Hawk Exploration Ltd.

Interim Financial Statements
September 30, 2014

(Unaudited)
(Expressed in Canadian dollars)

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

As at	September 30, 2014	December 31, 2013
ASSETS		
Current Assets		
Trade and other receivables *(Note 13)*	**$ 1,704,958**	$ 1,496,809
Prepaid expenses	**89,726**	67,892
Commodity price contracts *(Note 13)*	**2,195**	-
	1,796,879	1,564,701
Non-current Assets		
Exploration and evaluation *(Note 5)*	**2,520,183**	2,716,521
Property, plant and equipment *(Note 6)*	**32,627,424**	29,501,601
Deferred income tax asset *(Note 8)*	**497,832**	677,148
	35,645,439	32,895,270
Total Assets	**$ 37,442,318**	$ 34,459,971
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Trade and other payables	**$ 4,255,225**	$ 4,290,371
Bank indebtedness *(Note 7)*	**6,900,000**	4,900,000
Commodity price contracts *(Note 13)*	**-**	244,815
	11,155,225	9,435,186
Non-current Liabilities		
Decommissioning liability *(Note 9)*	**3,084,760**	2,475,802
Convertible Class B shares liability *(Note 11)*	**-**	10,201,864
	3,084,760	12,677,666
Total Liabilities	**14,239,985**	22,112,852
Shareholders' Equity		
Share capital *(Note 10)*	**37,775,384**	26,900,048
Equity component of convertible Class B Shares	**(1,607,040)**	(1,607,040)
Contributed surplus *(Note 10)*	**1,177,119**	1,012,516
Deficit	**(14,143,130)**	(13,958,405)
	23,202,333	12,347,119
Total Liabilities and Shareholders' Equity	**$ 37,442,318**	$ 34,459,971

Commitments *(Note 16)*

See accompanying notes to the interim financial statements.

Hawk Exploration Ltd.

Interim Statement of Comprehensive Income (Loss) (Unaudited)
(Expressed in Canadian dollars)

	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Revenue				
Petroleum and natural gas sales	**$ 4,626,572**	$ 4,788,290	**$ 14,265,977**	$ 11,598,350
Royalties	**(1,012,755)**	(1,033,738)	**(3,002,194)**	(2,353,928)
Revenue	**3,613,817**	3,754,552	**11,263,783**	9,244,422
Gain (loss) on commodity contract *(Note 13)*	**371,712**	(502,066)	**(386,412)**	(584,230)
Gain on property acquisition *(Note 4)*	**116,208**	-	**116,208**	**-**
	4,101,737	3,252,486	**10,993,579**	8,660,192
Expenses				
Production	**1,402,386**	1,012,591	**4,051,270**	3,006,018
Transportation	**72,787**	98,890	**285,786**	297,441
General and administrative	**212,744**	141,645	**647,196**	533,458
Share-based compensation *(Note 10)*	**44,670**	8,764	**108,349**	49,534
Exploration and evaluation *(Note 5)*	**901,759**	118,379	**1,795,003**	129,016
Depletion, depreciation and amortization *(Note 6)*	**1,101,376**	963,852	**3,300,886**	2,818,154
Impairment expense	-	293,798	-	293,798
Finance expense *(Note 12)*	**180,826**	387,955	**847,450**	946,078
	3,916,548	3,025,874	**11,035,940**	8,073,497
Income (loss) before income tax	**185,189**	226,612	**(42,361)**	586,695
Deferred income tax expense *(Note 8)*	**53,262**	159,591	**142,364**	346,698
Comprehensive income (loss)	**$ 131,927**	$ 67,021	**$ (184,725)**	$ 239,997
Comprehensive income (loss) per share, basic and diluted *(Note 10)*	**$ 0.00**	$ 0.00	**$ (0.01)**	$ 0.01

See accompanying notes to the interim financial statements.

Hawk Exploration Ltd.

