Hawk Exploration Ltd.

Financial Statements

For the years ended December 31, 2014 and 2013

(Expressed in Canadian dollars)

Management's Report to Shareholders:

The management of Hawk Exploration Ltd. ("Management") is responsible for the preparation of the financial statements, notes to the financial statements and other financial information. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect Management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

Management maintains appropriate systems of internal control that provide reasonable assurance that transactions are appropriately authorized, assets safeguarded from loss or unauthorized use and financial records provide reliable and accurate information for the preparation of financial statements.

PricewaterhouseCoopers LLP, an independent firm of chartered accountants, was appointed to audit the financial statements of the Corporation and provide an independent professional opinion. The firm's report is presented with the financial statements.

The Board of Directors, through its Audit Committee, has reviewed the financial statements including notes thereto with Management and PricewaterhouseCoopers LLP. The Audit Committee is composed entirely of independent directors who are not employees of the Corporation. The Corporation's Board of Directors has approved the information contained in the financial statements based on the recommendation of the Audit Committee.

(signed) *"Steve Fitzmaurice"*

Steve Fitzmaurice
President, CEO & Chairman

(signed) *"Dennis Jamieson"*

Dennis Jamieson
Chief Financial Officer

April 14, 2015

April 14, 2015

Independent Auditor's Report

To the Shareholders of
Hawk Exploration Ltd.

We have audited the accompanying financial statements of Hawk Exploration Ltd. (the "Company"), which comprise the balance sheet as at December 31, 2014 and December 31, 2013 and the statements of comprehensive income (loss), changes in shareholders' 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Hawk Exploration Ltd.
Balance Sheet
(Expressed in Canadian dollars)
As at

	December 31, 2014	December 31, 2013
ASSETS		
Current Assets		
Trade and other receivables *(Note 17)*	**$ 1,492,838**	$ 1,496,809
Prepaid expenses	**78,141**	67,892
Commodity price contracts *(Note 17)*	**817,279**	-
	2,388,258	1,564,701
Non-current Assets		
Exploration and evaluation *(Note 7)*	**1,643,476**	2,716,521
Property, plant and equipment *(Note 8)*	**35,445,339**	29,501,601
Deferred income tax asset *(Note 10)*	**323,484**	677,148
	37,412,299	32,895,270
Total Assets	**$ 39,800,557**	$ 34,459,971
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Trade and other payables *(Note 17)*	**$ 4,868,604**	$ 4,290,371
Bank indebtedness *(Note 9)*	**7,700,000**	4,900,000
Commodity price contracts *(Note 17)*	-	244,815
	12,568,604	9,435,186
Non-current Liabilities		
Decommissioning liability *(Note 11)*	**3,529,799**	2,475,802
Convertible Class B shares liability *(Note 13)*	-	10,201,864
	3,529,799	12,677,666
Total Liabilities	**16,098,403**	22,112,852
Shareholders' Equity		
Share capital *(Note 12)*	**36,168,344**	25,293,008
Contributed surplus *(Note 12)*	**1,280,075**	1,012,516
Deficit	**(13,746,265)**	(13,958,405)
	23,702,154	12,347,119
Total Liabilities and Shareholders' Equity	**$ 39,800,557**	$ 34,459,971

Commitments *(Note 20)*

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

On behalf of the Board of Directors:

Signed *"Mike Shaikh"*
Mike Shaikh
Audit Committee Chair and Director

Signed *"Steve Fitzmaurice"*
Steve Fitzmaurice
Director

Hawk Exploration Ltd.

Statement of Comprehensive Income (Loss)
For the years ended December 31, 2014 and 2013
(Expressed in Canadian dollars)

		2014		2013
Revenue				
Petroleum and natural gas sales *(Note 21)*	**$**	**18,401,728**	$	15,393,758
Royalties		**(3,908,632)**		(3,215,575)
Revenue		**14,493,096**		12,178,183
Gain (loss) on commodity contracts *(Note 17)*		**703,550**		(555,642)
		15,196,646		11,622,541
Expenses				
Production		**5,394,567**		4,131,101
Transportation		**378,492**		387,716
General and administrative *(Note 14)*		**814,506**		728,827
Share-based compensation *(Note 12)*		**160,613**		57,969
Exploration and evaluation *(Note 7)*		**2,603,652**		1,617,388
Impairment expense *(Note 8)*		**-**		849,798
Depletion, depreciation and amortization *(Note 8)*		**4,485,142**		4,044,585
Gain on property acquisition *(Note 6)*		**(116,208)**		-
Finance expense *(Note 16)*		**947,030**		1,331,429
		14,667,794		13,148,813
Income (loss) before income tax		**528,852**		(1,526,272)
Deferred income tax expense (recovery) *(Note 10)*		**316,712**		(234,642)
Comprehensive income (loss)	**$**	**212,140**	$	(1,291,630)
Comprehensive income (loss) per share, basic and diluted *(Note 12)*	**$**	**0.00**	$	(0.04)

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

Hawk Exploration Ltd.

Statement of Changes in Shareholders' Equity
For the years ended December 31, 2014 and 2013
(Expressed in Canadian dollars)

	Attributable to Shareholders			
	Share Capital $	**Deficit** $	**Contributed Surplus** $	**Total Equity** $
Balance – January 1, 2014	**25,293,008**	**(13,958,405)**	**1,012,516**	**12,347,119**
Share based compensation - stock options *(Note 12)*	**-**	**-**	**298,808**	**298,808**
Exercise of stock options *(Note 12)*	**83,749**	**-**	**(31,249)**	**52,500**
Conversion of Class B Shares *(Note 12 and 13)*	**10,800,000**	**-**	**-**	**10,800,000**
Share issue costs – net of tax	**(8,413)**	**-**	**-**	**(8,413)**
Comprehensive income	**-**	**212,140**	**-**	**212,140**
Balance – December 31, 2014	**36,168,344**	**(13,746,265)**	**1,280,075**	**23,702,154**
Balance – January 1, 2013	25,224,889	(12,666,775)	919,852	13,477,966
Share based compensation - stock options *(Note 12)*	-	-	117,033	117,033
Exercise of stock options *(Note 12)*	68,119	-	(24,369)	43,750
Comprehensive loss	-	(1,291,630)	-	(1,291,630)
Balance – December 31, 2013	25,293,008	(13,958,405)	1,012,516	12,347,119

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

Hawk Exploration Ltd.
Statement of Cash Flows
For the years ended December 31, 2014 and 2013
(Expressed in Canadian dollars)

