MOUNTAINVIEW ENERGY LTD.

2014 Consolidated Financial Statements

For the Years Ended December 31, 2014 and 2013 Expressed

in US Dollars

April 30, 2015

Independent Auditor's Report

To the Shareholders of
Mountainview Energy Ltd.

We have audited the accompanying consolidated financial statements of Mountainview Energy Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mountainview Energy Ltd. and its subsidiaries as at December 31, 2014 and December 31, 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

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

PricewaterhouseCoopers LLP

Chartered Accountants

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

	Notes		December 31, 2014		December 31, 2013
ASSETS					
Cash		$	569,024	$	5,409,820
Short-term investments			-		5,590
Trade and other receivables	6		5,271,777		4,636,402
Other assets	7		1,069,055		145,039
Assets held for sale	8		-		2,613,523
Total current assets			6,909,856		12,810,374
Non-current assets					
Reclamation deposits			267,880		265,436
Exploration and evaluation	9		2,736,702		27,613,975
Property, plant and equipment	10		45,064,848		44,054,182
TOTAL ASSETS		**$**	**54,979,286**	**$**	**84,743,967**
LIABILITIES					
Trade payables and other liabilities	11	$	18,988,006	$	8,039,804
Line of credit	12		8,660,000		8,660,000
Liabilities held for sale	8		-		1,136,797
Credit facility	14		50,539,132		-
Current portion of long-term debt	14		126,319		109,187
Short-term derivative liability	24		-		101,518
Total current liabilities			78,313,457		18,047,306
Non-current liabilities					
Long-term derivative liability	24		-		25,020
Long-term debt	14		264,723		281,980
Credit facility	14		-		38,203,410
Promissory notes payable	14		10,690,020		9,886,533
Convertible debenture	13		2,299,809		2,211,746
Decommissioning obligations	15		2,512,516		1,166,131
TOTAL LIABILITIES			94,080,525		69,822,126
SHAREHOLDERS' EQUITY					
Common shares	16		24,878,505		24,945,036
Convertible common shares	16		2,558,126		2,558,126
Contributed surplus	16		5,309,919		4,919,309
Deficit			(71,847,789)		(17,500,630)
TOTAL SHAREHOLDERS' EQUITY			(39,101,239)		14,921,841
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$**	**54,979,286**	**$**	**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)

	Notes	Year Ended December 31 2014	2013
Revenues			
Oil and natural gas sales		$ 24,108,204	$ 20,527,098
Miscellaneous revenue		127,608	71,399
Royalties		(4,413,294)	(3,329,738)
Revenues, net of royalties		19,822,518	17,268,759
Expenses			
Production taxes		$ 2,125,935	$ 1,630,979
Lease operating costs		9,034,518	4,934,546
General and administrative		2,995,779	2,219,556
Depletion and depreciation	10	6,216,807	6,000,222
Foreign exchange (gain) loss		(79,052)	105,841
Loss (gain) on disposal of PP&E		273,811	(7,876)
Expirations and impairment of exploration and evaluation assets	9	23,546,814	2,513,784
Impairment of oil and natural gas properties	10	22,927,000	281,029
General E&E Expenses		-	9,023
Share-based compensation	16	390,610	528,833
		67,432,222	18,215,937
Income (loss) from operations		(47,609,704)	(947,178)
Other (income) expense			
Finance income		(3,133)	(2,642)
Finance expense		7,725,755	4,992,334
Loss (gain) on derivatives	24	(985,167)	126,538
		6,737,455	5,116,230
Loss before income taxes		(54,347,159)	(6,063,408)
Recovery of current tax	20	-	(89,258)
Net loss and comprehensive loss		**$ (54,347,159)**	**$ (5,974,150)**
Net loss per share			
Basic and diluted		**$ (0.62)**	**$ (0.07)**
Weighted average number of common shares outstanding	16	87,820,443	87,563,662

See accompanying notes to the consolidated financial statements

MOUNTAINVIEW ENERGY LTD.
Consolidated Statements of Changes in Equity
(Expressed in US Dollars)

	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	16	-	-	390,610	-	390,610
Share issuance costs		(66,531)	-	-	-	(66,531)
Net loss for the period		-	-	-	(54,347,159)	(54,347,159)
Balance at December 31, 2014		$ 24,878,505	$ 2,558,126	$ 5,309,919	$ (71,847,789)	$ (39,101,239)

	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	16	348,059	-	(212,930)	-	135,129
Share-based compensation		-	-	528,833	-	528,833
Net loss for the period		-	-	-	(5,974,150)	(5,974,150)
Balance at December 31, 2013		$ 24,945,036	$ 2,558,126	$ 4,919,309	$ (17,500,630)	$ 14,921,841

See accompanying notes to the consolidated financial statements

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

		Year Ended December 31,	
	Notes	**2014**	**2013**
Operating			
Net and comprehensive loss		$ (54,347,159)	$ (5,974,150)
Items not affecting cash:			
Depletion and depreciation	10	6,216,807	6,000,222
Share-based compensation	16	390,610	528,833
Loss (gain) on disposal of property, plant and equipment		273,811	(7,876)
Impairment and expirations of exploration and evaluation assets	9	23,546,814	2,513,784
Impairment of oil and natural gas assets	10	22,927,000	281,029
Unrealized loss (gain) on derivatives	24	(1,006,470)	126,538
Unrealized gain on foreign exchange		(66,531)	-
Income tax recovery	20	-	(108,952)
Changes in non-cash working capital	21	104,434	2,024,767
		(1,960,684)	5,384,195
Financing			
Issuance of shares	16	-	135,129
Proceeds from promissory notes	14	-	1,055,154
Proceeds from line of credit	14	-	165,022
Proceeds from credit facility borrowings	14	13,218,423	35,398,419
Repayments on credit facility borrowings	14	(3,107,389)	-
Proceeds from long term debt	14	214,098	212,135
Repayments on long term debt	14	(214,224)	-
Finance expense		3,059,837	3,093,544
		13,170,745	40,059,403
Investing			
Exploration and evaluation expenditures	9	(557,250)	(22,324,861)
Reclamation deposit		(2,444)	(2,365)
Property, plant and equipment expenditures	10	(25,265,830)	(18,291,338)
Proceeds from property, plant and equipment disposal	10	514,931	24,000
Short-term investments		5,590	100,066
Changes in non-cash investing activities	21	9,254,145	-
		(16,050,858)	(40,494,498)
Change in cash		(4,840,796)	4,949,100
Cash, beginning of year		5,409,820	460,720
Cash, end of period		**$ 569,024**	**$ 5,409,820**

(Expressed in US Dollars)

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 33 First Avenue SW, Cut Bank Montana, 59427-0222, U.S.A.