Interim Statement of Changes in Shareholders' Equity (Unaudited)
(Expressed in Canadian dollars)

	Attributable to Shareholders				
	Share Capital $	Equity component of Class B Shares $	Deficit $	Contributed Surplus $	Total Equity $
Balance – January 1, 2014	**26,900,048**	**(1,607,040)**	**(13,958,405)**	**1,012,516**	**12,347,119**
Share based compensation – stock options *(Note10)*	**-**	**-**	**-**	**195,852**	**195,852**
Exercise of stock options *(Note10)*	**83,749**	**-**	**-**	**(31,249)**	**52,500**
Conversion of Class B shares *(Note 11)*	**10,800,000**	**-**	**-**	**-**	**10,800,000**
Share issue costs – net of tax	**(8,413)**	**-**	**-**	**-**	**(8,413)**
Comprehensive loss	**-**	**-**	**(184,725)**	**-**	**(184,725)**
Balance – September 30, 2014	**37,775,384**	**(1,607,040)**	**(14,143,130)**	**1,177,119**	**23,202,333**
Balance – January 1, 2013	26,831,929	(1,607,040)	(12,666,775)	919,852	13,477,966
Share based compensation – stock options *(Note 10)*	-	-	-	100,134	100,134
Comprehensive income	-	-	239,997	-	239,997
Balance – September 30, 2013	26,831,929	(1,607,040)	(12,426,778)	1,019,986	13,818,097

See accompanying notes to the interim financial statements.

Hawk Exploration Ltd.
Interim Statement of Cash Flows (Unaudited)
(Expressed in Canadian dollars)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Cash flow provided by (used in) operating activities				
Comprehensive income (loss)	**$ 131,927**	$ 67,021	**$ (184,725)**	$ 239,997
Adjustments for:				
Depletion, depreciation and amortization *(Note 6)*	**1,101,376**	963,852	**3,300,886**	2,818,154
Impairment expense	**-**	293,798	**-**	293,798
Accretion of decommissioning liability *(Note 9)*	**14,242**	99,082	**43,239**	110,877
Accretion of Class B Share liability *(Note 11)*	**89,605**	243,067	**598,136**	704,082
Deferred income tax expense *(Note 8)*	**53,262**	159,591	**142,364**	346,698
Exploration and evaluation *(Note 5)*	**901,759**	118,379	**1,795,003**	129,016
Unrealized (gain) loss on commodity contract *(Note 13)*	**(488,550)**	295,278	**(247,010)**	373,581
Share based compensation *(Note 10)*	**44,670**	8,764	**108,349**	49,534
Gain on property acquisition *(Note 4)*	**(116,208)**	-	**(116,208)**	-
Decommissioning expenditures *(Note 9)*	**-**	(143,360)	**-**	(143,360)
Cash flow from operations	**1,732,083**	2,105,472	**5,440,034**	4,922,377
Net change in non-cash working capital *(Note 17)*	**560,474**	1,736,811	**(265,129)**	(593,246)
Net cash provided by operating activities	**2,292,557**	3,842,283	**5,174,905**	4,329,131
Cash flow provided by financing activities				
Proceeds from bank indebtedness	**200,000**	(500,000)	**2,000,000**	1,550,000
Proceeds from exercise of stock options *(Note 10)*	**17,500**	-	**52,500**	-
Share issues costs on conversion of Class B shares	**(11,300)**	**-**	**(11,300)**	**-**
Net cash provided by financing activities	**206,200**	(500,000)	**2,041,200**	1,550,000
Cash flow used in investing activities				
Exploration and evaluation expenditures *(Note 5)*	**(820,302)**	(262,957)	**(2,208,153)**	(684,731)
Expenditures on property, plant and equipment *(Note 6)*	**(1,678,455)**	(3,079,326)	**(5,007,952)**	(5,194,400)
Net cash used in investing activities	**(2,498,757)**	(3,342,283)	**(7,216,105)**	(5,879,131)
Net increase in cash and cash equivalents	**$ -**	$ -	**-**	-
Cash, beginning of period	**-**	-	**-**	-
Cash, end of period	**$ -**	$ -	**$ -**	$ -
Supplemental cash flow information:				
Interest paid	**$ 76,979**	$ 67,602	**$ 206,075**	$ 133,286

See accompanying notes to the interim 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 and Class B Shares of the Corporation are listed on the TSX Venture Exchange. All amounts included are stated in Canadian dollars, unless otherwise indicated.

NOTE 2. BASIS OF PRESENTATION

The condensed interim financial statements were authorized for issue in accordance with a resolution of the Board of Directors made on November 25, 2014.