		2014		2013
Cash flow provided by operating activities				
Comprehensive income (loss)	**$**	**212,140**	$	(1,291,630)
Adjustments for:				
Depletion, depreciation and amortization *(Note 8)*		**4,485,142**		4,044,585
Impairment expense *(Note 8)*		-		849,798
Accretion of decommissioning liability *(Note 11)*		**57,689**		42,672
Loss on settlement of decommissioning liability *(Note 11)*		-		147,837
Accretion of Class B Share liability *(Note 13)*		**598,136**		953,233
Income tax expense (recovery) *(Note 10)*		**316,712**		(234,642)
Exploration and evaluation expense *(Note 7)*		**2,603,652**		1,617,388
Unrealized (gain) loss on commodity contract *(Note 17)*		**(1,062,094)**		261,854
Gain on property acquisition *(Note 6)*		**(116,208)**		-
Share based compensation expense *(Note 12)*		**160,613**		57,969
Decommissioning expenditures *(Note 11)*		-		(228,228)
Cash flow from operations		**7,255,782**		6,220,836
Net change in non-cash working capital *(Note 21)*		**571,955**		(480,628)
Net cash provided by operating activities		**7,827,737**		5,740,208
Cash flow provided by financing activities				
Proceeds from bank indebtedness		**2,800,000**		3,200,000
Proceeds from exercise of stock options		**52,500**		43,750
Share issue costs on conversion of Class B shares		**(11,300)**		**-**
Net cash provided by financing activities		**2,841,200**		3,243,750
Cash flow (used in) investing activities				
Exploration and evaluation expenditures *(Note 7)*		**(2,435,754)**		(1,433,538)
Expenditures on property, plant, and equipment *(Note 8)*		**(8,233,183)**		(7,770,420)
Proceeds from disposition *(Note 7 and Note 8)*		-		220,000
Net cash used in investing activities		**(10,668,937)**		(8,983,958)
Net decrease in cash and cash equivalents		**-**		-
Cash, beginning of year		**-**		-
Cash, end of year	**$**	**-**	$	-
Supplemental cash flow information:				
Interest received	**$**	**-**	$	-
Interest paid	**$**	**246,154**	$	145,785

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

NOTE 1. DESCRIPTION OF BUSINESS

Hawk Exploration Ltd. ("Hawk" or the "Corporation") was incorporated under the laws of the Province of Alberta on February 2, 2009 with its registered office at 3300, 421 – 7th Avenue SW, Calgary, Alberta. The Corporation is engaged in the acquisition of, exploration for and development of crude oil and natural gas in western Canada. The Class A Shares of the Corporation are listed on the TSX Venture Exchange.

NOTE 2. BASIS OF PRESENTATION

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles as defined in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook") which requires publically accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These annual financial statements were prepared in accordance with IFRS applicable to the preparation of annual financial statements and were approved by the board of directors for issue on April 14, 2015.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are described below.

a) Basis of Measurement

The financial statements have been prepared on the historical cost basis except where noted in the accounting policies.

b) Functional and Presentation Currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

c) Exploration and Evaluation Assets

The costs of exploring for and evaluating oil and gas properties, including the costs of acquiring rights to explore, geological and geophysical studies, exploratory drilling and directly related overheads, are capitalized and classified as exploration and evaluation ("E&E") assets. These costs are accumulated on a field by field basis for the purposes of impairment testing. E&E costs are not amortized prior to the completion of exploration and evaluation activities. Pre-licence expenditures incurred before the Corporation has obtained legal rights to explore an area are expensed.

E&E assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. E&E assets are allocated to CGU's or groups of CGU's for the purposes of assessing such assets for impairment. To the extent that the carrying amount is not expected to be recovered through use or disposal, it is expensed to comprehensive loss. If no further activity is planned, the E&E costs are also expensed. If commercial reserves are discovered, E&E assets are tested for impairment and transferred to oil and gas properties within property, plant and equipment.

d) Property, Plant and Equipment - Oil and Gas Properties

Oil and gas assets are stated at cost, less any accumulated depletion, depreciation and accumulated impairment losses. Oil and gas properties are accumulated into Cash Generating Units ("CGU's"). Expenditures on the construction, installation and completion of facilities, pipelines, and the drilling of development wells, including unsuccessful development wells, together with the E&E expenditures incurred in finding the commercial reserves previously transferred from E&E assets are all capitalized within oil and gas properties.

Oil and gas properties are not depreciated until commercial production commences. Costs relating to each single field cost centre are depleted on a unit of production method based on the proved plus probable reserves for that cost centre. The depletion calculation takes account of the estimated future costs of development of the recognized proved plus probable reserves. Changes in reserve quantities and cost estimates are recognized prospectively from the last reporting date.

Values of oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If any such indication of impairment exists, an estimate of the recoverable amount is calculated. Individual assets are grouped, for the purposes of impairment testing, at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other CGU's. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. The recoverable amount is the estimated future cash flows, adjusted for the risks specific to the asset group, and are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money.

Impairments are reversed in subsequent periods when there has been an increase in the recoverable amount of a previously impaired asset or CGU and these reversals are netted with impairment expense for the period. The recovery is limited to the original carrying amount less depletion and depreciation that would have been recorded had the asset or CGU not been impaired.

e) Property, Plant and Equipment - Other

Computer equipment, software, office equipment and furniture and leasehold improvements are recorded at cost as tangible assets. The declining balance method of depreciation is used to depreciate the cost of these assets over their estimated useful lives. Computer equipment and software is depreciated at 40% per annum, office equipment and furniture is depreciated at 20% per annum and leasehold improvements are depreciated at 33% per annum. The depreciation methods used and the estimated useful lives are reviewed annually.

f) Decommissioning Liability

The Corporation provides for future decommissioning liability related to its oil and gas operating activities based on current legislation, constructive obligations and industry operating practices. Decommissioning liabilities are recognized as a liability in the period in which they are incurred. When the liability is initially recognized, an amount equivalent to the provision is capitalized as a cost of the related oil and gas asset. This cost is amortized to expense through depletion and depreciation over the life of the related asset. The provision recognized is the estimated future cost of decommissioning and restoration, discounted to its net present value using the nominal risk free interest rate. Changes in the estimated amount or timing of decommissioning and restoration costs are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the related asset. The unwinding of the present value discount on the provision is recognized as a finance cost.

g) Business combinations

The acquisition method of accounting is used to account for corporate acquisitions and assets which meet the definition of a business combination under IFRS. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of the acquisition, being the date on which the Corporation gains control. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost over the fair value of the Company's share of identifiable net assets acquired is recorded as goodwill. If the cost is less than the fair value of assets acquired, the difference is recognized directly in earnings.

h) Joint Arrangements

The Corporation conducts petroleum and natural gas activities jointly with other venturers who have direct ownership in and jointly control the operations of the ventures. These are classified as jointly controlled operations and as such, these financial statements reflect only the Corporation's proportionate interest in such activities.

i) Share capital

Class A shares are classified as equity. Convertible Class B shares are classified as compound instruments (see financial instruments section below). Incremental costs directly attributable to the issuance of Class A shares are recognized as a reduction of equity.

j) Financial Instruments

Financial instruments comprise financial assets, financial liabilities and equity instruments.