The Company had the following direct and indirect wholly-owned subsidiaries at December 31, 2014:

Mountainview Energy (USA) Ltd.	Montana, United States
Mountain View Energy, Inc.	Montana, United States
Mountainview Energy, LLC	Delaware, United States
Mountain Divide, LLC	Montana, United States
Numbers, Inc.	Montana, United States
Mountainview Gathering Inc.	Montana, United States
Immgen Inc.	Alberta, Canada
DBD Investments Inc.	Alberta, Canada
MC2 Inc.	Alberta, Canada

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to discharge its obligations and realize on its assets in the normal course of operations for the foreseeable future. As at December 31, 2014, the following conditions existed:

1. The Company had a working capital deficit of $71,403,601.
2. The Company incurred a loss from operations totaling $71,847,789 for the year ended December 31, 2014.
3. The Company does not anticipate generating sufficient funds from operations to fund its working capital deficit and had negative cash flows from operations of $1,960,684 for the year ended December 31, 2014.
4. Commodity prices had decreased by 57% over the second half of 2014.

The Company has experienced losses in the years ended December 31, 2014 and December 31, 2013. At December 31, 2014 and December 31, 2013, the Company had a deficit of $71,847,790 and $17,500,630 respectively, and a working capital deficit of $71,403,601 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 current volatile and uncertain financial and commodity price environment. The sharp decline in commodity prices during the latter half of 2014 materially reduced the revenues that were generated from the sale of oil and gas production volumes during that period which, in turn, negatively affected the Company's working capital balance and the ability of the Company to secure additional financing. There is potential for future commodity prices to remain at current price levels for an extended period of time and should the current commodity price environment continue for a prolonged period of time, the Company will need to negotiate with its creditors to improve payment terms and/or pursue some form of asset sale, debt restricting, equity financing or other capital raising effort in order to fund its operations and to service its existing debt during the next twelve months. In addition, liens have been filed on the Company's assets in the months subsequent to December 31, 2014. While these liens do not presently impact cash flow, the vendors who have filed the liens may, in fact, restrict cash flow from the wells under lien, further reducing the cash flow available to the Company. Any sale of assets with outstanding liens would require that the lien be cleared before title can be transferred. This condition also limits the proceeds of any potential asset sale. The Company is also in breach of debt covenants under the agreements governing the line of credit and credit facility (Note 12). The line of credit and credit facility mature and are due and payable in 2015. Management of the Company is actively pursuing strategies to improve its working capital position and/or to reduce its future debt service costs, through the aforementioned means. The Company believes that these actions will mitigate the adverse conditions that the Company is facing; however, there is no certainty that these and other strategies will be successful or permit the Company to continue as a going concern.

These material uncertainties cast significant doubt on the Company's ability to continue as a going concern. If the Company is unable to restructure its debt in an acceptable manner, obtain additional adequate debt or equity financing or achieve adequate proceeds from the sale of assets, the Company will pursue all other legal avenues available to it with a view to improving the Company's financial situation in the best interests of the Company. These audited consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities and related expenses that might be necessary, should the Company be unable to continue as a going concern. Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities, these statements would require adjustments to the amounts and classifications of assets and liabilities and these adjustments could be material.

2. BASIS OF PREPARATION

a) Preparation

These consolidated financial statements are presented under International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company has consistently applied the same accounting policies throughout all years presented in these financial statements, except as identified in Note 3. The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of April *, 2015, the date the Board of Directors approved the consolidated financial statements.

b) Functional and presentation currency

These consolidated financial statements are prepared in US dollars. The functional currency of the Company and the 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 asset 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 loss.

The statement of financial position of the Company is translated into US dollars using the exchange rate at the balance sheet date and the statement of comprehensive loss is translated into US dollars using the average exchange rate for the period. All gains and losses on translation of subsidiaries from the functional currency to the presentation currency are charged to other comprehensive loss.

c) Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates, and differences could be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Estimates and assumptions

Information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 10 – valuation of property, plant and equipment;
- Note 15 – measurement of decommissioning provision;
- Note 16 – measurement of share-based compensation;
- Note 18 – valuation of financial instruments;
- Note 20 – income tax expense;

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates, which may have the most significant effect on the amounts recognized in the financial statements.

I. Exploration and evaluation assets

The decision to transfer assets from exploration and evaluation to property and equipment is based on the estimated proved and probable reserves used in the determination of an area's technical feasibility and commercial viability (Note 9).

II. Reserves base

The oil and gas development and production properties are depreciated on a unit of production ("UOP") basis at a rate calculated by reference to total proved reserves determined in accordance with National Instrument 51-101 Standards of Disclosure For Oil and Gas Activities and incorporate the estimated future cost of developing and extracting those reserves. Total proved reserves are determined using estimates of oil and natural gas in place, recovery factors and future prices. Future development costs are estimated using assumptions as to number of wells required to produce the reserves, the cost of such wells and associated production facilities and other capital costs (Note 10).

Total proved reserves are estimated using independent reserve reports and represent the estimated quantities of oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable.

III. Depletion of oil and gas assets

Oil and gas properties are depleted using the UOP method over proved reserves. The calculation of the UOP rate of depletion could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves (Note 10).

IV. Determination of cash generating units

Oil and gas properties are grouped into cash generating units ("CGUs") for purposes of impairment testing. Management has evaluated the oil and gas properties of the Company, and grouped the properties into cash generating units on the basis of their ability to generate independent cash inflows, similar reserve characteristics, geographical location, and shared infrastructure (Note 10).