The Corporation prepares its condensed interim financial statements in accordance with International Financial Reporting Standards "(IFRS)" as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. Certain disclosures included in the notes to the annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the IASB.
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NOTE 3. SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS

These condensed interim financial statements follow the same accounting policies and methods of application as the annual financial statements for the year ended December 31, 2013 with the exception of deferred taxes and the newly adopted accounting policies as outlined below. Taxes in the interim periods are accrued using the tax rate that would be applicable to the expected total annual profit or loss.

Effective January 1, 2014, the Corporation adopted the amended IAS 32 – Financial Instruments and IFRIC 21 – Accounting for Levies. The adoption of these accounting policies had no impact on the Corporation's condensed interim financial statements.

Future Accounting Pronouncements

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

NOTE 4. 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 holding 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.

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.

(Expressed in Canadian dollars, unless otherwise indicated)

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

In consideration for the net assets acquired from Trihawk, the Corporation granted 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 6.).

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 is recognized directly in comprehensive income (loss).

The results of operation from the Acquisition have been included in the Corporation's statement of comprehensive income (loss) for the period ended September 30, 2014. The Acquisition has provided revenue of $38,000 and net income of $14,200 since August 29, 2014.

NOTE 5. EXPLORATION AND EVALUATION

	Nine months ended September 30, 2014	**Year ended December 31, 2013**
Balance, beginning of period	**$ 2,716,521**	$ 3,337,288
Cash additions	**2,208,153**	1,433,538
Capitalized share based compensation	**66,236**	43,867
Dispositions	**-**	(220,000)
Transfer to property, plant and equipment	**(675,724)**	(260,785)
Exploration and evaluation expense	**(1,795,003)**	(1,617,387)
Balance, end of period	**$ 2,520,183**	$ 2,716,521

For the three and nine months ended September 30, 2014, the Corporation capitalized $123,750 and $371,250, respectively (2013 - $112,500 and $337,500, respectively) of general and administration expenses directly attributable to exploration activities. For the three and nine months ended September 30, 2014, the Corporation capitalized $27,162 and $66,236, respectively (2013 – $6,348 and $38,079, respectively) of share based compensation expense directly attributable to exploration activities.

The Corporation determined certain exploration and evaluation costs to be unsuccessful and not recoverable. Accordingly, $901,759 and $1,795,003 (2013 - $118,379 and $129,016, respectively) in capitalized costs was recognized as exploration and evaluation expense for the three and nine months ended September 30, 2014. The majority of the exploration expense for the three months ended September 30, 2014 pertained to seismic costs incurred in the Forest Bank area of western Saskatchewan and land, seismic and drilling costs related to an unsuccessful well in the Provost area of Alberta

For the nine months ended September 30, 2014, the Corporation determined certain properties were commercially viable and accordingly $675,724 of accumulated exploration and evaluation costs were transferred to property, plant and equipment. During 2013, the Corporation determined certain properties were commercially viable and accordingly $260,785 of accumulated exploration and evaluation costs were transferred to property, plant and equipment.

(Expressed in Canadian dollars, unless otherwise indicated)

NOTE 6. 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	**4,919,308**	**88,644**	**5,007,952**
Capitalized share based compensation	**21,267**	**-**	**21,267**
Transfers from exploration and evaluation	**675,724**	**-**	**675,724**
Acquisition of assets *(Note 4)*	**1,141,713**	**-**	**1,141,713**
GORR consideration on asset acquisition *(Note 4)*	**(906,078)**	**-**	**(906,078)**
Changes in decommissioning provision	**486,131**	**-**	**486,131**
Balance September 30, 2014	**60,515,290**	**476,021**	**60,991,311**
Accumulated Depletion, Depreciation and Impairments			
At January 1, 2014	**24,849,824**	**213,177**	**25,063,001**
Depletion, depreciation and amortization	**3,250,376**	**50,510**	**3,300,886**
Balance September 30, 2014	**28,100,200**	**263,687**	**28,363,887**
Carrying amount as at September 30, 2014	**32,415,090**	**212,334**	**32,627,424**

	Petroleum and natural gas properties	Office equipment and other	Total
	$	$	$
Cost			
At January 1, 2013	45,042,676	301,974	45,344,650
Cash additions	7,685,017	85,403	7,770,420
Capitalized share based compensation	14,637	-	14,637
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 three and nine months ended September 30, 2014, Hawk capitalized $41,250 and $123,750, respectively (2013 - $37,500 and $112,500, respectively) of general and administrative costs. For the three and nine months ended September 30, 2014, the Corporation capitalized $8,357 and $21,267, respectively (2013 - $2,116 and $12,521, respectively) of share based compensation expense.

