MOUNTAINVIEW ENERGY LTD

Q3 2014 Consolidated Financial Statements

For the Nine Months Ended September 30, 2014 and 2013

Expressed in US Dollars
(unaudited)

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

	Notes	September 30, 2014	December 31, 2013
ASSETS			
Cash at bank		$ 1,268,681	$ 5,409,820
Short-term investments		5,694	5,590
Trade and other receivables	5	11,459,409	4,636,402
Other assets	6	286,341	145,039
Assets held for sale	7	2,999,511	2,613,523
Total current assets		16,019,636	12,810,374
Non-current assets			
Reclamation Deposits		267,269	265,436
Exploration and evaluation	8	20,838,182	27,613,975
Property, plant and equipment	9	64,083,029	44,054,182
TOTAL ASSETS		**$ 101,208,116**	**$ 84,743,967**
LIABILITIES			
Trade payables and other liabilities	10	$ 20,019,090	$ 8,039,804
Line of credit	11	8,680,000	8,660,000
Liabilities held for sale	7	1,515,987	1,136,797
Credit facility	13	50,059,123	-
Current portion of long-term debt	13	127,357	109,187
Short-term derivative liability	22	-	101,518
Total current liabilities		80,401,557	18,047,306
Non-current liabilities			
Long-term derivative liability	22	-	25,020
Long-term debt	13	285,830	281,980
Credit facility	13	-	38,203,410
Promissory notes payable	13	10,481,959	9,886,533
Convertible debenture	12	2,277,371	2,211,746
Decommissioning obligations	14	2,036,086	1,166,131
TOTAL LIABILITIES		95,482,803	69,822,126
SHAREHOLDERS' EQUITY			
Common shares	15	24,878,505	24,945,036
Convertible common shares	15	2,558,126	2,558,126
Contributed surplus	15	5,237,205	4,919,309
Deficit		(26,948,523)	(17,500,630)
TOTAL SHAREHOLDERS' EQUITY		5,725,314	14,921,841
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**101,208,116**	**84,743,967**

Going Concern Note 1

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 September 30		Nine Months Ended September 30	
		2014	**2013**	**2014**	**2013**
Revenues					
Oil and natural gas sales		$ 5,882,531	$ 5,993,324	$ 19,000,351	$ 13,109,564
Miscellaneous revenue		19,712	474	89,744	18,903
Royalties		(1,202,035)	(847,848)	(3,529,355)	(1,861,551)
Revenues, net of royalties		4,700,208	5,145,950	15,560,740	11,266,916
Expenses					
Production taxes		$ 485,339	$ 265,067	$ 1,675,352	$ 831,328
Lease operating costs		2,136,644	1,473,142	6,027,277	3,562,272
General and administrative		717,594	343,743	2,034,048	1,434,479
Depletion and depreciation		1,442,743	1,496,052	4,365,733	4,227,829
Foreign exchange (gain) loss		(82,861)	70,622	(73,281)	(6,386)
Gain on disposal of PP&E		(395,878)	-	(404,973)	(5,639)
Exploration and evaluation expiries		672,547	-	5,363,868	-
Share-based compensation		105,966	136,475	317,896	415,421
		5,082,094	3,785,101	19,305,920	10,459,304
Income (loss) from operations		(381,886)	1,360,849	(3,745,180)	807,612
Other (income) expense					
Finance income		(747)	(595)	(2,456)	(2,112)
Finance expense		1,681,397	1,845,541	5,648,973	3,739,924
Loss (gain) on derivatives	22	(424,077)	-	56,196	-
		1,256,573	1,844,946	5,702,713	3,737,812
Loss before income taxes		(1,638,459)	(484,097)	(9,447,893)	(2,930,200)
Recovery of current tax		-	(96,983)	-	(96,983)
Net loss and comprehensive loss		**$ (1,638,459)**	**$ (387,114)**	**$ (9,447,893)**	**$ (2,833,217)**
Net loss per share					
Basic and diluted		**$ (0.02)**	**$ (0.00)**	**$ (0.11)**	**$ (0.03)**
Weighted average number of common shares outstanding	13	87,820,443	87,820,443	87,820,443	87,477,128