V. Impairment indicators and calculation of impairment

At each reporting date, Mountainview assesses whether or not there are circumstances that indicate a possibility that the carrying values of exploration and evaluation assets and property and equipment are not recoverable, or impaired. Such circumstances include incidents of deterioration of commodity prices, changes in the regulatory environment, or a reduction in estimates of proved and probable reserves. At December 31, 2014, Management exercised judgment and determined that there were impairment indicators present for certain CGUs (Note 9 & 10). When management judges that circumstances clearly indicate impairment, property and equipment and exploration and evaluation assets are tested for impairment by comparing the carrying values to their recoverable amounts. The recoverable amounts of cash generating units are determined based on the higher of value in use calculations and fair values less costs to dispose. These calculations require the use of estimates and assumptions that are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves, discount rates, as well as future development and operating costs (Note 10). For further information on impairment, please see notes 9 and 10 of the financial statements.

VI. Decommissioning costs

At the end of the operating life of the Company's facilities and properties and upon retirement of its oil and natural gas assets, decommissioning costs will be incurred by the Company. Estimates of these costs are subject to uncertainty associated with the method, timing and extent of future decommissioning activities. The decommissioning liability, the related asset and the amount expensed are impacted by estimates with respect to the costs and timing of decommissioning.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The principal undertakings of Mountainview are to carry on the business of acquiring, developing and holding interests in petroleum and natural gas properties and assets related thereto through its subsidiaries.

The consolidated financial statements include the accounts of the Company, including the consolidated accounts of its direct and indirect wholly-owned subsidiaries as listed in Note 1. Any reference to the "Company" throughout these consolidated financial statements refers to the Company and its subsidiaries. All transactions between the Company and its subsidiaries have been eliminated.

b) Cash and cash equivalents

Cash and cash equivalents consist of cash in the bank and short-term deposits with an original maturity of less than three months. The deposits with an original maturity of more than three months, but less than 12 months are classified as short-term investments.

c) Reclamation deposits

At December 31, 2014 and 2013, the Company had $267,880 and $265,436 of reclamation deposits. The reclamation deposits consist of cash bonds required by the State of Montana and the State of North Dakota in order to pursue drilling in such States. The cash is held in custody by the issuing bank in the form of certificates of deposit and is restricted as to withdrawal or use. Interest income earned from the certificates of deposit is paid to the Company upon maturation of the certificates of deposit. The certificates of deposit vary in the length of terms and are automatically renewed. The Company will not receive the cash bonds back until such time that they have fulfilled their asset retirement obligations with respect to their properties. Accordingly, the reclamation bond has been classified as a non-current asset.

d) Joint arrangements

A portion of the Company's oil and natural gas activities involve joint arrangements classified as joint operations. The Company's share of these joint operations and a proportionate share of the relevant revenue and costs are reflected in the financial statements. Joint control exists for contractual arrangements governing Mountainview assets where all partners collectively control the arrangement and share the associated risks, Mountainview has less than 100 percent working interest, all of the partners have control of the arrangement collectively and spending on the project requires unanimous consent of all parties. Mountainview does not have any joint arrangements that are material to the Company or that are structured through joint venture arrangements.

e) Crude oil inventory

Crude oil inventory consists of amounts produced and in storage tanks or in transit, and is recorded at the lower of the average cost of production and estimated net realizable value. Net realizable value is the estimated selling price in the normal course of business less applicable selling expenses.

f) Exploration and evaluation assets

Pre-license costs

Pre-license exploration costs are costs incurred before the legal right to explore a specific area have been obtained. These costs are expensed in the period in which they are incurred as exploration and evaluation expense.

Exploration and evaluation ("E&E") costs

Once the legal right to explore has been acquired, costs directly associated with the exploration project are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. Such E&E costs may include undeveloped land acquisition, geological, geophysical and seismic, exploratory drilling and completion, testing, decommissioning and directly attributable internal costs. E&E costs are not depleted and are carried forward until technical feasibility and commercial viability of extracting a mineral resource is considered to be determined. The technical feasibility and commercial viability of an oil and gas resource is considered to be established when proved and/or probable reserves are determined to exist. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the exploratory activity. When this is no longer the case, the impairment costs are charged to exploration and evaluation expense. Upon determination of proved and/or probable reserves, E&E assets attributed to those reserves are first tested for impairment and then reclassified to oil and gas development and production assets within property, plant and equipment, net of any impairment. Expired land costs are also expensed to exploration and evaluation expense as they occur.

E&E assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount, and upon transfer to property, plant and equipment whereby they are allocated to cash-generating units based on geographical proximity and other factors.

g) Property and equipment ("PP&E")

Property and equipment includes the costs of oil and gas development and production and water disposal assets that are not E&E assets, and costs for corporate (office) assets. PP&E is recorded at cost less accumulated depletion and depreciation and accumulated impairment losses, net of recovered impairment losses.

Oil and gas development and production assets

Development and production assets are capitalized on an area-by-area basis and include all costs associated with the development and production of oil and natural gas reserves. These costs may include proved property acquisitions, development drilling (including delineation wells), completion, gathering and infrastructure, decommissioning costs, amounts transferred from E&E assets and directly attributable internal costs.

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

Any gains or losses from the divestiture of development and production assets are recognized in earnings.

Accumulated costs are depleted using the unit-of-production method based on estimated proved reserves. Depletion is calculated based on individual components (i.e. fields or combinations thereof and other major components with different useful lives).

Corporate assets

Corporate assets consist primarily of office furniture and equipment, vehicles and leasehold improvements. Office furniture and equipment and vehicles are depreciated over the estimated useful life of the assets using the declining balance method at 30% per annum. Leasehold improvements are depreciated on a straight-line basis over the term of the lease. Depreciation methods and useful lives are reviewed at each reporting date and adjusted as required.

h) Impairment

I. Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in income in the period incurred. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of income (loss).

II. Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less cost of disposal.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves. Fair value less cost of disposal is assessed utilizing market valuation based on an arm's length transaction between active participants. In the absence of any such transactions, fair value less costs of disposal is estimated by discounting the expected after-tax cash flows of the cash generating unit at an after-tax discount rate that reflects the risk of the properties in the cash generating unit. The discounted cash flow calculation is then increased by a tax-shield calculation, which is an estimate of the amount that a prospective buyer of the cash generating unit would be entitled. The carrying value of the cash generating unit is reduced by the deferred tax liability associated with its property and equipment.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been objective change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or depletion, if no impairment loss had been recognized.

i) Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. For the sale to be highly probable, Management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale should be expected to be completed within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in the statements of income in the period measured. Non-current assets held for sale are presented as current assets and liabilities within the balance sheet. Assets held for sale are not depleted, depreciated or amortized.

j) Provisions

Provisions are recorded when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required and a reliable estimate can be made of the amount of the obligation. Provisions are measured based on the discounted expected future cash outflows.