At September 30, 2014, $2,566,000 (September 30, 2013 - $2,863,000) of future development cost was included in costs subject to depletion and depreciation. At December 31, 2013, $2,566,000 of future development cost was included in costs subject to depletion and depreciation.

(Expressed in Canadian dollars, unless otherwise indicated)

NOTE 7. BANK INDEBTEDNESS

At September 30, 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.

At September 30, 2014, Hawk had $6.9 million of bank debt outstanding (December 31, 2013 – $4.9 million and September 30, 2013 - $3.25 million). At September 30, 2014, the Corporation was in compliance with all covenants contained in the Credit Facility (see Note 13).

NOTE 8. 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 25.5 percent (2013 – 25 percent) to income before income taxes as follows:

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Income (loss) before income taxes	**$ 185,189**	$ 226,612	**$ (42,361)**	$ 586,695
Tax rate	**25.5%**	25%	**25.5%**	25%
Expected tax expense (recovery)	**47,324**	56,653	**(10,815)**	146,674
Adjustment resulting from:				
Non-deductible share-based payments	**11,391**	2,191	**27,661**	12,384
Accretion of convertible Class B share liability	**22,774**	60,767	**152,704**	176,021
Gain on asset acquisition	**(29,693)**	-	**(29,693)**	
Other	**1,466**	39,980	**2,507**	11,619
Deferred income tax expense (recovery)	**$ 53,262**	$ 159,591	**$ 142,364**	$ 346,698

NOTE 9. DECOMMISSIONING LIABILITY

The total future asset retirement obligation 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 $3.1 million (December 31, 2013 - $2.7 million) which will be incurred over the next 13 years with the majority of costs incurred between 2016 and 2026. A nominal risk free interest rate of 2.0 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.

(Expressed in Canadian dollars, unless otherwise indicated)

Changes to the liability were as follows:

	Nine months ended September 30, 2014	Year ended December 31, 2013
Asset retirement obligation, beginning of period	**$ 2,475,802**	$ 1,339,970
Liabilities incurred	**301,759**	366,829
Liabilities assumed on acquisition	**79,588**	-
Change in estimated future cash outflows	**37,190**	887,101
Change in discount rate	**147,182**	(58,428)
Accretion	**43,239**	42,672
Disposition	-	(21,951)
Liabilities settled	-	(80,391)
Asset retirement obligation, end of period	**$ 3,084,760**	$ 2,475,802

NOTE 10. SHARE CAPITAL

(a) Authorized

Unlimited number of voting Class A shares and voting Class B shares

Unlimited number of preferred shares, issuable in series

(b) Issued and outstanding

	Number of Shares	Amount
Class A shares		
Opening balance at January 1, 2013	34,480,953	$ 26,831,929
Issue of Class A common shares on exercise of stock options	125,000	68,119
Balance at December 31, 2013	34,605,953	$ 26,900,048
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 September 30, 2014	**45,575,952**	**$ 37,775,384**

(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. 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.

(Expressed in Canadian dollars, unless otherwise indicated)

The following table sets forth the changes in the stock options outstanding for the period ended September 30, 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	$0.30	1,331,667
Stock options outstanding at January 1, 2014	2,285,000	$0.30	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 September 30, 2014	**4,526,500**	**$0.36**	**1,615,000**

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.

The following table sets forth information about the stock options outstanding at September 30, 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	7.6	$0.25	860,000	$0.25
$0.35	755,000	4.7	$0.35	755,000	$0.35
$0.41	1,455,000	9.9	$0.41	-	-
$0.42	1,026,500	9.3	$0.42	-	-
$0.36	4,526,500	8.2	$0.36	1,615,000	$0.30

(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:

	September 30, 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	$0.26	-

Share based compensation expense is amortized over the vesting period of each tranche of options granted. For the three and nine months ended September 30, 2014, share based compensation expense totaled $44,670 and $108,349, respectively (2013 - $8,764 and $49,534, respectively). Hawk also capitalized $35,519 and $87,503, respectively (2013 - $8,464 and $50,600, respectively) of share based compensation for the three and nine months ended September 30, 2014.

