



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended
December 31, 2015

Report Date – April 29, 2016

HILLCREST PETROLEUM LTD.

Management's Discussion & Analysis
For the Year Ended December 31, 2015

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is provided by the management of Hillcrest Petroleum Ltd. ("Hillcrest" or the "Company") as at and for the year ended December 31, 2015. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2015 (the "Annual Financial Statements"). All amounts are in Canadian dollars unless otherwise specified.

Additional information relating to the Company, including the Annual Financial Statements are available on the Hillcrest website at www.hillcrestpetroleum.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

CORPORATE OVERVIEW

Hillcrest was originally incorporated under the Company Act (British Columbia) on May 2, 2006 under the name Shanghai Creek Minerals Ltd. and on May 28, 2007 the Company changed its name to Hillcrest Resources Ltd. The Company listed its common shares for trading on the TSX Venture Exchange (the "Exchange") and commenced trading under the symbol "HRH" on March 22, 2011. On March 11, 2015, the Company changed its name to Hillcrest Petroleum Ltd.

Effective November 18, 2015, the Company commenced trading on the OTCQB stock exchange in the United States of America ("US") under the symbol "HLRTF". This new listing has expanded Hillcrest's corporate exposure and enables US investors to more easily acquire an ownership interest in the Company.

The Company is in the business of acquiring and developing exploration and production interests in oil and gas projects in the US. Management and consultants of the Company have extensive experience in oil and gas exploration, development and production and have the capability to expand the scope of the Company's activities as appropriate opportunities arise. Since incorporation, the Company has successfully drilled and acquired producing well interests in Texas and in the Gulf of Mexico, within the shallow federal water "shelf" region offshore Louisiana (Refer to "Oil and Gas Properties" section).

OIL AND GAS PROPERTIES

Hillcrest currently has working interests in the following oil and gas properties:

a) Gulf of Mexico Properties

With an effective date of December 19, 2014, The Company completed the purchase of Gulfsands Petroleum USA Inc. ("GPUSA") for gross proceeds of US\$50,000. GPUSA was subsequently renamed Hillcrest GOM Inc. ("HGOM"), and is now a wholly owned subsidiary of Hillcrest.

Hillcrest, through its wholly owned subsidiary HGOM, owns a portfolio of non-operated oil & gas properties in the Gulf of Mexico, within the shallow federal water "shelf" region offshore Louisiana. These properties comprise 7 leases containing 5 producing fields. Working interests in these leases range from approximately 4% to 26%. With the acquisition, the Company assumed its share of the Asset Retirement Obligations ("ARO") for the existing facilities and wells. The timing of ARO expenditures ranges within the next year to longer term (up to 20 years), with the majority occurring at the end of productive field life.

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OIL AND GAS PROPERTIES (continued)

a) Gulf of Mexico Properties (continued)

The fields are relatively mature, although additional infield drilling and recompletion opportunities have been identified in the Eugene Island 32 Field. Additional exploration potential also exists in the largely undrilled deeper section in some of the leases.

Eugene Island 32

The majority of the Hillcrest oil production from the Gulf of Mexico properties is sourced from the Eugene Island 32 Field. Production is from Lower Pliocene and Upper Miocene aged conventional sandstone reservoirs contained within a large, faulted anticline structure. There are multiple proven reservoirs within the field area, occurring at vertical drilling depths of approximately 6,000 to 11,000 feet. Water depth at the Eugene Island Field 32 is approximately 10-12 feet. The Company owns a 26.3% Working Interest in the Eugene Island 32 Field.

The Company attributes significant value to Eugene Island 32 Field reserves, in Proved Developed Producing ("PDP") and Proved Developed Non-Producing ("PDNP" or "behind pipe" reserves within existing well-bores) as well as Proved Undeveloped ("PUD" or un-drilled infield locations) reserves categories. The Company is working with other Joint Venture parties on field activity plans to deliver maximum additional value to the organization from its currently non-producing reserves.

Other Producing Fields

Hillcrest also produces relatively small volumes of oil and gas from the Ship Shoal 271 Field, the West Cameron 310 Field, the West Cameron 498 Field and the West Delta 64 Field. The Company owns between a 4.1% and a 26.3% Working Interest in these Other Producing Fields.

All disclosure of scientific or technical information on the Company's Gulf of Mexico oil and gas property reserves contained in this MD&A is based on information prepared by or under the supervision of the Company's Independent Qualified Reserves Evaluators, Netherland, Sewell and Associates, Inc. The Company filed its most recent annual 51-101F2 Report on Reserves Data as at December 31, 2015 on SEDAR on April 26, 2016.

b) Hartburg Property, Texas

By agreement dated December 8, 2009, the Company entered into an Assignment and Assumption Agreement for the assignment of a 60% working interest in certain oil and gas leases known as the Hartburg Project in Newton County, Texas. In consideration the Company paid a lump sum of \$117,040 (US\$111,266). The Company is responsible for its proportionate share of all future costs of the development of the property.