Decommissioning liabilities

Decommissioning liabilities are recognized for the future legal or constructive obligation to abandon and reclaim the Company's oil and natural gas properties. The amount of the decommissioning liabilities represents the net present value of the estimated future expenditures required to abandon and reclaim the Company's net ownership in wells and facilities determined in accordance with local conditions, current technology and current requirements. The liabilities are calculated using currently estimated abandonment and reclamation costs inflated to the estimated decommissioning date and then discounted using a risk free discount rate. A liability is recorded in the period in which an obligation arises with a corresponding decommissioning cost added to the carrying amount of the related asset. The liability is progressively accreted over time as the effect of discounting unwinds, creating an accretion expense which is recognized as part of depletion and depreciation. The related decommissioning cost capitalized in property, plant and equipment is depreciated in a manner consistent with the depletion and depreciation of the underlying asset.

Changes in the estimated liability resulting from revisions to estimated timing of decommissioning, expected amount of cash flows or changes in the discount rate are recognized as a change in the decommissioning liability and the related decommissioning cost.

Actual decommissioning expenditures incurred are charged against the accumulated liability to the extent recorded.

k) Deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity. In this case, the tax is also recognized in other comprehensive loss or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

l) Share capital

Common shares are classified as share capital within equity. Transaction costs directly attributable to the issuance of common shares are recognized as a reduction of equity.

m) Share-based payments

The grant date fair value of options to employees and directors is recognized as share-based compensation expense, with a corresponding increase in contributed surplus, over the vesting period of the options. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. Each tranche in an award is considered a separate grant with its own vesting period and grant date fair value. Fair value is determined using the Black-Scholes option pricing model. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the exercise of stock options, the consideration received by the Company plus the associated amount recorded in contributed surplus are transferred to common shares within equity.

n) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in long-term debt. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below. The Company bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenues from the sale of petroleum and natural gas are recorded when title passes to an external party.

p) Net finance expenditure

Finance expense is comprised of interest expense on borrowings, promissory notes, convertible debentures and accretion on the credit facility.

q) Per share amounts

Basic earnings (loss) per share is computed by dividing the net earnings or loss for the period by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if the Company's stock options and warrants outstanding are exercised into common shares. Diluted shares are calculated using the treasury stock method which assumes that any proceeds received from "in-the-money" stock options would be used to buy back common shares at the average market price for the period. No adjustment is made to the weighted average number of common shares if the result of these calculations is anti-dilutive.

r) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Mountainview's financial assets include cash and cash equivalents, trade and other receivables and short- term investments. The Company's financial liabilities include trade and other payables, convertible debenture, line of credit, credit facility and promissory notes.

Financial instruments must initially be recognized at fair value on the statement of financial position based on their initial classification. Each financial instrument is classified as one of the following categories: loans and receivables; or financial liabilities at amortized cost.

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these assets are measured at amortized cost at the settlement date using the effective interest rate method of amortization. The Company's loans and receivables are comprised of cash and cash equivalents, trade and other receivables and short-term investments.

ii) Financial liabilities at amortized cost

These financial liabilities are measured at amortized cost at the settlement date using the effective interest method of amortization. The Company's financial liabilities at amortized cost are comprised of trade and other payables and bank debt.

Impairment of financial assets

At each reporting date, the Company assesses whether there are any indicators that its financial assets are impaired. An impairment loss is only recognized if there is objective evidence of impairment and the loss event has an impact on future cash flow and can be reliably estimated.

s) Business combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in net income. Transaction costs associated with business combinations are expensed as incurred.

4. 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 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 Not Yet Adopted

Financial Instruments

IFRS 9, Financial Instruments, was issued in July 2014 and is intended to replace IAS 39, Financial Instruments: Recognition and Measurement, and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates new hedge accounting requirements. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is in the process of assessing the impacts of adopting this new standard. 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.

Revenue

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which replaces IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations as the single source for accounting for revenue for all companies in all industries and replaces current guidance including industry or product specific guidance. IFRS 15 provides specific and detailed guidance in many areas where current standards have been more limited, and thus may provide for less flexibility in developing and applying accounting policies and practices. This standard is required to be adopted either retrospectively or using a modified transition approach and is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The Company is in the process of assessing the impacts of adopting this new standard.

5. 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. 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.

(Expressed in US Dollars)

6. TRADE AND OTHER RECEIVABLES

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

	Note	December 31, 2014	December 31, 2013
Value-added tax receivables		$ 10,044	$ 11,286
Sale of crude petroleum		1,576,765	2,838,574
Joint interests		3,429,236	1,373,871
Related party joint interest receivable	17	97,077	411,871
Employee loan		4,395	800
Other receivables		154,260	-
Total trade and other receivables		**$ 5,271,777**	**$ 4,636,402**

7. OTHER ASSETS

A reconciliation of other assets is set out below:

		December 31, 2014	December 31, 2013
Prepaid expense		$ 70,000	$ 30,000
Crude oil inventory		119,123	115,039
Derivative assets	24	879,932	-
Total other assets		**$ 1,069,055**	**$ 145,039**

8. ASSETS HELD FOR SALE

Assets held for sale	
Balance December 31, 2012	$ -
Reclassification from oil and gas properties	2,602,463
Reclassification from exploration and evaluation assets	11,060
Balance at December 31, 2013	$ 2,613,523
Additions	512,149
Change in decommissioning provision	19,870
Asset disposals	(32,192)
Depletion and depreciation	(119,148)
Depletion and depreciation disposal	5,307
Transfer to oil and gas properties	(2,999,509)
Balance at December 31, 2014	**$ -**

The company is focusing its capital program on operated drilling opportunities in Divide County and, as a result, the Company was seeking to strategically dispose of non-core assets. The assets held for sale were being marketed publicly and the Company had engaged a third party to market the assets on its behalf. With the deterioration of commodity prices, the potential return on any such sale has been significantly reduced. In light of this change in market conditions, the Company has decided to terminate the sale process. As such, the assets previously classified as held for sale have now been reincorporated into the oil and gas assets of the Company as at December 31, 2014.

