, 2013 - \$270,000). Any significant price decline in commodity prices would adversely affect the amount of funds available for capital reinvestment purposes. As such, the Company has a risk management program to partially mitigate that risk and to ensure adequate funds are available for planned capital activities and other commitments. Changes in natural gas prices do not currently have a significant impact to the Company's operations.

b) Interest Rate Risk

The Company is charged a fixed interest rate on its convertible debenture, long-term debt and promissory notes. The interest rate on the line of credit and credit facility is variable and based on the bank's prime rates. A 1% change in the prime rates is estimated to result in a \$551,646 change in the Company's net loss for the three months ended March 31, 2014. The Company had no interest rate swap or financial contracts in place as at March 31, 2014 and December 31, 2013.

c) Foreign Exchange Risk

The majority of the Company's operations are conducted in U.S. dollars. The Company is exposed to foreign currency fluctuations to the extent cash, and accounts payable and accrued liabilities of the Company are not denominated in US dollars.

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The following identifies the amounts in Canadian dollars that the Company is exposed to foreign currency fluctuations:

	March 31, 2014	December 31, 2013
Cash at bank (C\$)	\$ 79,603	\$ 52,179
Value-added tax receivables (C\$)	16,688	12,004
Trade accounts payable (C\$)	171,418	267,126
	\$ 267,709	\$ 331,309

Based on the net exposures in the preceding table as at March 31, 2014, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the US dollar would result in an increase/decrease of \$26,700 (December 31, 2013 – \$33,000) in the Company's net income (loss).

d) Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from its oil and natural gas marketers, other receivables, cash and cash equivalents and short-term investments. Receivables from marketers, which represent the Company's largest receivables, are normally collected on the 28th day of the month following production. To mitigate the risk of non-payment, the Company assesses the financial strength of its marketers and enters into relationships with large purchasers with established credit history. The Company's cash and cash equivalents and short-term investments are held in banks with high credit ratings. The Company has not experienced any collection issues with its marketers in 2014 to date. As at March 31, 2014, the Company recorded \$Nil (December 31, 2013 – \$56,209) in allowance for doubtful accounts.

The carrying amount of trade and other receivables represents the maximum credit exposure. The Company has a concentration of credit risk in respect of trade receivables of approximately 93% with two unrelated third parties, which are engaged in the energy industry in Montana and North Dakota, United States. The Company considers all its receivables to be current.

e) Liquidity risk

Liquidity risk is the risk that Mountainview will not be able to meet all of its financial obligations when they become due. The Company manages its liquidity risk through the active management of cash flows, debt and maintaining appropriate access to credit. Mountainview believes it has the ability to satisfy current obligations with cash provided by operating activities and where necessary, utilization of the available portion of the existing credit facility for short-term fluctuations. For longer term management, the Company considers debt and share issuances under appropriate circumstances.

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The timing of cash outflows relating to financial liabilities as at March 31, 2014 are as follows:

As at March 31, 2014	< 1 Year	1-3 years	3-5 years	After 5 years	Total
Trade and accrued liabilities	\$ 6,381,906	\$ -	\$ -	\$ -	\$ 6,381,906
Line of credit	8,680,000	-	-	-	8,680,000
Long-term debt	108,686	254,764	1,009	-	364,459
Credit facility - principal	-	46,484,588	-	-	46,484,588
Credit facility - interest	3,718,767	1,859,384	-	-	5,578,151
Convertible debenture - principal	-	2,072,053	-	-	2,072,053
Convertible debenture - interest	-	161,407	-	-	161,407
Promissory notes - principal	710,949	8,194,205	-	-	8,905,154
Promissory notes - interest	56,647	1,121,034	-	-	1,177,681
Total	\$ 19,656,955	\$ 60,147,435	\$ 1,009	\$ -	\$ 79,805,399

To the extent that Mountainview enters derivatives to manage commodity price risk, it may be subject to liquidity risk as derivative liabilities become due. Derivative instruments are not entered for speculative purposes and management closely monitors commodity risk exposure in comparison to forecasted sales volumes. Liquidity risk is partially mitigated as losses realized due to high commodity prices are generally matched by increased cash flows from sales in the high commodity price environment.

The Company's line of credit (Note 9) is drawn on a revolving credit facility of \$8.7 million, and is due on Aug 17, 2014

The Company's credit facility (Note 11) is drawn on a credit facility of \$75 million with a maturity date of July 1, 2015. If not extended, the credit facility is due and payable at the maturity date.

The Company has a convertible debentures with a face value of \$2,072,053, convertible into shares of Mountainview at the holder's option. See Note 10.