On March 27, 2009, Barry Lasker ("Lasker") and Delta Oil and Gas, Inc. ("Delta") entered into an exploration agreement (the "Exploration Agreement"). Pursuant to the terms of the Exploration Agreement, Lasker agreed to identify and secure leases which would subsequently be assigned to Delta and pursuant to the terms of such agreement, Delta agreed to pay 100% of the lease acquisition costs and operating costs of up to three wells. In exchange for Lasker's performance under the Exploration Agreement, Lasker obtained a 10% carried interest in the first target well, Donner #1, and a 20% carried interest in the second and third target wells, Prospect 1 (Donner #2) and Prospect 2 (Donner #4), respectively, until payout in each of the wells. Upon payout, Lasker's carried interest converted to a 50% working interest in Donner #1 and a 40% working interest in each of Prospect 1 and Prospect 2.

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OIL AND GAS PROPERTIES (continued)

b) **Hartburg Property, Texas** (continued)

In August 2009, Donald Currie in his personal capacity and not in his capacity as an officer or director of the Company, entered into an oral agreement with Lasker which is evidenced by a written agreement dated January 10, 2010 to acquire 50% of all of Lasker's right, title and interest in and to the Exploration Agreement.

On December 30, 2010, Delta entered into an agreement (the "HRI Assignment") with the Company to assign 60% of all of Delta's right, title and interest in and to the Exploration Agreement.

During 2014, both the Donner 4 well and the Brown 1 well were completed and placed into production.

A total of 4 wells have been completed on the Hartburg Property with the following working interests to the Company:

Well	Working Interest
Donner #1	30.00%
Donner #2	48.00%
Donner #4 *	48.00%
Brown #1 *	90.00%

* Subject to an 8% overriding royalty that has been granted to a group of lenders as part of the consideration for a Loan Facility.

All disclosure of scientific or technical information on the Company's Hartburg oil and gas property reserves contained in this MD&A is based on information prepared by or under the supervision of the Company's Independent Qualified Reserves Evaluators, D. Braxton and Associates. The Company filed its most recent annual 51-101F2 Report on Reserves Data as of December 31, 2015 on SEDAR on April 26, 2016.

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SELECTED ANNUAL & QUARTERLY INFORMATION

Selected Annual Information

During the audit for the year ended December 31, 2015, an error was identified in the results reported for the 2014 fiscal year. Accordingly, the consolidated financial statements were restated as at and for the year ended December 31, 2014 to correct for errors identified in the acquisition of HGOM which occurred on December 19, 2014. The acquisition was determined to be a business combination under IFRS 3, and accordingly the Company was required to use the acquisition method. The Company has subsequently determined that certain assets and liabilities identified in the allocation of the purchase price did not accurately reflect their fair value at the acquisition date and the result was the overstatement of the abandonment reserve and the lack of recognition of a bargain purchase gain. The specific items and differences are outlined in the following purchase price allocation.

	Previously Reported Amount	Restated Amount
	(\$)	(\$)
Cash	487,741	487,741
Restricted cash	2,321,601	2,321,601
Accounts receivable	827,015	827,015
Prepaid expenses	213,177	213,177
Oil and gas properties	13,450,688	13,450,688
Equipment	4,824	4,824
Accounts payable and accrued liabilities	(3,040,683)	(3,040,683)
Abandonment reserve	(14,206,168)	(6,737,176)
Net identifiable assets acquired	58,195	7,527,187
Bargain purchase gain	-	(7,468,922)
Purchase consideration	58,195	58,195

HILLCREST PETROLEUM LTD.Management's Discussion & Analysis
For the Year Ended December 31, 2015**SELECTED ANNUAL & QUARTERLY INFORMATION** (continued)**Effect on Consolidated Statements of Financial Position**

	December 31, 2014		
	As Previously Reported	Correction of errors	As Restated
	(\$)	(\$)	(\$)
ASSETS			
Current assets			
Cash	619,317	-	619,317
Accounts receivable	480,890	-	480,890
GST receivable	12,004	-	12,004
Prepaid expenses	249,035	-	249,035
Restricted Cash	2,320,201	-	2,320,201
Total current assets	3,681,447	-	3,681,447
Non-current assets			
Deferred financing costs	63,792	-	63,792
Exploration and evaluation assets	1,417,260	-	1,417,260
Property and equipment	15,333,497	7,463,389	22,796,886
TOTAL ASSETS	20,495,996	7,463,389	27,959,385
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	3,015,457	-	3,015,457
Secured loan	1,000,000	-	1,000,000
Current portion of decommissioning liability	898,053	-	898,053
Unsecured loan	45,498	-	45,498
Total current liabilities	4,959,008	-	4,959,008
Decommissioning liability	13,418,575	-	13,418,575
TOTAL LIABILITIES	18,377,583	-	18,377,583
SHAREHOLDERS' EQUITY			
Share capital	5,707,184	-	5,707,184
Share subscription receivable	(46,000)	-	(46,000)
Contributed surplus	949,834	-	949,834
Reserves	(3,507)	-	(3,507)
Deficit	(4,489,098)	7,463,389	2,974,291
	2,118,413	7,463,389	9,581,802
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	20,495,996	7,463,389	27,959,385

HILLCREST PETROLEUM LTD.Management's Discussion & Analysis
For the Year Ended December 31, 2015**SELECTED ANNUAL & QUARTERLY INFORMATION** (continued)**Effect on Consolidated Statements Of Loss And Comprehensive Loss**