(Expressed in US Dollars)

9. 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		557,250
Exploration and evaluation expiries		(6,659,387)
Impairment expense		(16,887,427)
Transfers to oil and gas properties		(1,887,709)
Balance at December 31, 2014	**$**	**2,736,702**

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 year ended December 31, 2014, the Company recognized an expense of $6.7 million ($2.5 million – December 31, 2013) for 7,511 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. At December 31, 2014, the Company assessed for indicators of impairment for all its exploration and evaluation assets. Reductions to long term forecast future oil, natural gas liquids, and natural gas benchmark pricing has impacted land sale values in Divide County. As such, the Company reviewed the carrying value of its undeveloped land in Divide County and it was determined that the asset value per acre was greater than the current or expected future value of acreage in Divide County. The carried net book value at December 31, 2014 for undeveloped acreage in Divide County was $4.0 million, while the estimated current value was $2.7 million. This resulted in an impairment charge of $1.3 million. In addition, due to the low realized commodity price environment, the Company does not have capital allocated for the development of the undeveloped acreage in the Stateline area, which straddles the border of Montana and North Dakota and the South Alberta Bakken area. The leases on this acreage are expected to expire without development of the acreage. As a result, this acreage is considered to be impaired. The Company is recognizing an impairment charge of $15.6 million relating to the undeveloped acreage in the Stateline and South Alberta Bakken area. This impairment charge represents the entire carried net book value of the undeveloped acreage in both areas.

(Expressed in US Dollars)

10. 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	15	1,003,138	-	-	-	1,003,138
Transfers from E&E	9	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		24,405,709	212,931	18,188	119,746	24,756,574
Change in decommissioning provision	15	1,176,153	-	-	-	1,176,153
Transfers from evaluation and exploration	9	1,887,709	-	-	-	1,887,709
Transfers of held for sale assets		2,999,509	-	-	-	2,999,509
Disposals		(1,854,339)	(168,717)			(2,023,056)
Balance at December 31, 2014		**88,981,985**	**985,553**	**748,972**	**335,880**	**91,052,390**
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		(5,754,771)	(133,116)	(143,713)	(66,058)	(6,097,658)
Impairment expense		(22,927,000)	-	-	-	(22,927,000)
Disposals		1,172,307	66,129	-	-	1,238,436
Balance at December 31, 2014		**(44,839,352)**	**(574,967)**	**(474,488)**	**(98,735)**	**(45,987,542)**
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 at December 31, 2014		**44,142,633**	**410,586**	**274,484**	**237,145**	**45,064,848**

The Company has capitalized $284,724 of general and administrative expenses or share based compensation expenses directly related to development and production activities for the years ended December 31, 2014 and $Nil December 31, 2013.

Future development costs on total proved reserves of $107.5 million at December 31, 2014 are included in the calculation of depletion ($0.5 million – December 31, 2013). See Note 5 for additional disclosure on the change in estimate.

At December 31, 2014, the Company assessed for indicators of impairment for all of its CGUs. Reductions to long term forecasted future oil, natural gas liquids, and natural gas benchmark pricing indicated that all CGUs may be impaired. For the purposes of determining whether impairment of assets has occurred, and the extent of any impairment or its reversal, management exercises their judgment in estimating future cash flows for the recoverable amount, being the higher of fair value less costs of disposal and value in use. These key judgments include estimates about recoverable reserves (see note 2 – Significant accounting judgments, estimates and assumptions), forecast benchmark commodity prices, royalties, operating costs and discount rates.

(Expressed in US Dollars)

Mountainview estimated the recoverable amount for these CGUs based on the fair value less costs of disposal, determined with an after-tax discount rate of 10 percent (December 31, 2013 – 10 percent), forecasted cash flows over the estimated life of reserves, and an independent industry reserve engineer price deck. The discount rate is derived from the post-tax weighted average cost of capital for Mountainview's peer group. The forecasted cash flows are prepared over the estimated life of the reserves in the CGUs, which range from 20 to 50 years. The commodity prices used to estimate the fair value less costs of disposal are those used by independent industry reserve engineers.

At December 31, 2014, the Company reviewed the carrying value of the oil and gas properties by cash-generating units for indicators of possible impairment. As a result of the review, it was determined that the asset values of the oil and gas properties for Divide were greater than the value of the future reserves associated with those properties. The carried net book value at December 31, 2014 for Divide was $63.0 million, while the estimated recoverable amount was $40.1 million. This resulted in an impairment charge of $22.9 million. Increasing or decreasing the discount rate by 1% in the calculation of estimated recoverable amount would result in a change of $4 million on the overall impairment. Increasing the commodity price deck used in the impairment analysis by $5 used would reduce the impairment charge of $22.9 million by $7 million. Decreasing the commodity price deck by $5 would result in an additional impairment in Divide of $7.2M and the recognition of a $0.3 million impairment charge for the Legacy assets.

The following table outlines forecasted commodity prices used in Mountainview's CGU impairment tests at December 31, 2014.

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
WTI (US$/bbl)	65.00	80.00	90.00	91.35	92.72	94.11	95.52	96.96	98.41	99.89	101.35
Henry Hub (US$/mmbtu)	3.25	3.75	4.00	4.50	5.00	5.08	5.15	5.23	5.31	5.39	5.47

Oil and gas prices were escalated thereafter 2025 at 1.5%.

11. TRADE PAYABLES AND OTHER LIABILITIES

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

		December 31, 2014	December 31, 2013
Trade accounts payable		$ 485,055	$ 4,663,056
Accrued liabilities		3,252,898	126,927
Due to related parties	17	1,696,182	-
Accrued capital costs		12,482,538	2,318,229
Revenue payable		1,067,579	582,898
Production taxes payable		3,754	348,694
Total trade payables and other liabilities		**$ 18,988,006**	**$ 8,039,804**

On December 31, 2014, a vendor filed a lien against the three wells drilled in 2014 due to delinquent payment of invoices by a subsidiary of the Company. The aggregate lien amount was $986,843. This lien remains on the wells as of the date of filing of these financial statements.