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	6, 12	-	-	317,896	-	317,896
Share issuance costs		(66,531)	-	-	-	(66,531)
Net loss for the period		-	-	-	(9,447,892)	(9,447,892)
Balance at September 30, 2014		$ 24,878,505	$ 2,558,126	$ 5,237,205	$ (26,948,522)	$ 5,725,314

	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
Exercise of options	6, 12	348,059	-	(212,930)	-	135,129
Share-based compensation		-	-	415,421	-	415,421
Net loss for the period		-	-	-	(2,833,217)	(2,833,217)
Balance at September 30, 2013		$ 24,945,036	$ 2,558,126	$ 4,805,897	$ (14,359,697)	$ 17,949,362

See accompanying notes to the consolidated financial statements

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

	Notes	Nine Months Ended September 30, 2014	2013
Operating			
Net and comprehensive loss		$ (9,447,893)	$ (2,833,217)
Items not affecting cash:			
Depletion and depreciation		4,365,733	4,227,829
Share-based compensation		317,896	415,421
Gain on disposal of property, plant and equipment		(404,973)	(5,639)
Exploration and evaluation expiries		5,363,868	-
Unrealized gain on derivatives		(178,473)	-
Unrealized gain on foreign exchange		(66,531)	-
Income tax recovery		-	(98,207)
Changes in non-cash working capital	19	(7,684,441)	997,792
		(7,734,813)	2,703,979
Financing			
Issuance of shares		-	135,129
Proceeds from promissory notes		-	1,079,153
Proceeds from line of credit		20,000	-
Repayments on line of credit		-	(189,463)
Proceeds from credit facility borrowings		13,218,423	26,101,644
Repayments on credit facility borrowings		(3,042,573)	(1,380,102)
Proceeds from long term debt		106,371	169,459
Repayments on long term debt		(84,351)	-
Finance expense		2,181,124	2,662,239
		12,398,994	28,578,059
Investing			
Exploration and evaluation expenditures		(475,785)	(3,631,577)
Property, plant and equipment expenditures		(21,569,340)	(21,453,233)
Proceeds from property, plant and equipment disposal		400,000	-
Short-term investments		(104)	100,000
Interest income		-	(547)
Changes in non-cash working capital	19	12,839,908	(4,045,181)
		(8,805,320)	(29,030,538)
Change in cash		(4,141,139)	2,251,500
Cash, beginning of year		5,409,820	460,720
Cash, end of period		**$ 1,268,681**	**$ 2,712,220**

See accompanying notes to the consolidated financial statements

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. The Company'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 September 30, 2014 and December 31, 2013. At September 30, 2014 and December 31, 2013, the Company had a deficit of $26,948,522 and $17,500,630 respectively, and a working capital deficit of $64,381,921 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 September 30, 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.

These financial statements were authorized for issue by the Board of Directors on November 26, 2014.

3. NEW ACCOUNTING POLICIES

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 the Company’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 the Company’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 has had a nominal impact on the Company’s financial statements.

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 available for early adoption. The full impact of the standard on the Company’s financial statements will not be known until changes are finalized.

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, this standard will replace IAS 18 Revenue, IAS 11 construction contracts, and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. The company is currently evaluating the impact of the standard on the financial statements.

4. CHANGE IN ESTIMATE

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 and excluded future development costs from the calculation. The depletion base was changed to include both proved producing and proved undeveloped reserves as well as future development costs 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 change in accounting estimate was recorded prospectively. Estimating the effect of the change in estimate on future periods is impractical due to the uncertainty of predicting future production volumes.