	Year Ended December 31, 2014		
	As Previously Reported	Correction of errors	As Restated
	(\$)		(\$)
Revenue, net of royalties	1,163,004	-	1,163,004
Expenses			
Operating costs	495,632	-	495,632
Financing expenses	196,196	11,797	207,993
Consulting fees	290,223	-	290,223
Debt issue cost	139,528	-	139,528
Depletion and depreciation	696,579	-	696,579
Office and general	422,249	-	422,249
Stock-based compensation	11,779	-	11,779
	2,252,186	11,797	2,263,983
Loss from operations	(1,089,182)	(11,797)	(1,100,979)
Bargain purchase gain	-	7,468,992	7,468,992
Interest Income	79	-	79
Overriding royalty interest on secured loan	(44,875)	-	(44,875)
Acquisition costs	(15,769)	-	(15,769)
Loss on disposal of oil and gas properties	(38,970)	-	(38,970)
Loss on disposal of exploration and evaluation assets	(3,350)	-	(3,350)
Foreign exchange gain	8,095	6,194	14,289
Loss for the year	(1,183,972)	7,463,389	6,279,417
Item that may be subsequently reclassified to net loss			
Exchange differences on translating foreign operations	(34,127)	-	(34,127)
Comprehensive loss for the year	(1,218,099)	7,463,389	6,245,290
Basic and diluted earnings (loss) per share	(0.03)		0.16
Weighted average common shares outstanding:			
Basic	39,657,025		39,657,025
Diluted	39,657,025		39,905,619

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SELECTED ANNUAL & QUARTERLY INFORMATION (continued)

Effect on Consolidated Statements of Changes in Shareholders' Equity

The impact on opening deficit at January 1, 2015 reflects the impact on net loss for the year ended December 31, 2014 of \$7,463,389 arising from the gain on bargain purchase of HGOM, net of the increased accretion expense.

Effect on Consolidated Statements of Cash Flows

The restatement did not affect the cash flows used in operating activities and investing activities, or cash flows provided by financing activities, in the Company's consolidated statements of cash flows.

Selected annual information for the years ended December 31, 2015, 2014 and 2013 is presented below:

	2015	2014	2013
		(Restated)	
	(\$)	(\$)	(\$)
Total assets	15,208,251	27,959,385	4,014,585
Total liabilities	19,165,727	18,377,583	1,169,960
Shareholders' equity (deficiency)	(3,957,476)	9,581,802	2,844,625
Revenue	3,925,785	1,163,004	677,435
Impairment of exploration and evaluation assets	826,501	-	-
Impairment of oil and gas properties	7,790,717	-	-
Expenses	9,295,362	2,263,983	1,306,211
EBITDA¹	(2,349,144)	7,368,392	(233,055)
Net income (loss)	(14,702,523)	6,245,290	(684,192)
Earnings (loss) per share	(0.29)	0.16	(0.02)

¹ Refer to Non-IFRS Financial Measures

Note – The increase in total assets, liabilities, revenue and expenses for the year ended December 31, 2014, was due to the acquisition of HGOM on December 19, 2014.

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SELECTED ANNUAL & QUARTERLY INFORMATION (continued)

Selected Quarterly Information

The table below summarized information reported for the most recent eight quarterly periods:

	December 31, 2015	September 30, 2015 (Restated)	June 30, 2015 (Restated)	March 31, 2015 (Restated)
	(\$)	(\$)	(\$)	(\$)
Total assets	15,208,251	23,746,172	22,910,027	24,552,452
Total liabilities	19,165,727	21,771,923	18,957,554	18,655,110
Revenues	712,630	993,644	1,241,813	977,698
Net income (loss)	(10,938,751)	(935,389)	(1,560,902)	(1,267,481)
Loss per share	(0.22)	(0.01)	(0.03)	(0.03)
Weighted average common shares outstanding	50,295,655	50,295,655	50,295,655	50,295,655

	December 31, 2014 (Restated)	September 30, 2014	June 30, 2014	March 31, 2014
	(\$)	(\$)	(\$)	(\$)
Total assets	27,959,385	3,736,059	3,900,169	3,812,162
Total liabilities	18,377,583	1,338,504	1,251,507	1,229,180
Revenues	304,216	268,316	461,239	129,233
Net income (loss)	6,743,466	(159,248)	(39,114)	(265,687)
Earnings (loss) per share	0.17	(0.00)	(0.00)	(0.01)
Weighted average common shares outstanding	39,901,633	39,634,589	39,598,128	39,570,655

Significant variations in the most recent eight quarters are discussed below:

- a) During the quarter ended September 30, 2015, the loss for the period decreased due to a re-estimation of depletion expense for the Eugene Island assets.
- b) During the quarter ended December 31, 2014, the total assets and total liabilities increased significantly due to the HGOM acquisition. In addition, the Company recorded a bargain purchase gain of \$7,468,992 as part of the acquisition.
- c) During the quarter ended September 30, 2013, the total liabilities increased by approximately \$1,000,000 due to the issuance of a \$1,000,000 secured loan.

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RESULTS OF OPERATIONS

Three Month Period Ended December 31, 2015

Revenues

The Company generated total revenue of \$712,630 during for the three month period ended December 31, 2015, an increase of \$408,414 (134%) over the same period in the prior year. The increase is a result of the additional revenue generated from the HGOM oil properties acquired in December 2014.

