Hillcrest Petroleum

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended
December 31, 2016

Report Date – May 1, 2017

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, 2016. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2016 and 2015 (the "Annual Financial Statements").

The following information has been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). All financial results are reported in Canadian dollars, unless otherwise indicated, and production numbers represent Hillcrest's ownership interest.

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 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 North America. 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, or its wholly-owned subsidiaries, has 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

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 as at December 31, 2016 was a wholly owned subsidiary of Hillcrest.

Via its wholly owned subsidiary, HGOM, the Company owned a portfolio of non-operated oil & gas properties in the Gulf of Mexico, within the shallow federal water "shelf" region offshore Louisiana. These properties comprised 6 leases containing 4 producing fields. Working interests in these leases range from approximately 4% to 26%. The assets and liabilities of HGOM also include its share of the Asset Retirement Obligations ("ARO") for the existing facilities and wells. The timing of these ARO expenditures were estimated to occur between 2016 and 2034, with the majority occurring at the end of productive field life.

OIL AND GAS PROPERTIES (continued)

a) Gulf of Mexico Properties (continued)

Eugene Island 32

The majority of the Hillcrest oil production from the Gulf of Mexico properties was sourced from the Eugene Island 32 Field. Production is from the 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 owned a 26.3% Working Interest in the Eugene Island 32 Field.

On October 25, 2016, the Company completed the sale of its Working Interest in the Eugene Island 32 oil field in exchange for the settlement of US$1,586,934 in existing payables owing to the purchaser, and the release of liability for any future asset retirement obligations currently estimated at approximately US$6,650,000 on an undiscounted basis. This disposition resulted in a gain on sale of $961,134.

Other Producing Fields

Hillcrest also produced relatively small volumes of oil and gas from the Ship Shoal 271 Field, the West Cameron 498 Field and the West Delta 64 Field. The Company owned between a 4.1% and a 10.4% Working Interest in these Other Producing Fields.

On October 25, 2016, as part of the Eugene Island 32 sale, the Company completed the sale of its Working Interest in the West Cameron 498 Field oil field for the settlement of US$75,187 in existing payables owing to the purchaser, and the release of liability for any future asset retirement obligations currently estimated at US$347,481 on an undiscounted basis.

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, D. Braxton and Associates. The Company filed its most recent annual 51-101F2 Report on Reserves Data as at December 31, 2016 on SEDAR on May 1, 2017.

Subsequent to the end of the year, the Company placed its wholly-owned subsidiary HGOM into a Chapter 7 liquidation in the U.S. Court for the Southern District of Texas. As a result, subsequent to year end, the Company derecognized the remaining net liabilities of HGOM totaling approximately $5,700,000 (Refer to Subsequent Events).

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.

OIL AND GAS PROPERTIES (continued)

b) Hartburg Property, Texas (continued)

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.

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. However, the Donner 4 was shut in during December 2014 due to sand coming into and plugging the well bore. Initial attempts to swab in the well to remove the sand led to a portion of the swab line and swab mandrel becoming stuck in the well bore, and this obstruction must be removed via a "fishing" operation prior to the well being returned to production.

During March 2016, the Donner 2 well experienced a similar problem to that of the Donner 4 well when sand entered the well bore ultimately suspending production.

During December 2016, gas production from the nonion struma reservoir in the Brown #1 well ceased due to increased water production. Attempts were made during the following weeks to lift the water and re-start production, but a steady gas rate could not be maintained and the well is currently shut-in.

The contract operator has provided a cost summary focused on potentially solving the mechanical issues for the Donner 4 and Donner 2 wells, and for re-completing the Brown 1 well. The Company attempted the proposed Donner 4 "fishing" operation in April 2017. Although some significant progress was made in terms of recovering a portion of the swab line, we were unable to completely remove the obstruction and return the well to production. The Company is reviewing the recent operation in order to determine the next course of action. The proposed cost estimates for the Donner 2 and Brown 1 work-overs are currently being reviewed.

The Hartburg Property currently consists of the following working interests to the Company:

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

* HPL NRI on Donner 4 and Brown 1 has an additional royalty burden, calculated as an 10% ORRI proportionately reduced to the pre-existing royalty interest.