(Expressed in US Dollars)

12. 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. During the year ended December 31, 2014, the line of credit was converted to a term loan extending the maturity date from October 17, 2014 to November 1, 2015. The outstanding balance at December 31, 2014 was $8,660,000. The Company's US subsidiary provided a general security over its assets as collateral for the line of credit and, a director and officer of the Company and major shareholder have provided personal guarantees. Carrying value of the collateral at December 31, 2014 was $4,060,588. The minimum interest rate is 5.25%. Repayment terms are monthly principal and interest payments of $110,900. At December 31, 2014 the Company was in default due to nonpayment of a lump sum principal payment due December 1, 2014. The Company has also not made payments on the loan in the months of February and March 2015. At this time the bank has not taken any formal action to exercise its rights and/or remedies under the credit agreement, nor has it applied the Default Rate. The Company continues to communicate with the bank and is currently engaged in negotiations with the bank to reach a solution that would allow for repayment terms that would rectify the defaults, while still providing the Company with adequate cash flow to meet its ongoing obligations.

13. CONVERTIBLE DEBENTURE

On May 28, 2012, the Company acquired from a related company owned by a director and officer in common, 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. In the year ended December 31, 2014 an amendment to the debenture was issued extending the maturity date to July 1, 2016 all other terms remained unchanged. At December 31, 2014 the convertible debenture was $2,072,053 plus accrued interest of $227,756. Principal and interest payments are due at maturity. At December 31, 2014, if the convertible debenture had been converted the Company would have issued 919,924 additional common shares.

14. DEBT AND CREDIT AGREEMENTS

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

	December 31, 2014	December 31, 2013
Credit facility	$ 50,539,132	$ 39,283,441
Long term debt (including current portion)	391,042	391,167
Promissory notes	10,690,020	8,905,153
Total debt and credit agreements	**$ 61,620,194**	**$ 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 December 31, 2014 the Company had $51.8 million drawn with no additional funds available on this facility. 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.

(Expressed in US Dollars)

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 December 31, 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 $49,593,105. 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 December 31, 2014 the US subsidiary's current ratio excluding the credit facility balance was 0.41:1.0, which results in a covenant breach.

For the year ended December 31, 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, $1.31 million was accrued at December 31, 2014.

During the year ended December 31, 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 $2,661,399 (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 December 31, 2014, the Company owed $49,394,474 under the Facility. During the year ended December 31, 2014, the Company has repaid $3,107,389 of the principal and has paid or accrued $3,609,824 in interest.

As noted above, at December 31, 2014 the Company is in default due to the following covenant breaches (1) the current ratio covenant (2) the covenant which requires prompt and timely payment of trade vendors and (3) the covenant requiring all oil and gas assets to be free of liens (Note 25). The lender has been notified of these breaches and is working with management towards a comprehensive solution. At this time the bank has not taken any formal action to exercise its rights and/or remedies under the credit agreement nor has it applied the Default Rate. The Company continues to communicate with the bank and is currently engaged in negotiations with the bank to reach a solution that would allow for repayment terms that would rectify the defaults, while still providing the Company with adequate cash flow to meet its ongoing obligations.

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

		December 31, 2014		December 31, 2013
Balance, beginning of period	$	38,203,410	$	1,004,308
Proceeds received		13,218,423		38,575,824
Principal payments		(3,107,389)		(3,175,455)
Conveyance Fee		148,850		(187,336)
Accretion		2,350,825		1,569,632
Amortization of deferred finance costs		-		141,449
Interest accrual(payment)		(274,987)		274,988
Balance, end of period	**$**	**50,539,132**	**$**	**38,203,410**

(Expressed in US Dollars)

Long-term debt

The Company has various vehicle loans outstanding as of December 31, 2014 and December 31, 2013 with balances of $391,042 and $391,167, respectively. The current portion of vehicle loans as at December 31, 2014 and December 31, 2013 is $126,319 and $109,187. There are twelve 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 was payable on or before May 30, 2015. During the year ended December 31, 2014, amendments to the promissory notes were executed extending the maturity to July 1, 2016. At December 31, 2014, the balance due on the promissory notes was $7,850,000 plus accrued interest of $1,632,144. Principal and interest payments are due at maturity.

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 was payable on or before March 12, 2015. During the year ended December 31, 2014, amendments to the promissory notes were executed extending the maturity to July 1, 2016. At December 31, 2014, the balance due on the promissory notes is $250,000 plus accrued interest of $22,964. Principal and interest payments are due at maturity.

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 was payable on or before March 15, 2015, May 7, 2015 and June 6, 2015. During the year ended December 31, 2014, amendments to the promissory notes were executed extending the maturity to July 1, 2016. At December 31, 2014, the balance due on the promissory notes is $805,154 plus accrued interest of $129,759. Principal and interest payments are due at maturity.

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

At December 31, 2014	Total	< 1 Year	1-3 years	4-5 years	After 5 years
Credit facility	$ 50,539,132	$ 50,539,132	$ -	$ -	$ -
Line of credit	8,660,000	8,660,000	-	-	-
Promissory notes	10,690,020	-	10,690,020	-	-
Convertible Debenture	2,299,809	-	2,299,809	-	-
Vehicle loans	391,042	126,319	259,753	4,970	-
Total contractual obligations	$ 72,580,003	$ 59,325,451	$ 13,249,582	$ 4,970	$ -

15. 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 $2.8 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 December 31, 2014 and December 31, 2013. The Company's risk-free rate used to calculate the fair value of the decommissioning liabilities is 2.75% at December 31, 2014 (December 31, 2013 - 3.79%).

(Expressed in US Dollars)

A reconciliation of the decommissioning liability is provided below:

	December 31, 2014	December 31, 2013
Balance, beginning of period	$ 1,166,131	$ 276,291
Obligations acquired	485,337	787,597
Change in discount rate	667,399	-
Transfer of held for sale assets	80,102	-
Disposals	(2,572)	-
Revisions of obligations	41,371	77,189
Accretion expenditure	74,748	25,054
Balance, end of period	**$ 2,512,516**	**$ 1,166,131**

16. SHARE CAPITAL

a) Authorized

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

b) Issued

	December 31, 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 December 31, 2014 and 2013. At December 31, 2014 none of the shares have been exchanged.

d) Share-based payments

(Expressed in US Dollars)

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 December 31, 2014 the Company had a remaining 2,462,044 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 December 31, 2014.

As of December 31, 2014, the Company has $185,315 (December 31, 2013 $575,675) 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 December 31, 2014, the Company recorded non-cash share-based compensation expense of $390,610 (December 31, 2013 $528,833).