Financial assets
Financial assets are measured at fair value on initial recognition of the instrument. Financial assets classified as "loans and receivables" and are measured at amortized cost determined using the effective interest rate method. The Corporation's loans and receivables comprise trade and other receivables and deposits in the balance sheet.

Financial assets are assessed for indicators of impairment at each financial reporting date. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the asset have been impacted.

Financial liabilities
Financial liabilities include trade and other payables, the revolving demand credit facility, and the convertible Class B share liability.

Obligations for loans and borrowings are recognized when the Corporation becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Trade and other payables are recognized on an accrual basis and are stated initially at fair value and subsequently measured at amortized cost using the effective interest method.

Compound instruments
Compound instruments are separated into their liability and equity components using the effective interest rate method. The liability component accretes up to the principal balance at maturity. The equity component will be reclassified to share capital upon conversion.

Derivative financial instruments
The Corporation has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Corporation has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though the Corporation considers all commodity contracts to be economic hedges. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value each period end. Changes in the fair value of derivative financial instruments are recognized immediately in the statement of comprehensive income or loss. Transaction costs are recognized in the statement of comprehensive income or loss when incurred.

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Impairments are recognized in the statement of comprehensive loss as they occur.

k) Revenue Recognition
Revenue is recognized when it is probable that the economic benefits will flow to the Corporation and delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained.

Interest income is recognized using the effective interest rate method.

l) Finance Costs
Finance expense is comprised of interest expense on borrowings, accretion of the discount of decommissioning obligations, and accretion of the convertible Class B share liability.

m) Share-Based Compensation
The Corporation operates an equity-settled, share based compensation plan. The fair value of the employee services received in exchange for the grant of options is recognized as an expense and charged to comprehensive income. The amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. When options vest in installments over the vesting period, each installment is accounted for as a separate arrangement. At each reporting date, the

Corporation revises its estimates of the number of options expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

n) Income Taxes

Deferred income tax is provided using the liability method and tax rates and laws that have been enacted or substantially enacted at the reporting date. Provision is made for temporary differences at the reporting date between the tax basis of the assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is provided on all temporary differences except for temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the income statement nor taxable profit or loss. Deferred income tax assets are recognized to the extent that it is probable that the future taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income tax levied by the same tax authority and the Corporation intends to settle on a net basis.

o) Earnings per Share

Basic per share information is calculated on the basis of the weighted average number of Class A shares outstanding during the period. Diluted per share information reflects the potential dilution effect of options.

NOTE 4. NEW ACCOUNTING PROUNOUNCEMENTS AND STANDARDS NOT YET ADOPTED

In May 2013, the IASB issued International Financial Reporting Interpretation Committee (“IFRIC”) 21 - Levies. IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment occurs. This policy is effective for years beginning on or after January 1, 2014. The adoption of this policy has had no impact on the Corporation’s audited financial statements.

IAS 32 - Financial Instruments Presentation has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right to offset must be available on the current date and cannot be contingent on a future event. The adoption of this standard had no impact on the amounts recorded in the Corporation’s financial statements. This policy is effective for years beginning on or after January 1, 2014.

IAS 36 - Impairment of Assets was amended in May 2013 to reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The adoption of this standard had no impact on the amounts recorded in the Corporation’s financial statements. This policy is effective for years beginning on or after January 1, 2014.

<u>Future Accounting Pronouncements</u>

- IFRS 9 – Financial Instruments. IFRS 9 Financial Instruments was issued on July 24, 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. Hawk is currently evaluating the impact of the standard on the Corporation’s financial statements.
- IFRS 11 – Joint Arrangements. IFRS 11 was issued on May 6, 2014. These amendments provide guidance on the accounting for the acquisition of an interest in a joint operation that is a business. IFRS 11 is to be applied prospectively effective for annual periods beginning on or after January 1, 2016 with earlier adoption permitted. Hawk is currently evaluating the impact of the standard on the Corporation’s financial statements.

- IFRS 15 - Revenue from Contracts with Customers. IFRS 15 was issued on May 28, 2014 and replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 provides a new principle based model on revenue recognition to all contracts with customers. Mandatory adoption is effective for periods beginning on or after January 1, 2017. Hawk is currently evaluating the impact of the standard on the Corporation's financial statements.

NOTE 5. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES

The preparation of financial statements requires management to make judgments, estimates and assumptions based on currently available information that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are evaluated and are based on managements' experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from those estimated. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

In the process of applying the Corporation's accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements:

Depletion, depreciation and reserves
Depletion is based on the proved plus probable reserves which have been evaluated in accordance with the Canadian Oil and Gas Evaluation Handbook ("COGEH") and comply with the standards that govern all aspects of reserves as prescribed in National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). Under NI 51-101 standards, proved plus probable are considered a "best estimate" of future recoverable reserves. The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on current production forecasts, prices and economic conditions.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices and reservoir performance. Such revisions can be either positive or negative.

Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value less costs of disposal of property, plant and equipment for impairment calculations (see note 8).

Cash generating unit definition
The determination of cash generating units ("CGUs") requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality (See note 8).

Impairment
The recoverable amounts of CGUs and individual assets are based on the higher of their value-in-use and fair values less costs of disposal. These calculations require the use of estimates and assumptions. Unless indicated otherwise, the recoverable amount used in assessing impairment charges is fair value less costs of disposal.

The Corporation generally estimates fair value less costs of disposal using a discounted cash flow model which has a significant number of assumptions. The model uses expected cash flows from proved plus probable reserves. Reserve estimates and expected future cash flows from production of reserves are subject to measurement uncertainty as discussed above and subject to variability to changes in forecasted commodity prices. The discount rate applied to the cash flows is also subject to management's judgment and will affect the recoverable amount calculated (See note 8).

For E&E assets, estimates and assumptions include those used in the calculation of recoverable amounts for E&E and individual assets, which are based on the higher of value-in-use and fair value less costs of disposal (See note 7).

Decommissioning liability
Decommissioning and restoration costs will be incurred by the Corporation at the end of the operating life of certain of its assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation, and changes in the risk-free rate. As a result, there could be significant adjustments to the provisions established which would affect future financial results (See note 11).

Business combinations
Estimates are made of the fair value of assets and liabilities acquired and contingent liabilities assumed which includes assessing the value of oil and gas properties based on the estimation of recoverable quantities of proven and probable reserves (See Note 6).

Exploration and evaluation assets
The decision to transfer assets from exploration and evaluation ("E&E") to property, plant and equipment ("PP&E") is based on the estimated proved or probable reserves which are in part used to determine a project's technical feasibility and commercial viability (See note 7).

Share-based compensation
The Corporation uses the fair value method of valuing its share-based compensation. To estimate fair value the Company chooses a valuation model that it believes is most appropriate for the grant of the award. For share based compensation and performance warrants, the Corporation uses the Black-Scholes pricing model which requires the Corporation to determine the most appropriate inputs including the expected life of the option, volatility, expected forfeitures and future dividends. Changes in any of the assumptions or estimates used in determining the fair value could impact the amounts assigned (See note 12).