OIL AND GAS PROPERTIES (continued)

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, 2016 on SEDAR on May 1, 2017.

On March 28, 2017, the Company completed the sale of its interest in the Donner 1 well in exchange for cash proceeds of US$232,742.

EXPLORATION AND EVALUATION PROPERTIES

a) Western Canada Opportunities

During 2016, the Company decided to aggressively pursue acquisition, development and exploration projects located within the Western Canada Sedimentary Basin ("WCSB"), and primarily in the provinces of Alberta and Saskatchewan. Company management has an extensive track record of creating and extracting value in this region, and believe that we are well positioned to succeed in this world class jurisdiction.

During the first quarter of 2017, the Company entered into an agreement with a Canadian oil and gas company whereby the Company, via a wholly owned subsidiary, may earn up to a 75% Working Interest and become the operator of record in two petroleum assets located in the WCSB. Subject to completion of due diligence and necessary regulatory approvals, we expect this agreement to take effect during the second quarter of 2017.

b) Onshore Texas Opportunities

During 2016 the Company, via its wholly owned onshore Texas based subsidiary, evaluated a number of acquisition opportunities located onshore Texas but were unsuccessful in acquiring any of the targeted projects. However, the Company believes that the process has been extremely useful in terms of high-grading acquisition targets and methods, and that the resulting narrower focus is more likely to achieve success going forward.

c) Carrera Prospect – Texas

On August 1, 2013, Bazmo Exploration Inc., ("Bazmo") and the Company entered into an exploration agreement (the "Exploration Agreement"). Pursuant to the terms of the Exploration Agreement, Bazmo agreed to identify and secure leases which would subsequently be assigned to the Company and pursuant to the terms of such agreement, the Company agreed to pay 100% of the lease acquisition costs and operating costs of all wells drilled. In exchange for Bazmo's performance under the Exploration Agreement, Bazmo obtained a 10% carried interest in all target wells, until payout in each of the wells. Upon payout, Bazmo's carried interest will convert to a 50% working interest in all target wells. The Company currently has mineral interests of up to 80% within certain parts of the Carrera Prospect area in Newton County, Texas.

During the year ended December 31, 2015, the Company reviewed the carrying value of the Carerra Prospect for impairment indicators. It was determined that the carrying value of the Carrera Prospect exceeded its recoverable amount and the Company recorded an impairment of $480,795.

EXPLORATION AND EVALUATION PROPERTIES (continued)

Effective June 30, 2016, the Company terminated the Exploration Agreement with Bazmo in exchange for a cash payment of US$15,000 and the assignment of a 15% working interest in the currently held leases in the Carrera Prospect. With an 85% operated working interest in the remaining leases, the Company now has plans to licence a 3D seismic survey in order to mature the leads already identified into drillable prospects. With continued stability in petroleum product prices coupled with cyclical reductions in service sector costs, we expect that 2017 will be a suitable year to pursue these attractive leads.

As at December 31, 2016, the Company recorded an impairment of $91,742 on the Carrera prospect.

d) Pettit Project – Louisiana

On July 29, 2016, the Company entered into a definitive agreement ("Pettit Agreement") for the right to earn up to a 75% working interest in 6,200 acres in the state of Louisiana. The terms of the Pettit Agreement were such that the Company had the option to undertake an initial six well development drilling program with a maximum commitment of US$3,000,000 in order to satisfy the earning agreement.

The Company paid a US$240,000 acreage fee to the vendor for the initial six wells. The Company would pay an acreage fee of US$40,000 for each additional well drilled after the initial six well program and will implement a bonus program payable in common shares of the Company, subject to TSX-V approval, for each barrel of oil reserves incrementally added to the proved, developed producing category.

As at December 31, 2016, and after substantial engineering, technical and economic review, the Company elected not to proceed with the drilling program on the Pettit Project, and as a result recorded an impairment of $319,213.

e) Muddy Creek Project – Montana

On September 26, 2011, the Company entered into a purchase and sale agreement with Longshot Oil, LLC for the acquisition of certain oil and gas properties in Teton County, Montana. The Company issued 1,000,000 common shares of the Company at a fair value of $0.25 per share and paid $400,000.