5. TRADE AND OTHER RECEIVABLES

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

	Note	September 30, 2014	December 31, 2013
Value-added tax receivables		$ 9,763	$ 11,286
Sale of crude petroleum		2,117,589	2,838,574
Joint interests		9,114,321	1,373,871
Related party joint interest receivable	16	126,656	411,871
Employee loan		5,145	800
Other receivables		85,935	-
Total trade and other receivables		**$ 11,459,409**	**$ 4,636,402**

6. OTHER ASSETS

A reconciliation of other assets is set out below:

	September 30, 2014	December 31, 2013
Prepaid expense	$ 60,000	$ 30,000
Crude oil inventory	174,406	115,039
Derivative assets	51,935	-
Total other assets	**$ 286,341**	**$ 145,039**

7. ASSETS HELD FOR SALE

Assets held for sale		
Balance at December 31, 2013	$	2,613,523
Additions		512,151
Change in decomissioning provision		19,870
Asset disposals		(32,192)
Depletion and depreciation		(119,148)
Depletion and depreciation disposal		5,307
Balance at September 30, 2014	**$**	**2,999,511**

The company is focusing its capital program on 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 its behalf. This transaction is expected to close by the fourth quarter of 2014. The recorded liabilities on assets held for sale of $1.5 million represent outstanding joint interests payable related to the assets, as well as the discounted present value of the estimated future abandonment costs associated with the assets.

8. EXPLORATION AND EVALUATION ASSETS

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

Exploration and evaluation assets		
Balance 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		(17,366,817)
Transfer to held for sale assets		(11,060)
Balance December 31, 2013	$	27,613,975
Additions		475,784
Exploration and evaluation expiries		(5,363,868)
Transfers to oil and gas properties		(1,887,709)
Balance at September 30, 2014	**$**	**20,838,182**

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 September 30, 2014, the Company recognized an expense of $5,363,868 ($2.5 million – December 31, 2013) for 6,276 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.

9. PROPERTY, PLANT AND EQUIPMENT

Cost	Note	Oil and gas properties	Oil and gas development assets	Water disposal assets	Corporate assets	Total
Balance December 31, 2012		$14,781,981	$ 813,323	$ 716,437	$ 27,165	$16,338,906
Additions		29,806,711	302,723	14,347	188,969	30,312,750
Change in decommissioning provision	14	1,003,138	-	-	-	1,003,138
Transfers from E&E	8	17,377,877	-	-	-	17,377,877
Transfers to held for sale assets		(2,602,463)	-	-	-	(2,602,463)
Disposals		-	(174,707)	-	-	(174,707)
Balance December 31, 2013		60,367,244	941,339	730,784	216,134	62,255,501
Additions		21,282,935	153,305	18,190	114,910	21,569,340
Change in decommissioning provision		796,621	-	-	-	796,621
Transfers from evaluation and exploration		1,887,709	-	-	-	1,887,709
Transfers to held for sale assets		-	-	-	-	-
Disposals			(97,918)			(97,918)
Balance September 30, 2014		**84,334,509**	**996,726**	**748,974**	**331,044**	**86,411,253**
Accumulated depletion, depreciation and impairment losses:						
Balance 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
Balance December 31, 2013		(17,329,888)	(507,980)	(330,775)	(32,677)	(18,201,320)
Depletion and depreciation		(3,914,359)	(101,046)	(107,679)	(47,846)	(4,170,930)
Disposals		-	44,026			44,026
Balance September 30, 2014		**(21,244,247)**	**(565,000)**	**(438,454)**	**(80,523)**	**(22,328,225)**
Net carrying value						
Balance December 31, 2012		3,476,193	307,797	528,948	5,889	4,318,827
Balance December 31, 2013		43,037,356	433,359	400,009	183,457	44,054,181
Balance September 30, 2014		**63,090,262**	**431,726**	**310,520**	**250,521**	**64,083,029**

The Company has capitalized $205,371 of general and administrative expenses or share based compensation expenses directly related to development and production activities for the periods ended September 30, 2014 and $Nil December 31, 2013.