(Expressed in Canadian dollars, unless otherwise indicated)

(e) Contributed Surplus

	September 30, 2014	December 31, 2013
Contributed surplus, beginning of period	**$ 1,012,516**	$ 919,852
Share based compensation expense	**108,349**	57,969
Share based compensation capitalized	**87,503**	59,064
Exercise of stock options	**(31,249)**	(24,369)
Contributed surplus, end of period	**$ 1,177,119**	$ 1,012,516

(f) Per share amounts

The weighted average basic number of Class A Shares outstanding for the three and nine months ended September 30, 2014 was 41,923,778 and 37,098,578, respectively (2013 – 34,480,953 for both periods). For the three and nine months ended September 30, 2014, the fully diluted number of Class A Shares outstanding was 45,450,278 and 41,625,078, respectively and includes the diluted effect of 4,526,500 stock options. For both the three and nine months ended September 30, 2013, the fully diluted number of Class A shares outstanding was 36,920,953 which included the dilutive effect of 2,440,000 stock options, but excluded the effect of the conversion of the Class B shares.

NOTE 11. 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:

	September 30, 2014	December 31, 2013
Balance, beginning of period	**$ 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 period	**$ -**	$ 10,201,864

NOTE 12. FINANCE EXPENSE

	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Finance expense:				
Interest and fees on revolving credit facility	**$ 76,979**	$ 45,806	**$ 206,075**	$ 131,119
Accretion of decommissioning liability *(Note 8)*	**14,242**	99,082	**43,239**	110,877
Accretion of convertible Class B share liability *(Note10)*	**89,605**	243,067	**598,136**	704,082
Finance expense	**$ 180,826**	$ 387,955	**$ 847,450**	$ 946,078

(Expressed in Canadian dollars, unless otherwise indicated)

NOTE 13. 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, commodity price contracts and convertible Class B share liability. The fair value equals the carrying value for all financial instruments except for the convertible Class B share liability, due to their short term nature.

The carrying value of these financial assets and liabilities is summarized as follows:

	September 30, 2014	December 31, 2013
Assets		
Trade and other receivables	**$ 1,704,958**	$ 1,496,809
Commodity price contracts	**2,195**	-
Liabilities		
Trade and other payables	**$ 4,255,225**	$ 4,290,371
Bank indebtedness	**6,900,000**	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. The fair value measurement of the commodity price contracts has a fair value hierarchy of Level 2.

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.

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 three and nine months ended September 30, 2014 (2013 - $nil).

(Expressed in Canadian dollars, unless otherwise indicated)

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

	September 30, 2014	**December 31, 2013**
Revenue receivable from marketers	**$ 1,516,288**	$ 1,281,732
Joint venture receivables	**176,734**	118,839
GST receivable	**1,833**	51,148
Cash call paid	**10,103**	45,090
	$ 1,704,958	$ 1,496,809

At September 30, 2014, the Corporation had $56,647 (December 31, 2013 - $40,000) of receivables that were considered past due from joint venture partners. The Corporation's most significant customer, a Canadian oil marketer, accounts for $1,363,747 of the trade and other receivables at September 30, 2014 (December 31, 2013 - $1,270,283). The Corporation's most significant joint venture partner, a Canadian public oil and gas company, accounts for $152,303 of the trade and other receivables at September 30, 2014 (December 31, 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 undrawn credit facility. The Company had no defaults or breaches on its bank debt or any of its financial liabilities.

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 September 30, 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	($5,825)
Financial	Crude Oil	100 Bbl/d	$21.80 Fixed price swap	WCS differential $Cdn	April 2014 to Dec 2014	($49,595)
Financial	Crude Oil	100 Bbl/d	$100.25 Fixed price swap	WTI – Nymex $Cdn	July 2014 to Dec 2014	($14,954)
Financial	Crude Oil	100 Bbl/d	$104.20 Fixed price swap	WTI – Nymex $Cdn	Jan 2015 to June 2015	$84,792
Financial	Crude Oil	100 Bbl/d	$21.25 Fixed price swap	WCS differential $Cdn	Jan 2015 to June 2015	($12,223)
Total fair value						$2,195

The fair value of the above contracts as at September 30, 2014 was an asset of $2,195 (December 31, 2013 – liability of $244,815) which has been classified as a current asset in the statement of financial position.