On September 2, 2013, the Company entered into a Letter of Intent with Nelan Advisors Corporation ("Nelan") pursuant to which Nelan has the right to farm in to a 50% working interest in the Company's oil and gas interests and related rights to the oil and gas leases in Montana. Pursuant to the Letter of Intent, the Company received an aggregate of US$400,000 as consideration for the farm-in.

During the year ended December 31, 2015, the Company decided that it would discontinue exploration on the Muddy Creek Project and, accordingly, recorded an impairment of $345,706.

EXPLORATION AND EVALUATION PROPERTIES (continued)

f) Woodrow Project – Montana

On November 30, 2011 and amended in August 2012, the Company entered into a purchase and sale agreement with Bakken Oil Holdings, LLC ("Bakken") to acquire certain oil and gas properties in Teton and Pondera Counties, Montana. As consideration, the Company paid $365,000 and gave Bakken the Company's interest in a property known as the Tulla property.

On August 14, 2013, the Company signed a definitive agreement with West Bakken Holdings Ltd ("WBHL") giving them the right to farm in to the working interest of the Company. The agreement, when completed, includes 50% in the oil and gas interests, and properties and related rights and interests to the oil and gas leases in Teton and Pondera counties, Montana.

Pursuant to the agreement, the Company received a total of US$550,000 as consideration from WBHL for the farm-in.

On October 2, 2015, the Company sold its remaining 50% interest to Black Stallion Oil and Gas, Inc. ("Black Stallion") in exchange for $65,062 (US$50,000) cash and 500,000 common shares of Black Stallion, payable 250,000 common shares upon closing and 250,000 common shares upon Black Stallion spudding a well on the property. As at December 31, 2016, a total of 250,000 common shares of Black Stallion, with a carrying value of $Nil, have been received. No new wells have been drilled on the property.

SELECTED ANNUAL INFORMATION

Selected annual information for the years ended December 31, 2016, 2015 and 2014 is presented below:

	2016	**2015**	**2014**
	($)	**($)**	**($)**
Total assets	2,603,374	15,208,251	27,959,385
Total liabilities	9,386,371	19,165,727	18,377,583
Shareholders' equity (deficiency)	(6,782,997)	(3,957,476)	9,581,802
Revenue, net of royalties	1,299,214	3,925,785	1,163,004
Expenses	(4,861,209)	(18,628,308)	5,082,286
Net income (loss)	(3,561,995)	(14,702,523)	6,245,290
Earnings (loss) per share	(0.07)	(0.29)	0.16

SELECTED QUARTERLY INFORMATION

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

	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
	($)	($)	($)	($)
Total assets	2,603,374	13,956,890	13,855,275	13,771,072
Total liabilities	9,386,371	20,197,178	18,608,373	19,277,904
Revenue, net of royalties	60,513	176,982	582,967	478,752
Expenses	(1,251,827)	(1,735,227)	(411,267)	(1,462,888)
Net income (loss)	(1,191,314)	(1,558,245)	171,700	(984,136)
Earnings (loss) per share	(0.02)	(0.03)	0.00	(0.02)
Weighted average common shares outstanding	54,700,003	53,377,177	51,295,655	51,174,776

	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
	($)	($)	($)	($)
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
Revenue, net of royalties	712,630	993,644	1,241,813	977,698
Expenses	(11,651,381)	(1,929,033)	(2,802,715)	(2,245,179)
Net income (loss)	(10,938,751)	(935,389)	(1,560,902)	(1,267,481)
Earnings (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

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

a) During the quarter ended December 31, 2016, liabilities decreased by approximately $11,000,000 due to the disposal of the Eugene Island 32 field. This disposal also reduced the majority of the Company's productive well interests and revenue declined substantially.

b) During the quarter ended September 30, 2016, the Company recognized approximately US$700,000 in previously disputed operating costs.

c) During the quarter ended June 30, 2016, the Company received an insurance settlement payment of $832,018 in connection with a 2013 rig incident at the Ship Shoal 271 field.

d) During the quarter ended March 31, 2016, the total revenue decreased primarily due to the low oil price environment.

e) During the quarter ended December 31, 2015, the total assets decreased and the net loss increased significantly due to an impairment of $7,468,704 that was recorded on the Eugene Island assets.