Costs and Expenses

The Company's operating expenses for the 3 month period ended December 31, 2015 increased by from \$996,962 in the prior year period to \$2,415,232.

The significant increase in expenses during this period is primarily attributable to the collective results of the following factors:

1. Operating costs relating to the production of oil and natural gas sales was \$817,426 (2014 - \$256,519) for the three month period ended December 31, 2015. The 319% increase in operating costs was primarily caused by additional costs related to the acquisition of the HGOM properties.
2. Office and general expenses increased to \$505,510 (2014 - \$190,384) for the three month period ended December 31, 2015 due to the inclusion of wages and benefits from the employees retained in the HGOM acquisition.

Year Ended December 31, 2015

Revenues

The Company generated total revenue of \$3,925,785 during for the year ended December 31, 2015 ("Current Year") which was an increase of 238% over the year ended December 31, 2014 ("Prior Year") revenue which totaled \$1,163,004. The increase is a result of the additional revenue generated from the newly acquired HGOM oil properties. The increase was tempered by a substantial decline in the oil price during the 2015 fiscal year.

Costs and Expenses

The Company incurred expenses in the amount of \$9,295,362 during the Current Year, representing an increase 311% over the Prior Year expenses of \$2,263,983.

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RESULTS OF OPERATIONS (continued)

The significant increase in expenses during the Current Year is primarily attributable to the collective results of the following factors:

1. Operating costs relating to the production of oil and natural gas sales increased by more than 500% in the Current Year primarily due to the acquisition of the HGOM properties which increased the Company's overall production from 69 to 271 boe per day.
2. Depletion and depreciation increased by more than 300% over the Prior Year. This increase was caused by the production from additional wells acquired in the HGOM transaction as well as additional wells that were drilled in the Hartburg project in 2014.
3. Consulting fees increased by 154% over the Prior Year. This increase was due to the engagement of additional consultants after the HGOM transaction and fees paid to management.
4. Office and general costs increased by 375% over the Prior Year. This was due to the addition of the Houston office and its employees which were retained after the HGOM transaction.

Other items

During the year ended December 31, 2015, the Company reviewed the carrying value of its oil and gas interests for impairment indicators. It was determined that the carrying values of the Donner 4 onshore oil well and the Eugene Island offshore oil field exceeded their recoverable amounts. Accordingly, the Company recorded an impairment of \$321,426 and \$7,468,704, respectively, for each CGU.

The recoverable amounts for both CGUs were based on their fair value less costs of disposal ("FVCLD"). To determine the FVCLD, the Company considered recent transactions within the industry, long-term views of commodity prices, externally evaluated reserve volumes and discount rates specific to the CGU. The discount rate applied to the onshore assets was 10% and the offshore assets was 17%.

The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates and commodity prices. A 1% increase (decrease) in the discount rate would have decreased (increased) the fair value estimate by \$584,534. In addition, a 10% increase (decrease) in the estimated future cash flows would have increased (decreased) the fair value estimate by \$1,953,523.

The following commodity price estimates were used in determining whether an impairment to the carrying value of the CGUs existed at December 31, 2015:

Year	WTI Cushing Oil Price US\$/BBL	Henry Hub Natural Gas Price US\$/MMBtu
2016	45.00	2.25
2017	60.00	3.00
2018	70.00	3.50
2019	80.00	4.00
2020	81.20	4.25
2021	82.42	4.31
2022	83.65	4.38
2023	84.91	4.44
2024	86.18	4.51
2025	87.48	4.58
Thereafter	esc 1.5%	esc 1.5%

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RESULTS OF OPERATIONS (continued)

Production Information

The table below shows the Company's net production data from all of its well interests:

	Year Ended December 31,		Change (%)
	2015	2014	
Crude oil (bbl)	63,604	6,859	827
Natural gas (Mcf)	35,429	109,826	(68)
Total boe ⁽¹⁾	99,033	25,163	294
Crude oil (bopd)	174	19	816
Natural gas (Mcfgpd)	583	301	94
Total boepd	271	69	293
Crude oil (%)	64	28	129
Natural gas (%)	36	72	(50)
Total (%)	100	100	

¹ Refer to Non-IFRS Financial Measures

The total boe produced during the year ended December 31, 2015 increased by more than 294% over the same period in the prior year due to the HGOM assets that were acquired in December 2014.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital deficiency of \$6,602,537 as at December 31, 2015, compared to \$1,277,561 as at December 31, 2014. The decrease in working capital was caused by a net cash outflow from operations in a poor commodity price environment.

On September 9, 2014, the Company amended the senior secured loan terms such that if the principal payments were not paid on their due dates, then the Company would pay the contracted rate of 15% interest on the remaining principal balance plus an additional \$4,000 until the loan payments are caught up. The overriding royalty interest will be increased from 8% to 10% of the Net Revenue Interest received by the Company on its Brown #1 and Donner #4 wells until such time as the loan is caught up or retired. Furthermore, the Parties have agreed that as a minimum monthly principal payment the revenue received from all producing wells in Newton County, less any Joint Interest Billings and any other costs associated with the operation of these wells each month, will be paid to the Lenders until the Company has paid all past outstanding principal payments. The loan matured on July 18, 2015 without being fully repaid, but the lender has orally agreed to extend the loan under the existing repayment terms noted above. The Company continues to investigate ways to repay the loan including, but not limited to, the sale of the Hartburg asset and third party debt refinancing. Effective January 1, 2016, the Company further amended the interest payable on the secured loan to eliminate the \$4,000 monthly bonus payment in exchange for increasing the contracted rate from 15% to 20%.