Income taxes
The Corporation recognizes deferred income tax assets to the extent that it is probable that taxable profit will be available to allow the benefit of that deferred income tax asset to be utilized. Assessing the recoverability of deferred income tax assets requires the Corporation to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Corporation to realize the deferred income tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Corporation operates could limit the ability of the Corporation to obtain tax deductions in future periods (see note 10).

NOTE 6. ASSET ACQUISITION

On August 29, 2014, the Corporation completed a property acquisition (the "Acquisition") consisting of oil and gas assets in western Saskatchewan and central Alberta from Trihawk Energy Ltd. ("Trihawk"), a related party. The Acquisition was a related party transaction and was reviewed and approved by the independent members of Hawk's Board of Directors. The Acquisition allowed the Corporation to consolidate working interests in existing producing wells and land holdings within its core area of western Saskatchewan. As consideration for the Acquisition, Hawk granted Trihawk certain gross overriding royalties ("GORR") ranging from 3 to 20 percent on the acquired lands. The property acquisition was accounted for as a business combination under IFRS 3. Hawk incurred transaction costs of approximately $15,000 on the Acquisition which have been expensed in the statement of comprehensive income (loss) in general and administrative expenses.

(Expressed in Canadian dollars, unless otherwise indicated)

The fair values below are estimates, which were made by management at the time of the preparation of these financial statements based on available information. Amendments may be made to these amounts as values subject to estimate are finalized.

Estimates of Fair Values

Net assets acquired:		
Property, plant and equipment	$	1,141,713
Asset retirement obligations		(79,588)
Deferred tax		(39,839)
Net assets acquired		1,022,286
Gain on property acquisition		(116,208)
		906,078

The fair value of the Property, plant and equipment acquired of $1,141,713 was determined based on the after tax cash flow from Trihawk's independent engineering report using forecast prices and costs discounted at 9 percent. In consideration for the net assets acquired from Trihawk, the Corporation sold a GORR to Trihawk on the acquired lands. The fair value of the GORR consideration of $906,078 was determined based on the after tax cash flow from Trihawk's independent engineering report using forecast prices and costs discounted at 8 percent and has been accounted for as a disposition to Property, plant and equipment (see Note 8.).

A gain on acquisition arises when the cost of an acquisition is less than the Corporation's share of the fair value of the net assets acquired. This difference of $116,208 was recognized directly in comprehensive income for the year.

The results of operation from the Acquisition have been included in the Corporation's statement of comprehensive income for the year ended December 31, 2014. The Acquisition has provided revenue of $109,300 and net income of $26,300 since August 29, 2014. If the assets had been acquired on January 1, 2014, an additional $357,800 of revenue and $192,700 of net income would have been included in the statement of comprehensive income for the year ended December 31, 2014. Pro forma information with regard to revenue and net income related to the Acquisition may not be representative of the results that would have been reported had these assets actually been combined for the relevant periods.

NOTE 7. EXPLORATION AND EVALUATION

		December 31, 2014		**December 31, 2013**
Balance, beginning of year	**$**	**2,716,521**	$	3,337,288
Cash additions		**2,435,754**		1,433,538
Capitalized share based compensation		**105,513**		43,867
Dispositions		**-**		(220,000)
Transfer to property, plant and equipment		**(1,010,660)**		(260,785)
Exploration and evaluation expense		**(2,603,652)**		(1,617,387)
Balance, end of year	**$**	**1,643,476**	$	2,716,521

For the year ended December 31, 2014, the Corporation capitalized $495,000 (2013 - $450,000) of general and administration expenses directly attributable to exploration activities. For the year ended December 31, 2014, the Corporation capitalized $105,513 (2013 – $44,427) of share based payments related to exploration activities.

During 2014, the Corporation determined certain exploration and evaluation costs in the Cadogan, Redwater and Joarcam areas of Alberta were not recoverable as no future development is planned in these areas. Accordingly, $2,603,652 (2013 - $1,617,837) in capitalized costs was recognized as exploration and evaluation expense. During 2014, the Corporation determined certain properties were commercially viable and accordingly $1,010,660 (2013 - $260,785) of accumulated exploration and evaluation costs were transferred to property, plant and equipment.

(Expressed in Canadian dollars, unless otherwise indicated)

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

	Petroleum and natural gas properties	Office equipment and other	Total
	$	$	$
Cost			
At January 1, 2014	**54,177,225**	**387,377**	**54,564,602**
Cash additions	**8,279,539**	**88,644**	**8,368,183**
Disposition	**(135,000)**	**-**	**(135,000)**
Capitalized share based compensation	**32,682**	**-**	**32,682**
Transfers from exploration and evaluation	**1,010,660**	**-**	**1,010,660**
Acquisition of assets *(Note 6)*	**1,141,713**	**-**	**1,141,713**
GORR disposition *(Note 6)*	**(906,078)**	**-**	**(906,078)**
Changes in decommissioning provision	**916,720**	**-**	**916,720**
Balance December 31, 2014	**64,517,461**	**476,021**	**64,993,482**
Accumulated Depletion, Depreciation and Impairments			
At January 1, 2014	**24,849,824**	**213,177**	**25,063,001**
Depletion, depreciation and amortization	**4,414,433**	**70,709**	**4,485,142**
Balance December 31, 2014	**29,264,257**	**283,886**	**29,548,143**
Carrying amount as at December 31, 2014	**35,253,204**	**192,135**	**35,445,339**

	Petroleum and natural gas properties	Office equipment and other	Total
	$	$	$
Cost			
At January 1, 2013	45,042,676	301,974	45,344,650
Additions	7,699,654	85,403	7,785,057
Transfers from exploration and evaluation	260,785	-	260,785
Changes in decommissioning provision	1,174,110	-	1,174,110
Balance December 31, 2013	54,177,225	387,377	54,564,602
Accumulated Depletion, Depreciation and Impairments			
At January 1, 2013	20,018,767	149,851	20,168,618
Depletion, depreciation and amortization	3,981,259	63,326	4,044,585
Impairments	849,798	-	849,798
Balance December 31, 2013	24,849,824	213,177	25,063,001
Carrying amount as at December 31, 2013	29,327,401	174,200	29,501,601

For the year ended December 31, 2014, Hawk capitalized $165,000 (2013 - $150,000) of general and administrative costs and $32,682 (2013 - $14,637) of share based payments expense. At December 31, 2014, $12,493,000 (2013 - $2,566,000) of proved plus probable future development costs were included in costs subject to depletion and depreciation.