Future development costs on total proved reserves of $57.9 million at September 30, 2014 are included in the calculation of depletion. Future development costs on proved developed producing reserves of $0.5 million at December 31, 2013 were included in the calculation of depletion. See Note 4 for additional disclosure on the change in estimate.

At September 30, 2014, the Company assessed for indicators of impairment for all of its CGUs, and determined there are none.

10. TRADE PAYABLES AND OTHER LIABILITIES

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

		September 30, 2014	December 31, 2013
Trade accounts payable		$ 484,920	$ 4,663,056
Accrued liabilities		2,643,451	126,927
Due to related parties	16	422,001	-
Accrued capital costs		14,937,886	2,318,229
Revenue payable		1,346,259	582,898
Production taxes payable		184,573	348,694
Total trade payables and other liabilities		**$ 20,019,090**	**$ 8,039,804**

11. 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 September 30, 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 $14,795,346. 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 September 30, 2014, the line of credit was converted to a term loan extending the maturity date from October 17, 2014 to November 1, 2015. A principal payment in the amount of $3,000,000 is due on December 1, 2014 with subsequent principal and interest payments due monthly beginning January 1, 2015 until the entire unpaid principal and interest obligation has been satisfied. All other terms of the agreement have remained in effect.

12. 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. Subsequent to September 30, 2014 an amendment to the debenture was issued extending the maturity date to July 1, 2016 all other terms remained unchanged. At September 30, 2014 the convertible debenture was $2,072,053 plus accrued interest of $205,318. At September 30, 2014, if the convertible debenture had been converted the Company would have issued 828,821 additional common shares.

13. DEBT AND CREDIT AGREEMENTS

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

	September 30, 2014	December 31, 2013
Credit facility	$ 50,059,123	$ 39,283,441
Long term debt (including current portion)	413,187	391,167
Promissory notes	10,481,959	8,905,153
Total debt and credit agreements	**$ 60,954,269**	**$ 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 September 30, 2014 the Company had $55.6 million available on the Facility, with $49.4 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 principal 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. Return on investment is based on principal plus interest and fees. At September 30, 2014 the return on investment required to trigger this reduction in NPI is $36.9 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 $78,879,672. 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 September 30, 2014 the US subsidiary's current ratio was 0.68:1.0. Subsequent to the period end the lender issued a waiver in relation to the current ratio covenant breach.

For the period ended September 30, 2014, the Company incurred fees of $61,591 representing 1.25% of the borrowing base increase 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, $1.37 million was accrued at September 30,2014.

During the period ended September 30, 2014, the Company received proceeds of $13,218,423 (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 $2,650,461 (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 a current liability 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 September 30, 2014, the Company owed $49,459,290 under the Facility. During the period ended September 30, 2014, the Company has repaid $3,042,573 of the principal and has paid or accrued $2,613,359 in interest.

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

	September 30, 2014	December 31, 2013
Balance, beginning of period	$ 38,203,410	$ 1,004,308
Proceeds received	13,218,423	38,575,824
Principal payments	(3,042,573)	(3,175,455)
Conveyance Fee	159,788	(187,336)
Accretion	1,795,062	1,569,632
Amortization of deferred finance costs	-	141,449
Interest accrual(payment)	(274,987)	274,988
Balance, end of period	**$ 50,059,123**	**$ 38,203,410**

Long-term debt

The Company has various vehicle loans outstanding as of September 30, 2014 and December 31, 2013 with balances of $413,187 and $391,167, respectively. The current portion of vehicle loans as at September 30, 2014 and December 31, 2013 is $127,357 and $109,187. There are thirteen vehicle loans with fixed rates 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. During the period ended September 30, 2014, amendments to the promissory notes were executed extending the maturity to July 1, 2016. At September 30, 2014, the balance due on the promissory notes was $7,850,000 plus accrued interest of $1,450,664.

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. During the period ended September 30, 2014, amendments to the promissory notes were executed extending the maturity to July 1, 2016. At September 30, 2014, the balance due on the promissory notes is $250,000 plus accrued interest of $19,349.