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LIQUIDITY AND CAPITAL RESOURCES (continued)

Included in accounts payable and accrued liabilities as at December 31, 2015 is a provision for repair of a drilling rig and offshore platform totaling \$1,732,938 (December 31, 2014 - \$1,450,125). This amount has been accrued for costs and expenses related to a certain property in the Gulf of Mexico for which the operator has billed but are disputed by the Company as the expenditures were incurred without the consent of the working interest partners. The Company is currently in settlement discussions with the operator and the insurance carrier to resolve the disputed charges and does not expect to be responsible for the full amount.

The revenue currently generated from natural gas and oil sales does not exceed the Company's operating expenses. As a result, management anticipates that the current cash on hand may not be sufficient to fund continued operations at the current level for the next twelve months. The Company will also require additional funds to complete well activities on existing wells, perform re-completions and to drill additional wells on the Hartburg and HGOM properties and to acquire and develop additional oil and natural gas assets to implement the Company's overall growth strategy. Management has successfully utilized both debt and equity financing in the past, but there is no assurance that such funding will be available in the future or if it is that it will be on terms that are acceptable. If the Company is unable to obtain additional financing, it will experience liquidity problems and management expects that it will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures. Any additional equity financing may involve substantial dilution.

The Company incurred a loss for the year of \$14,702,523 and had a working capital deficiency of \$6,602,537 during and as at the year ended December 31, 2015. The Company's ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent on the continued financial support of the creditors and the shareholders and ultimately, the attainment of profitable operations. There is no certainty that the Company will continue to produce revenue due to the inherent production risks associated with the oil and natural gas industry. In the past, the Company has relied on sales of equity securities, debt instruments and asset sales to meet its cash requirements. There can be no assurance that funding from this or other sources will be sufficient in the future to satisfy operational requirements and cash commitments. Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to it. Failure to obtain such financing on a timely basis could cause the Company to reduce or terminate its operations. Due to the conditions and events as noted above, there is material uncertainty casting significant doubt on the Company's ability to continue as a going concern.

OFF-BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet debt nor did it have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may have material current or future effect on financial conditions, changes in the financial conditions, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses.

OUTSTANDING SHARE DATA

There were no common shares issued during the year ended December 31, 2015.

The total number of common shares outstanding as of the Report Date was 50,295,655.

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SHARE PURCHASE WARRANTS

There was a total of 5,312,500 share purchase warrants outstanding as at the Report Date. They are exercisable at \$0.08 per share until December 30, 2016.

STOCK OPTIONS

The total number of stock options outstanding as of the Report Date are summarized below:

Number of Options	Exercise Price (\$)	Expiry Date
1,550,000	0.06	September 9, 2018
500,000	0.06	November 26, 2018
2,050,000	0.06	

OUTLOOK

Hillcrest Petroleum Ltd. is focused on adding, creating and increasing value through the acquisition, development and production of conventional oil and gas assets in North America. The Company intends to substantially increase its net production through in-field opportunities in its Gulf of Mexico assets and through selective, value accretive acquisitions. The Company's intention is to operate or, at minimum, to hold a controlling working interest, in any significant growth assets acquired, so as to be able to direct operation activity to maximize Company value.

SUBSEQUENT EVENTS

The following material events occurred subsequent to the end of the year:

- a) the Company amended the terms of the secured loan to eliminate the \$4,000 monthly bonus interest payment in exchange for increasing the stated interest rate from 15% to 20%, effective January 1, 2016;
- b) a total of 650,000 stock options expired unexercised; and
- c) a total of 853,111 share purchase warrants expired unexercised.
- d) the Company borrowed an additional \$10,000 under the unsecured line of credit, and issued 1,000,000 common shares to the lender as partial consideration for the loan.

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COMMITMENTS

- a) The Company entered into an office rental agreement in Houston, Texas on June 3, 2013, with a term of 50 months, terminating on July 31, 2017. The base rent payable under the lease is as follows:

Period	Annual Base Rent
	(US\$)
January 1, 2016 to July 31, 2016	57,728
August 1, 2016 to July 31, 2017	101,031
	158,259

In addition to the base rent, the Company's share of operating costs is estimated at approximately US\$5,300 per month.

- b) The Company entered into an office rental agreement in Vancouver, British Columbia on October 8, 2015, with a term of 24 months, terminating on November 30, 2017. The rent payable under the lease is as follows:

Period	Annual Base Rent
	(\\$)
January 1, 2016 to November 30, 2016	16,115
December 1, 2016 to July 31, 2017	18,250
	34,365

In addition to the base rent, the Company's share of operating costs is estimated at approximately \$1,217 per month.