As at December 31, 2014, due to declining oil prices, the Corporation tested its CGU's for impairment. The impairment tests were based on the difference between the period end carrying value of the assets and the recoverable amount. The recoverable amount was based on a fair value less cost of disposal determination using the proved plus probable after-tax reserve value for the properties in each CGU, discounted at 10 percent per annum. At December 31, 2014, it was determined that the recoverable amounts of the Corporation's CGU's exceeded their carrying value and therefore no impairment was recognized.

(Expressed in Canadian dollars, unless otherwise indicated)

For the year ended December 31, 2013, the Corporation recognized impairment expense of $849,798 relating to its northern Alberta CGU due to reservoir and productivity issues and due to a lack of drilling success for the one well drilled in this CGU during 2013.

The impairment calculation for 2014 was based on the Corporation's independent engineering report using forecast prices and costs as follows:

Year	WTI Oil ($US/Bbl)	AECO Gas ($Cdn/mmbtu)	$US/$Cdn Exchange Rates
2015	62.50	3.31	0.875
2016	75.00	3.77	0.875
2017	80.00	4.02	0.875
2018	85.00	4.27	0.875
2019	90.00	4.53	0.875
2020	95.00	4.78	0.875
2021	98.54	5.03	0.875
2022	100.51	5.28	0.875
2023	102.52	5.53	0.875
2024	104.57	5.71	0.875
Thereafter (1)	2%	2%	0.875

(1) Percentage change of 2% represents the change in future prices each year after 2023 to the end of the reserve life.

For the year ended December 31, 2014, a two percent increase in the discount rate from 10% to 12% to determine the fair value less cost of disposal, would have resulted in impairment expense of approximately $0.6 million, while a five percent decrease in the estimated future cash flow would have resulted in no impairment expense to the Corporation.

NOTE 9. DEBT

At December 31, 2014, the Corporation had available a $13.5 million revolving demand credit facility (the "Credit Facility") with a Canadian bank. The Credit Facility bears interest at the bank's prime rate plus 0.5 to 1.0 percent, or at bankers' acceptance rates plus a stamping fee of 1.75 percent to 2.25 percent. A standby fee of 0.2 to 0.3 percent is charged on the undrawn portion of the Credit Facility and is secured by a general security agreement with a floating charge over the assets of the Corporation. The Credit Facility is subject to review with the next review date on or before May 31, 2015.

At December 31, 2014, Hawk had $7.7 million of bank debt outstanding (December 31, 2013 – $4.9 million). At December 31, 2014, the Corporation was in compliance with all covenants contained in the Credit Facility (see Note 18). The effective annualized interest rate, including standby fees and commitment fees, for the year ending December 31, 2014 was 4.3% (2013 - 4.8%).

(Expressed in Canadian dollars, unless otherwise indicated)

NOTE 10. DEFERRED INCOME TAX

Future income tax expense differs from that which would be expected from applying the combined effective Canadian federal and provincial tax rate of 25.55 percent (2013 – 25 percent) to income before income taxes as follows:

	December 31, 2014	December 31, 2013
Income (loss) before income taxes	**$ 528,852**	$ (1,526,272)
Tax rate	**25.55%**	25%
Expected tax expense (recovery)	**135,122**	(381,568)
Adjustment resulting from:		
Non-deductible share-based payments	**55,304**	14,492
Accretion of convertible Class B share liability	**152,824**	238,308
Non-deductible share-based payments previously capitalized	-	(70,845)
Gain on property acquisition	**(29,717)**	-
Tax rate changes	**(1,062)**	(3,245)
Other	**4,241**	(31,784)
Deferred income tax expense (recovery)	**$ 316,712**	$ (234,642)

Substantially all the deferred tax recovery relates to the origination and reversal of temporary differences. The change in the deferred income tax account is as follows:

	January 1, 2014	Recognized in profit or loss	Recognized in equity	Asset Acquisition	December 31, 2014
Deferred tax liabilities:					
Exploration and evaluation and property, plant and equipment	**$ 1,170,499**	**$ 418,980**	**$ -**	**$ 60,158**	**$ 1,649,637**
Deferred tax assets:					
Decommissioning liability	**(631,578)**	**(249,967)**	-	**(20,319)**	**(901,864)**
Non – capital loss carryforwards	**(1,128,347)**	**98,828**	-	-	**(1,029,519)**
Share issue expenses	**(87,722)**	**48,871**	**(2,887)**	-	**(41,738)**
Deferred tax asset	**$ (677,148)**	**$ 316,712**	**$ (2,887)**	**$ 39,839**	**$ (323,484)**

	January 1, 2013	Recognized in profit or loss	December 31, 2013
Deferred tax liabilities:			
Exploration and evaluation and property, plant and equipment	$ 885,378	$ 285,121	$ 1,170,499
Deferred tax assets:			
Decommissioning liability	(339,415)	(292,163)	(631,578)
Non – capital loss carryforwards	(760,480)	(367,867)	(1,128,347)
Share issue expenses	(227,989)	140,267	(87,722)
Deferred tax asset	$ (442,506)	$ (234,642)	$ (677,148)

The net deferred income tax asset is not expected to reverse within 12 months. At December 31, 2014, the Corporation had non-capital loss carry-forwards of approximately $4.0 million (2013 -$4.4 million) available to reduce future taxable income. These non-capital loss carry-forwards will expire starting in 2029, if unutilized.

(Expressed in Canadian dollars, unless otherwise indicated)

NOTE 11. DECOMMISSIONING LIABILITY

The total future decommissioning liability was estimated based on the Corporation's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements could be significant. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligation is approximately $3.5 million (December 31, 2013 - $2.7 million) which will be incurred over the next 13 years with the majority of costs incurred between 2021 and 2028. A nominal risk free interest rate of 1.74 percent (December 31, 2013 – 2.7 percent), and an inflation rate of 2 percent (December 31, 2013 – 2 percent), was used to calculate the fair value of the asset retirement obligation. Changes to the liability were as follows:

	December 31, 2014	December 31, 2013
Decommissioning liability, beginning of year	**$ 2,475,802**	$ 1,339,970
Liabilities incurred	**459,018**	366,829
Liabilities assumed on acquisition	**79,588**	-
Change in estimated future cash outflows	**244,670**	887,101
Change in discount rate	**213,032**	(58,428)
Accretion	**57,689**	42,672
Disposition	**-**	(21,951)
Liabilities settled	**-**	(80,391)
Decommissioning liability, end of year	**$ 3,529,799**	$ 2,475,802

For the year ended December 31, 2013, the Corporation abandoned three (2.9 net) well sites in western Saskatchewan and east central Alberta and settled liabilities with a discounted value of $80,391. Actual costs incurred in 2013 totaled $228,228 which resulted in a loss of $147,837 on the settlement of these liabilities. This loss has been included in the statement of comprehensive income under net finance expense.

In 2014, the Corporation recorded a change in estimated future cash outflows of $0.2 (2013 - $0.9) million relating to a change in the Corporation's well abandonment and reclamation cost estimates. These estimates were revised using management expectations, with reference to industry parameters established by regulatory organizations that estimated regional abandonment and reclamation costs, as well as current economic conditions.