On November 26, 2013, the Company signed three unsecured promissory notes payable with a major shareholder of the Company, for $460,949, $248,205, 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. During the period ended September 30, 2014, amendments to the promissory notes were executed extending the maturity to July 1, 2016. At September 30, 2014, the balance due on the promissory notes is $805,154 plus accrued interest of $106,792.

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

At September 30, 2014	Total	< 1 Year	1-3 years	4-5 years	After 5 years
Credit facility	$ 50,059,123	$ 50,059,123	$ -	$ -	$ -
Line of credit	8,680,000	8,680,000	-	-	-
Promissory notes	10,481,959	-	10,481,959	-	-
Convertible Debenture	2,277,371	-	2,277,371	-	-
Vehicle loans	413,187	127,357	277,618	8,212	-
Total contractual obligations	$ 71,911,640	$ 58,866,480	$ 13,036,948	$ 8,212	$ -

14. 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 $2.6 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 September 30, 2014 and December 31, 2013. The Company's risk-free rate used to calculate the fair value of the decommissioning liabilities is 3.21% at September 30, 2014 (December 31, 2013 - 3.79%).

A reconciliation of the decommissioning liability is provided below:

	September 30, 2014	December 31, 2013
Balance, beginning of period	$ 1,166,131	$ 276,291
Obligations acquired	-	-
Obligations incurred	770,632	787,597
Revisions of obligations	41,371	77,189
Accretion expenditure	57,952	25,054
Balance, end of period	**$ 2,036,086**	**$ 1,166,131**

15. SHARE CAPITAL

a) Authorized

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

b) Issued

	September 30, 2014		December 31, 2013	
	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
Share issuance costs	-	(66,531)	-	-
Stock options exercised	-	-	575,000	135,129
Share-based compensation	-	-	-	212,930
Common shares, end of year	**87,820,443**	**24,878,505**	**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 exchange or payable by cash)

The effect of Class B shares has not been included in the EPS for the periods ended September 30, 2014 and 2013. At September 30, 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 under the plan is 10% of the outstanding common shares of the Company. At September 30, 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 that 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 September 30, 2014.

As of September 30, 2014, the Company has $257,779 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 September 30, 2014, the Company recorded non-cash share-based compensation expense of $317,896 (December 31, 2013 $415,421).

The following table summarizes information related to outstanding and exercisable options held by the Company's employees and directors at September 30, 2014:

	Shares	Weighted Average Exercise Price per Share (C$)	Weighted Average Remaining Contractual Terms (Years)
Outstanding at December 31, 2012	6,195,000	$ 0.75	3.70
Granted	750,000	0.50	
Excercised	(575,000)	0.24	
Outstanding at December 31, 2013	6,370,000	0.77	3.25
Granted	-	-	
Expired	(50,000)	-	
Outstanding at September 30, 2014	6,320,000	$ 0.77	2.50
Exercisable at September 30, 2014	4,683,611	$ 0.98	2.16

e) Contributed Surplus

	September 30, 2014	December 31, 2013
Balance, beginning of year	$ 4,919,309	$ 4,603,406
Share-based compensation expense	317,896	528,833
Stock options exercised	-	(212,930)
Balance, end of period	**$ 5,237,205**	**$ 4,919,309**

f) Per Share Amounts

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Net loss for the year	$ (1,638,459)	$ (387,114)	$ (9,447,893)	$ (2,833,217)
Weighted average shares - basic and diluted	87,820,443	87,820,443	87,820,443	87,477,128
Loss per share - basic and diluted	$ (0.02)	$ (0.00)	$ (0.11)	$ (0.03)

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.

16. RELATED PARTY TRANSACTIONS

During the period ended September 30, 2014 the Company paid or accrued $3,103,041 (September 30, 2013 - $4,328,845) 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 September 30, 2014, the Company had a joint interest receivable of $106,672 (September 30, 2013 - $910,087) from three companies owned by two of its major shareholders. The companies are participants in certain joint venture activities.