- c) On February 12, 2015, the Company entered into an Installment Agreement with the United States Department of the Interior and through the Office of Natural Resources Revenue (ONRR) in connection with a civil penalty assessed for failure to timely file corrections to monthly reports for plant products sold during the period of 2007-2008. The Company agreed to pay the balance of civil penalties of US\$313,176 in 60 monthly installments of US\$5,220 beginning on March 12, 2015 (Note 6(a)).

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies used by Hillcrest are disclosed in note 3 to the December 31, 2015 audited annual consolidated financial statements. Preparing financial statements in accordance with IFRS requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position. There were no changes to Hillcrest's critical accounting estimates during the year ended December 31, 2015.

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RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the years ended December 31, 2015 and 2014:

	2015	2014
	(\$)	(\$)
Consulting fees paid or accrued to Tom Milne, a director of the Company	-	10,000

Key management compensation

	2015	2014
	(\$)	(\$)
Consulting fees paid or accrued to Michael Krzus, Executive Chairman of the Company	193,794	20,000
Consulting fees paid or accrued to the Don Currie, Chief Executive Officer ("CEO") of the Company	306,447	90,000
Professional and consulting fees paid or accrued to a corporation controlled by Sean McGrath, the Chief Financial Officer ("CFO") of the Company	98,075	-
Professional and consulting fees paid or accrued to two corporations controlled by Kulwant Sandher, former CFO of the Company	17,500	78,000
Salary and consulting fees paid or accrued to Jason Oden, Chief Operating Officer of the Company	310,187	42,056
	926,003	230,056

- a) As at December 31, 2015, a total of \$66,302 (2014 - \$10,618) was included in accounts payable and accrued liabilities owing to Don Currie, CEO of the Company, for consulting fees and reimbursable expenses.
- b) As at December 31, 2015, a total of \$50,602 (2014 - \$Nil) was included in accounts payable and accrued liabilities owing to a Michael Krzus, Executive Chairman of the Company, for consulting fees.
- c) As at December 31, 2015, a total of \$6,600 (2014 - \$Nil) was included in accounts payable and accrued liabilities owing to a corporation controlled by Sean McGrath, CFO of the Company, for consulting fees.

HILLCREST PETROLEUM LTD.

Management's Discussion & Analysis
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CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is dependent on external financing to fund its activities. In order to carry out planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate available or committed financial resources to complete such acquisitions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2015.

NEW ACCOUNTING STANDARDS AND PRONOUNCEMENTS

The following standards, amendments to standards and interpretations have been issued for annual periods beginning on or after January 1, 2018 but are not yet effective:

IFRS 9, Financial instruments

This standard was issued in November 2009 and covers the classification and measurement of financial assets as part of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income.

IFRS 15, Revenue from Contracts with Customers

This standard was issued in May 2014 and will be the new standard for the recognition of revenue, replacing IAS 18, Revenue. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The following standards, amendments to standards and interpretations have been issued for annual periods beginning on or after January 1, 2019 but are not yet effective:

IFRS 16, Leases

This standard was issued in January 2016 and specifies how an issuer will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has an insignificant value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Company has not yet assessed the potential impact of the application of these standards, nor determined whether it will adopt the standards early.

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FORWARD-LOOKING STATEMENTS

This MD&A, which contains certain forward-looking statements pertaining to, among other things: additional capital funding; the Company's ability to obtain such funding and the use thereof; the Company's ability to continue as a going concern; the completion of private placements and the use of proceeds thereof; the existence of reserves; oil production rates and recovery from drilling operations; commercial viability of drilled wells; additional drilling locations; storage and transportation of oil and costs thereof; the timing, method, cost and recovery from drilling operations; infrastructure development and the timing and effects thereof; the Company's next phase of capital expenditures; regulatory approvals and the Company's ability to obtain applicable permits; future operation, general and administrative expenditures and the anticipated impact of the reduction thereof; performance and financial results; capital expenditures; the release of restricted cash; the Company's working capital deficiency and capital requirements; the ability of the Company to satisfy the interest and principal owed to debt holders; estimates and assumptions made in accordance with IFRS requirements; and the Company's ability to generate shareholder value, is intended to provide readers with a reasonable basis for assessing the financial performance of the Company. The use of any of the words "believe", "expect", "estimate", "will", "should", "intend" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The estimates and assumptions of the Company contained in this MD&A, which may prove to be incorrect, include, but are not limited to: the general continuance of current or, where applicable, assumed industry conditions and the lack of any significant disruptions affecting operations, whether due to labour disruptions, supply disruptions, power disruptions, damage to equipment, adverse weather conditions or otherwise; the ability of the Company to obtain necessary permits; acquisition of lands; the Company's status as a going concern; costs and availability of equipment, labour, natural gas, fuel, oil, electricity, water and other key supplies; the accuracy of production data; the continuance of existing and, in certain circumstances, proposed tax and royalty regimes; the continuance of laws and regulations relating to environmental matters; the Company's ability to retain key employees and executives; assumptions relating to the costs of future wells; the accuracy of estimates of reserves volumes; the availability and timing of additional financing to fund the Company's capital and operating requirements as needed; and certain commodity price and other cost assumptions. Statements regarding future production, capital expenditures and development plans are subject to all of the risks and uncertainties normally incident to the exploration for and development and production of oil and gas that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These risks include, but are not limited to: inflation or lack of availability of goods and services; changes in commodity prices; unanticipated operating results or production declines; third party pipeline issues; environmental risks; drilling risks; financial markets; economic conditions; volatility in the debt and equity markets; regulatory changes; changes in tax or environmental laws or royalty rates; and certain other known and unknown risks listed under the section "Risks & Uncertainties" herein.