NOTE 12. SHARE CAPITAL

(a) Authorized

Unlimited number of preferred shares, issuable in series

Unlimited number of voting Class A shares

(b) Issued and outstanding

Class A Shares	Number of Shares	Amount
Opening balance at January 1, 2013	34,480,953	$ 25,224,889
Issue of Class A common shares on exercise of stock options	125,000	68,119
Balance at December 31, 2013	**34,605,953**	**$ 25,293,008**
Issue of Class A common shares on exercise of stock options	169,999	83,749
Issue of Class A common shares upon conversion of Class B shares	10,800,000	10,800,000
Share issue costs (net of tax of $2,887)	-	(8,413)
Balance at December 31, 2014	**45,575,952**	**$ 36,168,344**

(Expressed in Canadian dollars, unless otherwise indicated)

(c) Stock options

The Corporation has a stock option plan (the "Plan") under which it is authorized to issue stock options to employees, officers, directors, and consultants for up to ten percent of the total issued and outstanding Class A Shares and Class B Shares. Options granted under the Plan vest as to one-third on each of the first, second and third anniversaries from the date of grant and expire ten years from the date of grant.

The following table sets forth the changes in the stock options outstanding for the period ended December 31, 2014:

	Number of Options	Weighted Average Exercise Price	Number Exercisable
Stock options outstanding at January 1, 2013	3,539,500	$0.51	1,743,000
Options exercised	(125,000)	$0.35	(125,000)
Options voluntarily surrendered	(1,129,500)	$1.00	(711,000)
Stock options outstanding at December 31, 2013	**2,285,000**	**$0.29**	**1,331,667**
Options granted	2,591,500	$0.41	-
Options exercised	(169,999)	$0.31	(169,999)
Options cancelled	(180,001)	$0.35	-
Stock options outstanding at December 31, 2014	**4,526,500**	**$0.36**	**1,615,000**

The following table sets forth information about the stock options outstanding at December 31, 2014:

Exercise Price	Number Outstanding	Weighted average Remaining life (years)	Weighted average Exercise Price	Number Exercisable	Weighted average Exercisable Price
$0.25	1,290,000	7.3	$0.25	860,000	$0.25
$0.35	755,000	4.5	$0.35	755,000	$0.35
$0.41	1,455,000	9.6	$0.41	-	-
$0.42	1,026,500	9.1	$0.42	-	-
$0.36	4,526,500	8.0	$0.36	1,615,000	$0.30

On January 22, 2014, the Corporation granted 1,136,500 options to directors, officers and employees of Hawk to acquire Class A Shares of Hawk at an exercise price of $0.42. The options expire ten years from the date of the grant which occurred on January 22, 2014.

On August 26, 2014, the Corporation granted 1,455,000 options to directors, officers and employees of Hawk to acquire Class A Shares of Hawk at an exercise price of $0.41. The options expire ten years from the date of the grant which occurred on August 26, 2014.

(d) Share based compensation

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2014	December 31, 2013
Risk free rate (%)	1.38%	-
Expected life (years)	5	-
Expected volatility (%)	75%	-
Expected dividends	Nil	-
Estimated forfeiture rate	Nil	-
Weighted average fair value per option	$0.25	-

(Expressed in Canadian dollars, unless otherwise indicated)

Share based compensation expense is amortized over the vesting period of each tranche of options granted. For the year ended December 31, 2014, share based compensation expense totaled $160,613 (2013 - $57,969). For the year ended December 31, 2014, Hawk also capitalized $138,195 (2013 - $59,064) of share based compensation.

(e) Contributed Surplus

	December 31, 2014	December 31, 2013
Contributed surplus, beginning of year	**$ 1,012,516**	$ 919,852
Stock based compensation expense	**160,613**	57,969
Stock based compensation capitalized	**138,195**	59,064
Exercise of stock options	**(31,249)**	(24,369)
Contributed surplus, end of year	**$ 1,280,075**	$ 1,012,516

(f) Per share amounts

The weighted average basic number of Class A Shares outstanding was 39,235,340 (2013 – 34,486,090) for the year ended December 31, 2014. For the year ended December 31, 2014, 2,481,500 stock options totaling 2,285,000 (2013 – 2,285,000) were excluded in the calculation of weighted average diluted shares as it would have been anti-dilutive. For the year ended December 31, 2013, the effect of the conversion of the Class B shares was excluded in the calculation of weighted average diluted shares as it would have been anti-dilutive.

NOTE 13. CONVERTIBLE CLASS B SHARES

On June 11, 2009, the Corporation issued 1,080,000 Class B shares on a flow-through basis as part of the Corporation's initial public offering. The Class B shares are convertible (at the option of the Corporation) at any time after July 2, 2012 and on or before June 30, 2014 into Class A shares. The number of Class A shares to be issued upon conversion of one Class B share is calculated by dividing $10 by the greater of $1 and the then current market price of the Class A shares at the date of conversion. If conversion has not occurred by the close of business on June 30, 2014, the Class B shares become convertible (at the option of the shareholder) into Class A shares pursuant to the conversion formula described above. Effective at the close of business on July 31, 2014, the 1,080,000 issued and outstanding Class B shares were converted into 10,800,000 Class A shares pursuant to the conversion formula described above.

The Class B shares were determined to be compound instruments. As the Class B shares are convertible into Class A shares pursuant to the conversion formula described above, the number of Class A shares to be issued upon conversion is unknown, and, therefore, is presented as a liability. The Class B share liability is accreted using the effective interest rate method over the term of the Class B shares, such that the carrying amount of the financial liability will be equal to the principal amount of $10.8 million at maturity.

The following table sets forth the convertible Class B share liability activities:

	December 31, 2014	December 31, 2013
Balance, beginning of year	**$ 10,201,864**	$ 9,248,631
Accretion of convertible Class B share liability	**598,136**	953,233
Conversion of Class B share liability to share capital	**(10,800,000)**	-
Balance, end of year	**$ -**	$ 10,201,864

(Expressed in Canadian dollars, unless otherwise indicated)

NOTE 14. GENERAL AND ADMINISTRATIVE EXPENSE ("G&A")

	December 31, 2014	December 31, 2013
Salary, bonuses and benefits	**$ 1,201,722**	$ 1,128,062
Office rent	**140,536**	130,230
Other	**443,370**	372,118
Total G&A	**$ 1,785,628**	1,630,410
Capitalized salaries and recoveries	**(971,122)**	(901,583)
Net G&A	**$ 814,506**	$ 728,827

NOTE 15. KEY MANAGEMENT PERSONNEL EXPENSES

The aggregate expense of key management personnel, identified as all the Corporation's officers, management and board of directors was as follows:

	December 31, 2014	December 31, 2013
Management salary and bonus expense	**$ 990,000**	$ 960,000
Employee benefits	**198,452**	157,382
Share-based compensation (1)	**203,563**	115,349
Gross compensation expense	**$ 1,392,015**	$ 1,232,731
Amounts capitalized	**(798,196)**	(658,660)
Net compensation expense	**$ 593,819**	$ 574,071

(1) Represents the amortization of share-based payments expense associated with the Company's share-based compensation plans granted to key management personnel.