During the period ended September 30, 2014, the Company had a payable of $371,352 (September 30, 2013 - $910,087) from three companies owned by three of its major shareholders. The companies are participants in certain joint venture activities.

During the period ended September 30, 2014, the Company had a joint interest receivable of $19,984 (September 30, 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 September 30, 2014, the Company had a payable of $50,648 (September 30, 2013 - $Nil) due to two companies owned by a Director and officer in common for the purchase of equipment and certain joint venture activities.

During the period ended September 30, 2014, the Company had a related party payable of $Nil, (September 30, 2013 - $829,154) that was due to one of its major shareholders.

As of September 30, 2014 the Company executed a purchase and sale agreement for one of the company's non-operated oil and gas assets with a company owned by a major shareholder. Sales proceeds were $400,000 and a gain of $395,878 was recognized on the disposal, see further disclosure in Note 9.

17. FAIR VALUE MEASUREMENTS

The Company classifies the fair value of financial 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.

Classes of assets and liabilities are determined on the basis of the nature, characteristics and risks, and the level of the fair value hierarchy within which the fair value measurement is categorized. The number of classes may be greater for fair value measurements within Level 3 as those have a greater degree of uncertainty and subjectivity. A class will often require greater disaggregation than the line items presented in the statement of financial position, and information should be provided to reconcile to the statement of financial position. Determining appropriate classes requires judgment.

The Company recognizes financial instruments at fair value on initial recognition. The Company's financial instruments, excluding derivative liabilities are presented on the balance sheet at carrying value which approximates fair value due to the short terms to maturity and the floating interest rate on the debt agreements. The carrying values of the Company's financial liabilities may be higher than their fair value due to the Company's liquidity position (Note 1).

Derivative liabilities are carried at fair value and are measured on a recurring basis. The fair value of oil and gas commodity derivatives are determined using a Level 2 valuation model and included inputs are quoted forward prices for commodities, volatility and discounting, all of which can be observed or corroborated in the marketplace. At September 30, 2014 and September 30, 2013 the Company has recorded $51,935 and $Nil in derivative assets on the Consolidated Statement of Financial Position.

The Company's policy is to recognized transfers into and out of fair value hierarchy levels at the end of the reporting period. During the period ended September 30, 2014 there were no transfers between levels 1, 2 or 3.

18. 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. At September 30, 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).

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 $1,833,000 change in the Company's net loss for the period ended September 30, 2014 (September 30, 2013 - $1,508,000). 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 rates on the line of credit and credit facility are variable and based on the bank's prime rates. A 1% change in the prime rates is estimated to result in a $581,393 change in the Company's net loss for the nine months ended September 30, 2014. The Company had no interest rate swap or financial contracts in place as at September 30, 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.

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

	September 30, 2014	December 31, 2013
Cash at bank (C$)	$ 60,144	$ 52,179
Value-added tax receivables (C$)	10,893	12,004
Trade accounts payable (C$)	35,958	267,126
Long-term debt (C$)	57,399	-
	$ 164,394	**$ 331,309**

Based on the net exposures in the preceding table as at September 30, 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 $16,000 (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 September 30, 2014, the Company recorded $56,209 (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 13% with one unrelated third party, which is 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 the Company 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. The Company 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.

The timing of cash outflows relating to financial liabilities as at September 30, 2014 are as follows:

At September 30, 2014	< 1 Year	1-3 years	3-5 years	After 5 years	Total
Trade and accrued liabilities	$ 20,019,090	$ -	$ -	$ -	$ 20,019,090
Line of credit	8,680,000	-	-	-	8,680,000
Long-term debt	127,357	277,618	8,212	-	413,187
Credit facility - principal	49,459,290	-	-	-	49,459,290
Convertible debenture - principal	2,072,053	-	-	-	2,072,053
Convertible debenture - interest	205,318	-	-	-	205,318
Promissory notes - principal	-	8,935,154	-	-	8,935,154
Promissory notes - interest	-	1,546,805	-	-	1,546,805
Total	$ 80,563,108	$ 10,759,577	$ 8,212	$ -	$ 91,330,898

To the extent that the Company 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 11) is drawn on a revolving credit facility of $8.7 million. Subsequent to September 30, 2014 the line of credit has been converted to a term loan due November 1, 2015.