The table sets forth the realized and unrealized gains and losses on the Corporation's commodity contracts as follows:

	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Realized gain (loss) on commodity contracts	**$ (116,838)**	$ (206,787)	**$ (633,422)**	$ (210,649)
Unrealized gain (loss) on commodity contracts	**488,550**	(295,279)	**247,010**	(373,581)
Total gain (loss) on commodity contracts	**$ 371,712**	$ (502,066)	**$ (386,412)**	($584,230)

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 three and nine months ended September 30, 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 three and nine months ended September 30, 2014.

NOTE 14. 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 September 30, 2014, the Corporation had $6.9 million drawn (December 31, 2013 - $4.9 million) on its credit facility, and had a working capital deficit of approximately $2.5 million (December 31, 2013 - $2.7 million) comprised of:

	September 30, 2014	December 31, 2013
Current assets (excluding unrealized gain on commodity contracts)	**$ 1,794,684**	$ 1,564,701
Current liabilities (excluding bank debt and unrealized loss on commodity contracts)	**(4,255,225)**	(4,290,371)
Working capital deficit [(1)]	**$ (2,460,541)**	$ (2,725,670)

(Expressed in Canadian dollars, unless otherwise indicated)

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

	September 30, 2014	December 31, 2013
Bank debt	**$ 6,900,000**	$ 4,900,000
Working capital deficit [(1)]	**2,460,541**	2,725,670
Net debt	**$ 9,360,541**	$ 7,625,670
Annualized cash flow from operations [(2)]	**$ 7,253,379**	$ 6,220,836
Net debt to annualized cash flow from operations ratio	**1.3**	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 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 interim statement of cash flow on page 5 of $5,440,034. This amount is annualized by multiplying $5,440,034 by one and a third (1.333).

As at September 30, 2014, the Corporation's ratio of net debt to annualized funds flow from operations of 1.3 times (December 31, 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 September 30, 2014, the Company had a working capital ratio of 2:1 (December 31, 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.

NOTE 15. 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 three and nine months ended September 30, 2014, the Corporation expensed $20,672 and $62,016, respectively (2013 - $20,672 and $62,016, respectively) pertaining to office lease costs.

The Corporation had a farm-in agreement with Trihawk, a company owned by certain members of management of Hawk. Under the terms of the farm-in agreement, Hawk had 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 three and nine months ended September 30, 2014, $45,602 and $132,693, respectively (2013 - $14,819 and $34,896, respectively) of gross overriding royalties due to Trihawk under the terms of the farm-in agreement has been included in the statement of operations. At September 30, 2014, $29,616 (2013 - $8,954) 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 three and nine months ended September 30, 2014 were $24,288 and $36,380, respectively (2013 - $2,953 and $24,385, respectively) relating to legal services. At September 30, 2014, accounts payable included $34,427 (2013 - $1,201) related to these legal services. These legal services were provided in the normal course of operations.

Refer to Note 4 – Asset Acquisition, for the related party acquisition of assets from Trihawk.

(Expressed in Canadian dollars, unless otherwise indicated)

NOTE 16. COMMITMENTS

Under the office lease agreement as described in Note 14, the Corporation is committed to minimum annual lease payments as follows:

2014	$ 20,842
2015	$ 7,023

The Corporation has entered into certain farm-in agreements with third parties to earn working interests in additional prospective acreage. At September 30, 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 2014 and 2015.

NOTE 17. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Changes in non-cash working capital:				
Trade and other receivables	**$ 244,527**	$ (146,270)	**$ (208,149)**	$ (187,790)
Prepaid expenses	**(22,645)**	(34,971)	**(21,834)**	8,548
Trade and other payables	**338,592**	1,918,052	**(35,146)**	(414,004)
	$ **560,474**	1,736,811	**$ (265,129)**	$ (593,246)