The following table summarizes information related to outstanding and exercisable options held by the Company's employees and directors at December 31, 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	
Exercised	(575,000)	0.24	
Outstanding at December 31, 2013	6,370,000	0.77	3.25
Expired	(50,000)	0.41	
Outstanding at December 31, 2014	6,320,000	$ 0.77	2.24
Exercisable at December 31, 2014	5,072,778	$ 0.85	1.99

(Expressed in US Dollars)

e) Contributed surplus

	December 31, 2014	December 31, 2013
Balance, beginning of year	$ 4,919,309	$ 4,603,406
Share-based compensation expense	390,610	528,833
Stock options exercised	-	(212,930)
Balance, end of period	**$ 5,309,919**	**$ 4,919,309**

f) Per share amounts

	2014	2013
Net loss for the year	$ (54,347,159)	$ (5,974,150)
Weighted average shares - basic and diluted	87,820,443	87,563,662
Loss per share - basic and diluted	$ (0.62)	$ (0.07)

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.

17. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2014 the Company paid or accrued $6,576,147. (December 31, 2013 $5,619,250) to five companies owned by one of its major shareholders for services provided in the drilling and operating of the wells in the 12-Gage Project. These services have occurred in the normal course of business and are measured at their exchange amount. On January 23, 2015 all five companies had filed liens on the Company's oil and gas assets in the total amount of $1,140,484. The Company continues to receive revenues despite the liens filed, see Note 25.

During the year ended December 31, 2014, the Company had a joint interest receivable of $76,048 (December 31, 2013 $351,097) from two companies owned by two of its major shareholders. The companies are participants in certain joint venture activities.

During the year ended December 31, 2014, the Company had net a joint interest receivable of $21,031 and had paid or accrued $48,577 (December 31, 2013 - $60,774 and $Nil) from/to three companies owned by a Director and officer in common. The companies are participants in certain joint venture activities.

As of December 31, 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 loss of $269,149 was recognized on the disposal.

(Expressed in US Dollars)

Key management includes the Company's directors and officers. Compensation awarded to key management includes salaries and benefits including directors fees, consulting fees and awards granted under the long-term incentive plan. The following table presents key management compensation at December 31, 2014:

	December 31, 2014		December 31, 2013	
Key management compensation:				
Salaries, benefits and other short term compensation	$	893,000	$	583,686
Share-based compensation		234,476		343,995
Total key manamgent compensation	**$**	**1,127,476**	**$**	**927,681**

18. 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 following table outlines financial assets and liabilities by fair value hierarchy class.

	Level in fair value heirarchy	December 31, 2014 Carrying Amount	December 31, 2014 Estimated Fair Value	December 31, 2013 Carrying Amount	December 31, 2013 Estimated Fair Value
Assets					
Accounts receivable	1	$ 5,271,777	$ 5,271,777	$ 4,636,402	$ 4,636,402
Derivative assets	2	879,932	879,932	-	-
Reclamation deposits	1	267,880	267,880	265,436	265,436
Total Assets		**$ 6,419,589**	**$ 6,419,589**	**$ 4,901,838**	**$ 4,901,838**
Liabilities					
Accounts payable and accrued liabilities	1	$ 18,988,006	$ 18,988,006	$ 8,039,804	$ 8,039,804
Line of credit	1	$ 8,660,000	$ 8,660,000	$ 8,660,000	$ 8,660,000
Derivative liabilities	2	-	-	126,538	126,538
Promissory notes payable	1	10,690,020	10,690,020	9,886,533	9,886,533
Convertible debenture	1	2,299,809	2,299,809	2,211,746	2,211,746
Credit facility	3	50,539,132	50,539,132	38,203,410	38,203,410
Decomissioning liabilities	3	2,512,516	2,512,516	1,166,131	1,166,131
Total Liabilities		**$ 93,689,483**	**$ 93,689,483**	**$ 68,294,162**	**$ 68,294,162**

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 December 31, 2014 and December 31, 2013 the Company has recorded $879,932 and $(126,538) in derivative assets (liabilities) on the Consolidated Statement of Financial Position.

The Company's policy is to recognize transfers into and out of fair value hierarchy levels at the end of the reporting period. During the year ended December 31, 2014 there were no transfers between levels 1, 2 or 3.

19. 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 December 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).

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 $2,503,000 change in the Company's net loss for the year ended December 31, 2014 (December 31, 2013 - $2,221,000). The current commodity price environment has materially impacted the cash flow of the Company. The potential for future oil prices to remain at their current price levels for an extended period of time raises substantial doubt regarding the Company's ability to continue as a going concern. Should the prevailing oil prices as of December 31, 2014 remain in effect for an extended period of time, it is likely that the Company would need to pursue some form of asset sale, debt restructuring, or capital raising effort in order to fund its operations and to service its existing debt during the next twelve months. 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 $591,991 change in the Company's net loss for the year ended December 31, 2014. The Company had no interest rate swap or financial contracts in place as at December 31, 2014 and December 31, 2013. The current default position on both the line of credit and the credit facility put the Company at additional risk of being assessed default interest rates under the respective credit agreements. The default rate on the line of credit is the minimum rate plus five percent (5%). At this time, the default rate on the line of credit would be ten and one quarter percent (10.25%). The default rate on the credit facility is the minimum rate plus four percent (4%). At this time, the default rate on the credit facility would be twelve percent (12%).

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:

	December 31, 2014	December 31, 2013
Cash at bank (C$)	$ 2,066	$ 52,179
Value-added tax receivables (C$)	11,652	12,004
Trade accounts payable (C$)	86,631	267,126
Long-term debt (C$)	54,694	-
	$ 155,043	**$ 331,309**

Based on the net exposures in the preceding table as at December 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 $15,504 (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. Sunoco Partners Marketing and Terminals LP was responsible for 79% of the Company's revenue, or $15.5 million, for the year ended December 31, 2014. CHS, Inc. was responsible for 11% of the Company's revenue, or $2.2 million, for the year ended December 31, 2014. These two marketers were the only customers accounting for greater than 10% of total revenue for the year ended December 31, 2014. As at December 31, 2014, the Company recorded $45,510 (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 24% 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.

(Expressed in US Dollars)

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 current commodity price environment has materially impacted the cash flow of the Company. The potential for future oil prices to remain at their current price levels for an extended period of time raises substantial doubt regarding the Company's ability to continue as a going concern. Should the prevailing oil prices as of December 31, 2014 remain in effect for an extended period of time, it is likely that the Company would need to pursue some form of asset sale, debt restructuring, or capital raising effort in order to fund its operations and to service its existing debt during the next twelve months.