Although Hillcrest believes that the material factors, expectations and assumptions expressed in such forward-looking statements are reasonable based on information available to it on the date such statements were made, no assurances can be given as to future results, levels of activity and achievements and such statements are not guarantees of future performance.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

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NON-IFRS FINANCIAL MEASURES

This MD&A includes references to certain financial measures, as described below, which do not have standardized meanings prescribed by IFRS, however, as these measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors and they are measures that the Company uses to evaluate its performance. Investors are cautioned that these non-IFRS financial measures should not be construed as an alternative to the measures calculated in accordance with IFRS as, given their non-standardized meanings; they are unlikely to be comparable to similar measures presented by other issuers.

a) **BOE**

Boe means barrel of oil equivalent. Unless otherwise stated, all Boe conversions in the Company's Interim Financial Statements and this MD&A report are derived by converting natural gas to oil equivalent at a ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent. Boe may be misleading, particularly if used in isolation. A Boe conversion rate of 1 Boe : 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio of oil compared to natural gas based on currently prevailing prices is significantly different than the energy equivalency ratio of 1 Boe : 6 Mcf, utilizing a conversion ratio of 1 Boe : 6 Mcf may be misleading as an indication of value.

b) **EBITDA**

Earnings before Interest, Income Taxes, Depreciation and Amortization ("EBITDA") is used because it is a financial measure used by many investors to compare companies on the basis of operating results, asset value and the ability to incur and service debt. EBITDA is used because Hillcrest's net income (loss) alone does not give an accurate picture of its' cash-generating potential. Management believes that EBITDA is an important measure in evaluating performance and in determining whether to invest in Hillcrest.

(Note: The Company also includes non-cash impairment charges in its calculation of EBITDA.)

c) **Netback**

Netback is calculated on a dollar per boe basis as oil and gas sales, less royalties, operating and transportation expenses. Netback is used by management to measure operating results and to better analyze performance against prior periods.

RISKS & UNCERTAINTIES

The business and operations of the Company are subject to numerous risks, many of which are beyond the Company's control. The Company considers the risks set out below to be some of the most significant to current and potential investors in the Company, but readers are cautioned that the list is not exhaustive. If any of these risks materialize into actual events or circumstances, or any other additional risks or uncertainties which are material to the Company's business actually occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), and business and business prospects are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline and investors may lose all or part of their investment. The Company is engaged in the acquisition, exploration and development of oil and gas properties. Given the nature of the oil and gas business, the limited extent of the Company's assets and the present stage of exploration, the following risks, among others, should be considered.

HILLCREST PETROLEUM LTD.

Management's Discussion & Analysis
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RISKS & UNCERTAINTIES (continued)

Financing Risks and Dilution to Shareholders

The Company has limited financial resources and further exploration or acquisitions will be require additional funds to complete. There can be no assurance that the Company will be successful in its efforts to obtain adequate financing in the future or that such financing will be available on favourable terms or at all. It is likely such additional capital may be raised through the issuance of additional equity or other forms of capital such as debt or sale of assets which may result in dilution to the Company's existing shareholders.

Fluctuating Oil and Gas Prices

The economics of oil and gas exploration are affected by many factors beyond the Company's control, including commodity prices, supply and demand in the market and the cost of operations. Depending on the price of commodities, the Company may determine that it is impractical to continue exploration. Any material decline in prices may result in the reduction of existing and potential profitable exploration and development activities as well as reducing the financing options available to the Company. Prices are prone to fluctuations and marketability is affected by government regulations relating to price, royalties and allowable production, the effect of which cannot be accurately predicted. There is no assurance that a profitable market will exist for the sale of any commodities found on the properties.

Exploration, Development and Operating Risks

Oil and gas exploration and development is highly speculative in nature and involves a high degree of risk. There is no assurance that expenditures made on future exploration and development by the Company will result in new discoveries of oil and gas in commercial quantities. The recovery of expenditures on oil and gas properties and the related deferred exploration expenditures are dependent on the ability of the Company to obtain financing necessary to complete the exploration and development of its projects, and upon future profitable production, or alternatively, on the sufficiency of proceeds from disposition. The long-term commercial success of the Company depends on its ability to acquire, develop and commercially produce oil and gas reserves. The Company is in the process of exploring its properties and determining the technical feasibility and economically recoverable reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Additionally, if such acquisitions and participation are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisition or participation uneconomic. Even if the Company is successful in locating satisfactory properties, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. The Company attempts to control operating risks by maintaining a disciplined approach to execution of its exploration and development programs. Exploration risks are managed by utilizing management experience and expertise along with technical professionals and by concentrating on the exploration activity on specific core regions that have multi-zone potential. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner. Additionally, oil and gas operations are subject to the usual risks involved in the acquisition, exploration, development and production of oil and gas properties, including whether any of the remaining projects contain economically recoverable reserves and are able to generate any revenues from production.