There was no cash compensation paid to the board of directors.

NOTE 16. NET FINANCE EXPENSE

For the year ended	December 31, 2014	December 31, 2013
Finance expense:		
Interest and fees on revolving credit facility	**$ 291,205**	$ 187,687
Accretion of decommissioning liability *(Note 10)*	**57,689**	42,672
Loss on settlement of decommissioning liability *(Note 10)*	**-**	147,837
Accretion of convertible Class B share liability *(Note 13)*	**598,136**	953,233
Net finance expense	**$ 947,030**	$ 1,331,429

(Expressed in Canadian dollars, unless otherwise indicated)

NOTE 17. FINANCIAL INSTRUMENTS

Fair Values
The Corporation's financial instruments recognized on the balance sheet include cash, trade and other receivables, trade and other payables, bank indebtedness and commodity price contracts liability. The fair value of these financial assets and liabilities is summarizes as follows:

	December 31, 2014	December 31, 2013
Assets		
Trade and other receivables	**$ 1,492,838**	$ 1,496,809
Commodity price contracts	**817,279**	-
Liabilities		
Trade and other payables	**$ 4,868,604**	4,290,371
Bank indebtedness	**7,700,000**	4,900,000
Commodity price contracts	**-**	244,815
Convertible Class B share liability	**-**	10,201,864

The Corporation's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The carrying value of trade and other receivables, trade and other payables and bank indebtedness included in the balance sheet approximate fair value due to the short term nature of those instruments. The fair value measurement of the commodity price contracts has a fair value hierarchy of Level 2. The Corporation uses level 3 inputs in the determination of the fair value less costs of disposal for the purposes of determining the recoverable amount of a CGU for impairment testing of PPE and E&E assets. There have been no transfers between levels in the year.

At December 31,2013, the Corporation had 1,080,000 convertible Class B shares, of which the liability component had been classified as a financial liability at amortized cost. As at December 31, 2013, the estimated fair value of the convertible Class B liability was $3.5 million. The fair value of the liability component of convertible Class B shares was determined based on the closing trading price of the Class B shares of $3.20 per Class B share at December 31, 2013. On July 31, 2014, all of the Class B shares were converted to Class A shares of the Corporation. At December 31, 2014, there were no Class B shares outstanding.

Credit Risk
Credit risk is primarily related to the Corporation's receivables from petroleum and natural gas marketers and joint venture partners and the risk of financial loss if a marketer or partner fails to meet its contractual obligations. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Corporation's policy to mitigate credit risk associated with these receivables is to establish marketing relationships with large, credit worthy purchasers. The Corporation has not experienced any collection issues with its petroleum and natural gas marketers. Receivables from joint venture partners are typically collected within one to three months of the joint venture bill being issued to the partner. The Corporation attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure. There were no receivables allowed for or written off for the year ended December 31, 2014 (2013 - $nil).

(Expressed in Canadian dollars, unless otherwise indicated)

The Corporation's accounts receivable consisted of the following as at:

	December 31, 2014	December 31, 2013
Revenue receivable from marketers	**$ 1,283,156**	$ 1,281,732
Joint venture receivables	**171,663**	118,839
GST receivable	**27,916**	51,148
Cash call paid	**10,103**	45,090
	$ 1,492,838	$ 1,496,809

At December 31, 2014, the Corporation had $23,147 (2013 - $40,000) of receivables that were considered past due from certain joint venture partners.

The Corporation's most significant customer, a Canadian oil marketer, accounts for $1,012,384 of the trade and other receivables at December 31, 2014 (December 31, 2013 - $ 1,270,283). The Corporation's most significant joint venture partner, a Canadian public oil and gas company, accounts for $64,097 of the trade and other receivables at December 31, 2014 (2013 - $53,066).

Liquidity Risk
Liquidity risk relates to the risk the Corporation will encounter should it have difficulty in meeting obligations associated with the financial liabilities. The financial liabilities on its balance sheet consist of accounts payable and accrued liabilities and bank indebtedness. Accounts payable consist of invoices payable to trade suppliers relating to the office and field operating activities and its capital spending program. The Corporation processes invoices within a normal payment period and are primarily due within one year of the statement of financial position date. Hawk anticipates it will continue to have adequate liquidity to fund its financial liabilities through its cash from operating activities and available bank debt. The Company had no defaults or breaches on its bank debt or any of its financial liabilities.

The following table summarizes the contractual maturities of financial liabilities at December 31, 2014:

	Less than 1 Year	Greater than 1 Year
Trade and other payables	$ 4,868,604	$ -
Bank indebtedness	7,700,000	-
Total	$ 12,568,604	$ -

Market Risk
Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates, and interest rates will affect the Corporation's net loss or the value of financial instruments.

Commodity Price Risk
Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world and continental/regional economic and other events that dictate the level of supply and demand. The Corporation may utilize commodity price contracts to manage a portion of commodity price risk through the use of various risk management financial contracts. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

As at December 31, 2014, the Corporation had the following contracts:

Type	Commodity	Volume	Contract Price ($Cdn/Bbl)	Pricing Point	Term	Fair Value
Financial	Crude Oil	100 Bbl/d	$101 Fixed price swap	WTI – Nymex $Cdn	Jan 2014 to Dec 2014	$101,163
Financial	Crude Oil	100 Bbl/d	$21.80 Fixed price swap	WCS differential $Cdn	Apr 2014 to Dec 2014	($10,166)
Financial	Crude Oil	100 Bbl/d	$100.25 Fixed price swap	WTI – Nymex $Cdn	July 2014 to Dec 2014	$98,839
Financial	Crude Oil	100 Bbl/d	$104.20 Fixed price swap	WTI – Nymex $Cdn	Jan 2015 to June 2015	$725,986
Financial	Crude Oil	100 Bbl/d	$21.25 Fixed price swap	WCS differential $Cdn	Jan 2015 to June 2015	($45,020)
Financial	Crude Oil	100 Bbl/d	$20.45 Fixed price swap	WCS differential $Cdn	Feb 2015 to Dec 2015	($53,523)
Total fair value						$817,279

The fair value of the above contract as at December 31, 2014 was an asset of $817,279 (2013 – liability of $ 244,815) which has been classified as a current liability in the statement of financial position. The table set forth the realized and unrealized gains and losses on the Corporation's commodity contracts for the year ended December 31, 2014 as follows:

	December 31, 2014	December 31, 2013
Realized loss on commodity price contracts	**$ (358,544)**	$ (293,788)
Unrealized gain (loss) on commodity price contracts	**1,062,094**	(261,854)
Total gain (loss) on commodity price contracts	**$ 703,550**	$ (555,642)

An increase in CDN$ WTI by $1/bbl from the expected forward price at December 31, 2014 would result in a decrease to the Corporation's gain on commodity contracts by approximately $29,000.