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

At December 31, 2014	< 1 Year	1-3 years	3-5 years	After 5 years	Total
Trade and accrued liabilities	$ 18,988,006	$ -	$ -	$ -	$ 18,988,006
Line of credit	8,660,000	-	-	-	8,660,000
Long-term debt	126,319	259,753	4,970	-	391,042
Credit facility - principal	49,459,290	-	-	-	49,459,290
Convertible debenture - principal	2,072,053	-	-	-	2,072,053
Convertible debenture - interest	227,756	-	-	-	227,756
Promissory notes - principal	-	8,935,153	-	-	8,935,153
Promissory notes - interest	-	1,754,867	-	-	1,754,867
Total	$ 79,533,424	$ 10,949,773	$ 4,970	$ -	$ 90,488,168

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 12) is drawn on a revolving credit facility of $8.7 million. Subsequent to December 31, 2014 the line of credit has been converted to a term loan due November 1, 2015.

The Company's credit facility (Note 14) 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 debenture (Note 13) with a face value of $2,072,053, convertible into Company shares at the holder's option.

(Expressed in US Dollars)

20. DEFERRED TAXES

Income tax expense differs from the amount that would result from applying the Canadian and the federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

	2014	2013
Net Income (loss) before income taxes	$ (54,347,160)	$ (6,063,408)
Statutory tax rate	**25%**	**25%**
Amount computed using the statutory rate	$ (13,586,790)	$ (1,515,852)
Increase (decrease) in taxes resulting from:		
Non-deductible items	117,307	152,453
Difference in foreign tax rates	(7,629,391)	(734,884)
Change in valuation allowance	21,473,693	174,475
Prior year true up	(374,819)	1,834,544
Other	-	-
Income tax expense (recovery)	-	(89,264)
Current income tax (recovery)	-	(89,264)
Deferred income tax (recovery)	-	-
Income tax expense (recovery)		**(89,264)**

The Company had unrecognized deductible temporary differences, unused tax losses, and unused tax credits that are attributable to the following:

	2014	2013
Deferred income tax assets:		
Non-capital loss carryforwards	$ 10,739,943	$ 2,953,121
Oil and natural gas properties	14,175,719	569,117
Propery, plant and equipment	415,003	17,639
Credit Facility	110,456	-
Other	-	134,537
Total deferred income tax assets	$ 25,441,121	$ 3,674,415
Deferred tax liabilities:		
Other	293,021	-
Total deferred tax liabilities	293,021	
Less: valuation allowance	25,148,100	3,674,415
Net deferred income tax assets (liabilities)	**$ 1**	**$ -**

(Expressed in US Dollars)

The Company has non-capital loss carry-forwards of approximately $27,939,961 that may be available for tax purposes. The loss carry-forwards for the Company's Canadian operations and U.S. operations and the expiry dates are as follows:

	Canada	US	Total
2028	$ 3,748	$ -	$ 3,748
2030	6,248	-	6,248
2031	5,884	-	5,884
2032	465,992	1,134,984	1,600,976
2033	383,970	5,215,101	5,599,071
2034	975,404	19,748,630	20,724,034
	$ 1,841,246	**$26,098,715**	**$27,939,961**

21. SUPPLEMENTAL INFORMATION

Non cash activities are summarized as follows:

	December 31, 2014	December 31, 2013
Change in non-cash working capital relating to operating:		
Accounts receivable	$ (635,375)	$ (3,815,454)
Other assets	(44,084)	(126,495)
Account payable and accrued liabilities	783,893	4,829,919
Liabilities held for sale	-	1,136,797
Changes in non-cash working capital	**$ 104,434**	**$ 2,024,767**

Non cash investing activities are summarized as follows:

	December 31, 2014	December 31, 2013
Change in non-cash activities relating to investing:		
Decommissioning provision	$ 95,484	$ -
Asset disposals	(13,783)	-
Accrued capital costs	10,164,309	-
Credit facility	148,850	-
Liabilities held for sale	(1,140,715)	-
Balance, end of period	**$ 9,254,145**	**$ -**

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

	December 31, 2014	December 31, 2013
Interest:		
Cash interest paid	$ 4,665,918	$ 1,898,790
Restricted cash used for interest	-	106,669
Restricted cash used for credit facility	-	367,452
Cash paid on hedging loss	21,303	-
	$ 4,687,221	**$ 2,372,911**

22. 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 14). 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 not issued the Company a waiver for the debt covenant breach. While the lender has not exercised its rights or remedies under the terms of the credit agreement, the lender may choose to do so at its discretion. Management continues to work with the lender to provide a solution. To date, the lender has been cooperative and continues to work with management to find a mutually agreeable solution.

23. SEGMENT INFORMATION

Economic dependence and major customers

In 2014, two customers, C.H.S. Inc., and Sunoco Inc., accounted for approximately, 11% and 79%, 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, 16% and 80%, respectively, of the Company's consolidated revenue.

At December 31, 2014, the same two customers accounted for 26% (2013 – 84%) of the accounts receivable.

24. 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 year ended December 31, 2014, the Company realized a hedging loss of $21,303 (December 31, 2013 – $126,538). During the year ended December 31, 2014, there was an unrealized mark to market gain of $1,006,470 (December 31, 2013 – ($126,538)) on this contract.

(Expressed in US Dollars)

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

25. SUBSEQUENT EVENT

Subsequent to the year ended December 31, 2014, due to the low commodity price environment and its impact on cash flow, a direct wholly-owned subsidiary of the Company has been unable to pay the outstanding vendors in a timely manner. As a result, some vendors have filed liens on the subsidiary's producing wells. At present, the subsidiary continues to receive all of its revenue from these wells, with the exception of a one-time sum of $27,000, which has been withheld by the purchaser of the subsidiary's produced oil. This sum is withheld under the terms of one lien, and will be held by the purchaser until the legal documentation has been received from the vendor to release the funds. Upon receipt of the legal documentation, and release of funds, this lien will be cleared. Management is in regular communication with all vendors and the vendors continue to work with the subsidiary, allowing management time to find a solution to the outstanding payable balance owed. From December 31, 2014 through April 30, 2015, the subsidiary had $7.2 million in liens placed on its producing oil and gas assets.