Competition

The oil and gas exploration and development industry is highly competitive. The Company will have to compete with other companies, many of which have greater financial, technical and other resources than the Company, for, among other things, the acquisition of leases and other interests as well as for the recruitment and retention of qualified employees and other personnel. Failure to compete successfully against other companies could have a material adverse effect on the Company and its prospects.

HILLCREST PETROLEUM LTD.

Management's Discussion & Analysis
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RISKS & UNCERTAINTIES (continued)

Environmental Risks

The Company's exploration and appraisal programs will, in general, be subject to approval by regulatory bodies. Additionally, all phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, state and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

Regulatory, Permit and License Requirements

The current or future operations of the Company require permits from various governmental authorities, and such operations are and will be governed by laws and regulations concerning exploration, development, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, site safety and other matters. Companies engaged in the exploration and development of oil and gas properties generally experience increased costs and delays in development and other schedules as a result of the need to comply with applicable laws, regulations and permits. Adverse changes to laws and regulations could have a material adverse effect on present and future exploration and development projects, operations, and capital expenditures. There can be no assurance that all permits which the Company may require for facilities and to conduct exploration and development operations on the properties will be obtainable on reasonable terms, or that such laws and regulations will not have an adverse effect on any exploration or development project which the Company might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in exploration and development operations may be required to compensate those suffering loss or damage by reason of the exploration and development activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of oil and gas companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or exploration and development costs, or require abandonment or delays in the development of new or existing properties.

Reliance on Management and Dependence on Key Personnel

The success of the Company will be largely dependent upon the performance of its directors and officers and on the Company's ability to attract and retain key personnel. The loss of the services of these persons may have a material adverse effect on the Company's business and prospects. The Company will compete with numerous other companies for the recruitment and retention of qualified employees and contractors. There is no assurance that the Company can maintain the service of its directors and officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

HILLCREST PETROLEUM LTD.

Management's Discussion & Analysis
For the Year Ended December 31, 2015

RISKS & UNCERTAINTIES (continued)

Uninsurable Risks

Exploration, development and production operations of oil and gas reserves involve numerous risks, including sub-surface production issues or mechanical failure in wells, uncontrolled release of hydrocarbons, fires, floods, hurricanes, earthquakes and other environmental occurrences, any of which could result in damage to, or destruction of, wells and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although the Company intends to take precautions to minimize risk that will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks, such as environmental risks, as a result of high premiums or other reasons. Should such liabilities arise, they could have an adverse impact on the Company's operations and financial condition and could cause a decline in the value of the Company's shares.

Local Resident Concerns

In addition to ordinary environmental issues, the exploration and development of the Company's projects could be subject to resistance from local residents that could either prevent or delay exploration and development of its properties.

Availability of Equipment and Labour

The oil and gas exploration industry is dependent on the availability of equipment and labour in the areas where such activities will be conducted. Demand for limited equipment and labour and restrictions imposed on access to equipment may affect the availability of such equipment to the Company which could delay exploration, development and production activities.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of this Company may be subject to in connection with the Company's operations. Certain of the directors and officers of the Company are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies and, as a result of these and other activities, such directors and officers may be in direct conflict with the Company. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA and any other applicable corporate laws.

Litigation

The Company and/or its directors may become subject to a variety of civil or other legal proceedings, with or without merit.

HILLCREST PETROLEUM LTD.

Management's Discussion & Analysis
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ADDITIONAL DISCLOSURE

On May 1, 2015, Sean McGrath replaced Kulwant Sandher as the Chief Financial Officer of the Company.

On August 13, 2015, Don Currie stepped down as Chairman of the Board of Directors and Michael Krzus was elected Executive Chairman.

On August 27, 2015, Lewis Edward Parker was appointed to the Board as an independent Director.

Effective November 18, 2015 the Company commenced trading on the OTCQB stock exchange in the US under the trading symbol HLRTF.

Additional information relating to the Company and its regulatory filings is available on the Company's website at www.hillcrestpetroleum.com and under the Company's profile on SEDAR at www.sedar.com.

CORPORATE INFORMATION

HEAD OFFICE

3050 Post Oak Blvd – Suite 1700
Houston, Texas
United States 77056

REGIONAL OFFICE

1410 – 1030 West Georgia Street
Vancouver, BC V6E 2Y2
Tel: (604) 488 - 1514

LISTINGS

TSX Venture Exchange: **HRH**
OTCQB: **HLRTF**

AUDITOR

PricewaterhouseCoopers LLP
Suite 700 – 250 Howe Street
Vancouver, BC V6C 3S7

OFFICERS

Don Currie – *Chief Executive Officer*
Sean McGrath – *Chief Financial Officer*
Jason Oden – *Chief Operating Officer*

TRANSFER AGENT

Computershare Canada
510 Burrard Street
Vancouver, BC V6C 3A8

BOARD OF DIRECTORS

Michael Krzus – *Executive Chairman*
Don Currie
David Stone – *Independent*
Thomas Milne – *Independent*
Lewis Edward Parker – *Independent*

LEGAL COUNSEL

McMillan LLP
Royal Centre 1055 West Georgia Street
Vancouver, BC V6E 4N7