The Company's credit facility (Note 13) 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 Company shares at the holder's option. See Note 12.

19. SUPPLEMENTAL INFORMATION

Non cash operating activities are summarized as follows:

	September 30, 2014	September 30, 2013
Change in non-cash working capital relating to operating:		
Accounts receivable	$ (6,823,007)	$ (3,248,680)
Assets held for sales	(505,135)	-
Other assets	(89,367)	(44,565)
Reclamation deposit	(1,833)	(1,327)
Account payable and accrued liabilities	(640,371)	4,292,364
Liabilities held for sale	375,272	-
Changes in non-cash working capital	**$ (7,684,441)**	**$ 997,792**

Non-cash investing activities are summarized as follows:

	September 30, 2014	September 30, 2013
Change in non-cash working capital relating to investing:		
Decomissioning provision	$ (796,621)	$ -
Asset disposals	45,082	-
Accrued capital costs	12,619,657	(4,045,181)
Credit facility	159,788	-
Decomissioning obligation	812,003	-
Balance, end of period	**$ 12,839,908**	**$ (4,045,181)**

Cash paid for interest and other finance expenses are summarized as follows:

	September 30, 2014	September 30, 2013
Interest:		
Cash interest paid	$ 3,467,847	$ 1,121,679
Restricted cash used for interest	-	106,669
Restricted cash used for credit facility	-	367,452
Cash paid on hedging loss	234,669	-
	$ 3,702,516	**$ 1,595,800**

20. 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 the Company must comply with (Note 13). The Company was not in compliance with all of its financial covenants at the end of the reporting period. The compliance violation and the stipulated repayment terms have resulted in a reclassification of the credit facility debt to a current liability. Subsequent to the reporting period the lender has issued the Company a waiver for the debt covenant breach.

21. SEGMENT INFORMATION

Economic dependence and major customers

In 2014, two customers, C.H.S. Inc., and Sunoco Inc., accounted for approximately, 11% and 82%, 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, 20% and 71%, respectively, of the Company's consolidated revenue.

At September 30, 2014, the same two customers accounted for 15% (2013 – 84%) of the accounts receivable.

22. 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 September 30, 2014, the Company realized a hedging loss of $234,669 (September 30, 2013 - $Nil). At September 30, 2014, there was an unrealized mark to market gain of $178,473 (September 30, 2013 - $Nil) on this contract.

The agreed barrels per months are as follows:

Month	Barrels
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

23. Subsequent events

On October 6, 2014 the Company announced an equity offering for proceeds up to $25M. The offering will be placed through an Agent and the Agent will offer for sale units of the Corporation for an aggregate gross proceeds of up to $25M. Each unit will consist of one common share at a price to be determined in the context of the market and one half of one common share purchase warrant which shall entitle the holder thereof to purchase one common share at a price to be determined in the context of the market for a period of 24 months following the closing date of the private placement. The net proceeds from the offering will be used by the Company for further development of the Company's drilling program in its 12 Gage project, for general corporate and working capital purposes and to repay indebtedness.

On October 20, 2014, the Company announced that that its wholly-owned subsidiary, Mountain Divide, LLC has entered into a commitment letter with the current issuer of the Credit Facility (Note 13) with respect to a new term facility and a $16 million unsecured subordinated convertible promissory note to replace: (a) the current senior secured advancing credit facility between Mountain Divide, LLC and the lender in connection with the Company's 12-Gage Project in the Williston Basin in Divide County, North Dakota; and (b) the 39% after pay-out net profits interest (the "NPI") associated with the existing credit facility. The new term facility is contingent upon a successful equity raise of $15M by the Company.