16. SUPPLEMENTAL INFORMATION

The following is a reconciliation of the financial position changes in working capital items to the balances recorded on the consolidated statement of cash flows as change in non-cash working capital:

	Three Months Ended March 31,	
	2014	2013
Changes in non-cash working capital relating to operating:		
Accounts receivable	\$ (154,545)	\$ (3,497,354)
Assets held for sale	(71,147)	-
Prepaid expense	(29,613)	-
Inventory	(9,052)	(68,742)
Accounts payable and accrued liabilities	(996,357)	(245,106)
Liabilities held for sale	15,857	-
Changes in non-cash working capital	\$ (1,244,857)	\$ (3,811,202)

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Non-cash investing activities are summarized as follows:

Changes in non-cash working capital relating to investing:

Accounts payable and accrued liabilities	\$ (661,541)	\$ 4,087,052
Decommissioning obligations	\$ 334,604	\$ (5,547)
	<u>\$ (326,937)</u>	<u>\$ 4,081,505</u>

Taxes:

Income tax paid	\$ -	\$ -
Income tax refund	\$ -	\$ -
Current income tax	\$ -	\$ -

Interest:

Cash interest paid	\$ 982,755	\$ -
Cash paid on Hedging loss	\$ 32,724	\$ -
	<u>\$ 1,015,479</u>	<u>\$ -</u>

17. CAPITAL MANAGEMENT

The Company's objective when managing capital is to maintain a conservative, yet flexible structure which will allow it to execute on its capital investment program. The Company actively monitors its capital structure through cash flow from operating activities (before changes in non-cash working capital, which drives current and forecasted net debt levels. In forecasting these amounts, the Company includes economic conditions; investment opportunities; past and forecasted capital investment efficiencies; and current and forecasted petroleum and natural gas prices.

In order to manage the capital structure, the Company will focus on its forecasted debt to forecasted cash flow from operating activities (before changes in non-cash working capital) ratio; the current level of available credit under the bank facility; the level of bank credit that may be obtainable as a result of crude oil and natural gas reserve growth; the availability of other sources of debt; issuing new common equity if available on favorable terms; the sale of assets; and limiting the size of the investment program.

The Company's share capital is not subject to external restrictions; however, its credit facility value is based primarily on its petroleum and natural gas reserves and there are covenants Mountainview must comply with (note 12). The Company was in compliance with all of its financial covenants at the end of the reporting period.

18. SEGMENT INFORMATION

Economic dependence and major customers

In 2014, two customers, C.H.S. Inc, and Sunoco Inc, accounted for approximately, 10% and 84%, respectively, of the Company's consolidated revenue. The Company enters into short term contracts with its primary customers, which are subject to periodic renewals at the discretion of both parties at market rates. Should the customer relationship with C.H.S. Inc. or Sunoco Inc. discontinue in the future, the loss of revenue might result in a material adverse effect on the Company and its going concern. For further details on the Company's assessment of its going concern basis of preparation refer to Note 1.

In 2013, two customers, C.H.S. Inc, and Sunoco Inc, accounted for approximately, 13% and 77%, respectively, of the Company's consolidated revenue.

At March 31, 2014, one of the customers accounted for 87% (2013 – 68%) of the accounts receivable.

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19. HEDGING AGREEMENT

On December 19, 2013, the Company engaged in an eighteen month Hedging Agreement with Wells Fargo. The agreement has a collar with a floor at \$85.00 and a ceiling at \$97.70. For the period ended March 31, 2014, the Company realized a hedging loss of \$32,724 (March 31, 2013 - \$Nil). As at March 31, 2014, there was an unrealized mark to market loss of \$97,569 (March 31, 2013 - \$Nil) on this contract.

	Three months ended March 31,	
	2014	2013
Realized gain (loss)	\$ (32,724)	\$ -
Unrealized gain (loss)	(97,569)	-
Gain (loss) on derivatives	\$ (130,293)	\$ -

The agreed barrels per months are as follows:

Month	Barrels
Jan-14	11,000
Feb-14	11,000
Mar-14	11,000
Apr-14	9,000
May-14	9,000
Jun-14	9,000
Jul-14	6,000
Aug-14	6,000
Sep-14	6,000
Oct-14	6,000
Nov-14	6,000
Dec-14	6,000
Jan-15	4,000
Feb-15	4,000
Mar-15	4,000
Apr-15	4,000
May-15	4,000
Jun-15	4,000

20. SUBSEQUENT EVENT

Subsequent to March 31, 2014, the Company increased the borrowing base under the Credit Facility by an additional \$1.5 million. The terms are the same as in Note 11.