Subsequent to December 31, 2014, Hawk entered into the following commodity price contracts:

Type	Commodity	Volume	Contract Price ($Cdn/Bbl)	Pricing Point	Term
Finanical	Crude Oil	100 Bbl/d	$73.05 Fixed price swap	WTI – Nymex $Cdn	July 2015 to Dec 2015

Foreign Currency Risk
Foreign currency risk is the risk that future cash flow will fluctuate as a result of changes in foreign exchange rates. Although all of the Corporation's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market price in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian dollar and the United States dollar. The Corporation had no forward exchange rate contracts in place as at or for the year ended December 31, 2014.

Interest Rate Risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk to the extent the changes in market interest rates will impact the Corporation's bank debts that have a floating interest rate. The Corporation had no interest rate swap contracts in place as at or for the year ended December 31, 2014. Based on debt levels outstanding at December 31, 2014, an increase to interest rates of 1% would result in a reduction to the Corporation's net income of $57,300 (2013 - $37,000).

(Expressed in Canadian dollars, unless otherwise indicated)

NOTE 18. CAPITAL DISCLOSURES

The Corporation's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, creditor and market confidence and to sustain the future development of the business.

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include shareholders' equity, bank debt and working capital. In order to maintain or adjust the capital structure, the Corporation may from time to time issue new shares, seek debt financing and adjust its capital spending to manage current and projected debt levels.

The Corporation monitors its capital structure using a measure of net debt to annualized cash flow from operations ratio. Hawk's objective is to maintain a net debt to annualized cash flow from operations of less than two times. As at December 31, 2014, the Corporation had $7.7 million drawn (2013 - $4.9 million) on its Credit Facility, and had a working capital deficit of approximately $3.3 million (2013 – deficit of $2.7 million) comprised of:

		December 31, 2014		December 31, 2013
Current assets (excluding unrealized gain on commodity contracts)	**$**	**1,570,979**	$	1,564,701
Current liabilities (excluding bank debt and unrealized loss on commodity contracts)		**(4,868,604)**		(4,290,371)
Working capital deficit (1)	**$**	**(3,297,625)**	$	(2,725,670)

The Corporation's net debt to annual cash flow from operations ratio was determined as follows:

		December 31, 2014		December 31, 2013
Bank debt	**$**	**7,700,000**	$	4,900,000
Working capital deficit (1)		**3,297,625**		2,725,670
Net debt	**$**	**10,997,625**	$	7,625,670
Cash flow from operations (2)	**$**	**7,255,782**	$	6,220,836
Net debt to cash flow from operations ratio		**1.5**		1.2

(1) Working capital deficit is an additional GAAP measure that includes trade and other receivables, prepaid expenses, and trade and other payables.
(2) Cash flow from operations is an additional GAAP measure that is generally equal to cash flow from operating activities before changes in non-cash working capital as per the statement of cash flows on page 8.

As at December 31, 2014, the Corporation's ratio of net debt to annualized funds flow from operations of 1.5 times (2013 – 1.2 times) was within the acceptable range established by the Corporation. To monitor this ratio, Hawk prepares annual capital and operating budgets which are updated depending on varying factors such as general market conditions and levels of success of capital deployment.

The Corporation's share capital is not subject to any external restrictions, however, Hawk is required to maintain a minimum working capital ratio of 1:1 to remain in compliance with its Credit Facility. For purposes of this calculation, working capital ratio is defined as the ratio of current assets plus any undrawn availability under the revolving credit facility to current liabilities excluding any amount drawn under the Credit Facility. At December 31, 2014, the Company had a working capital ratio of 1.5:1 (2013 – 2:1), which is greater than the minimum ratio required. There were no changes to Hawk's approach to manage capital during the period.

(Expressed in Canadian dollars, unless otherwise indicated)

NOTE 19. RELATED PARTY TRANSACTIONS

The Corporation leases office space, office furnishings, and computer and telephone equipment from a company controlled by certain members of management of Hawk. The lease was made in the Corporation's normal course of operations. For the year ended December 31, 2014, the Corporation expensed $82,688 (2013 - $82,688) pertaining to office lease costs.

The Corporation has a farm-in agreement with Trihawk Energy Ltd., ("Trihawk") a company owned by certain members of management of Hawk. Under the terms of the farm-in agreement, Hawk has the option to farm-in on certain lands owned by Trihawk in return for a ten percent, non-convertible, gross overriding royalty. The farm-in agreement was made in the normal course of operations. For the year ended December 31, 2014, $169,597 (2013 - $49,718) of gross overriding royalties due to Trihawk under the terms of the farm-in agreement has been included in the statement of operations. At December 31, 2014, $25,707 (2013 - $11,518) was included in accounts payable as gross overriding royalties owing to Trihawk.

The Corporation obtains legal services from a firm in which one of the Corporation's former directors is a partner. Included in general and administrative expenses for the year ended December 31, 2014 was $49,507 (2013 - $25,365) relating to legal services. At December 31, 2014, accounts payable included $809 (2013 - $1,029) related to these legal services which were provided in the normal course of operations.

Refer to Note 6 – Asset Acquisition, for the related party acquisition of assets from Trihawk.

NOTE 20. COMMITMENTS

Under the office lease agreement as described in Note 19, the Corporation is committed to minimum annual lease payments as follows:

2015	$ 7,023

The Corporation has entered into certain farm-in agreements with third parties to earn working interests in additional prospective acreage. At December 31, 2014, Hawk's required future commitments under the terms of these agreements are estimated to be $0.7 million, which form part of the Corporation's capital program for 2015.

Subsequent to December 31, 2014, the Corporation entered into a new office lease agreement and is committed to minimum annual lease payments of:

2015	$73,301
2016	$80,104
2017	$80,104
2018	$ 6,803

NOTE 21. SUPPLEMENTAL INFORMATION

(a) Revenue by product:

	December 31, 2014	**December 31, 2013**
Crude oil sales	**$ 18,074,619**	$ 15,086,708
Natural gas sales	**187,545**	169,652
Natural gas liquids sales	**139,564**	137,398
Total petroleum and natural gas sales	**$ 18,401,728**	$ 15,393,758

(Expressed in Canadian dollars, unless otherwise indicated)

(b) The following is a reconciliation of the non-cash change in working capital:

	December 31, 2014	December 31, 2013
Changes in non-cash working capital:		
Trade and other receivables	**$ 3,971**	$ 183,577
Prepaid expenses	**(10,249)**	(8,598)
Trade and other payables	**578,233**	(655,607)
	$ 571,955	$ (480,628)