SELECTED QUARTERLY INFORMATION (continued)

f) 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.

g) 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.

RESULTS OF OPERATIONS

Three Month Period Ended December 31, 2016

Revenues
The Company generated total revenue of $60,513 during for the three month period ended December 31, 2016 ("Current Quarter") as compared to $712,630 in the three month period ended December 31, 2015 ("Prior Quarter"). The 92% decrease is a result of the significantly lower oil production in the Current Quarter after the disposal of the EI32 property which closed in October 2016, but had an effective date of August 1, 2016. The Company produced an average of 10 boe in the Current Quarter as compared to 124 boe in the Prior Quarter.

Costs and Expenses
The Company's expenses for the Current Quarter decreased from $11,651,381 in the Prior Quarter to $1,251,827. This was due primarily to an impairment ($7,790,717) that was recorded against the Company's Eugene Island 32 oil property in the Prior Quarter. In addition, the Company recorded reduced operating and depletion expenses in the Current Quarter after the disposal of the EI32 property which had an effective date of August 1, 2016 for the transfer of production rights.

Other items
During the Current Quarter, the Company reviewed the carrying value of its exploration and evaluation assets for impairment indicators. It was determined that impairment indicators were present for the Company's two remaining exploration assets, Carrera and Pettit, as neither project has had material expenditures on them and it was unlikely to be advanced any further in the near future. Consequently, the Company recorded an impairment of $410,955.

The Company also reviewed the carrying value of its oil and gas properties for impairment indicators, and it was determined that the Brown 1 and Donner 2 wells were both impaired due to extended shut-in times and technical problems. As a result, the Company recorded an impairment of $332,865.

Year Ended December 31, 2016

Revenues
The Company generated total revenue of $1,299,214 during for the year ended December 31, 2016 ("Current Year"), a decrease of $2,626,571 (67%) over the year ended December 31, 2015 ("Prior Year"). The decrease is a result of lower oil prices and decreased production in the Current Year following the disposal of the EI32 Property which had an effective date of August 1, 2016 for the transfer of production rights. The Company produced an average of 104 boe in the Current Year as compared to 271 boe in the Prior Year.

RESULTS OF OPERATIONS (continued)

Costs and Expenses

The Company's expenses for the Current Year decreased from $18,628,308 in the Prior Year to $4,861,209. This was due primarily to an impairment ($7,790,717) that was recorded against the Company's Eugene Island 32 oil property in the Prior Year. In addition, the Company recorded reduced operating and depletion expenses in the Current Year after the disposal of the EI32 property which had an effective date of August 1, 2016 for the transfer of production rights.

Other items

During the Current Year, the Company reviewed the carrying value of its exploration and evaluation assets for impairment indicators. It was determined that impairment indicators were present for the Company's two remaining exploration assets, Carrera and Pettit, as neither project has had material expenditures on them and it was unlikely to be advanced any further in the near future. Consequently, the Company recorded an impairment of $410,955.

The Company also reviewed the carrying value of its oil and gas properties for impairment indicators, and it was determined that the Brown 1 and Donner 2 wells were both impaired due to extended shut-in times and technical problems. As a result, the Company recorded an impairment of $332,865.

The Company recognized a gain of $961,134 on the disposal of the Eugene Island 32 oil property.

In May 2016, the Company received an insurance settlement totaling $832,018 in connection with a rig incident that occurred in an offshore field that the Company was a working interest partner.

Production Information

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

	Years Ended December 31,		
	2016	**2015**	**Change**
			(%)
Crude oil (bbl)	27,326	63,604	(57)
Natural gas (Mcf)	63,195	35,429	78
Total boe	37,858	99,033	(61)
Crude oil (bopd)	75	174	(57)
Natural gas (Mcfgpd)	173	583	(70)
Total boepd	104	271	(62)
Crude oil (%)	72	64	13
Natural gas (%)	28	36	(22)
Total (%)	100	100	

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital deficiency of $6,279,346 as at December 31, 2016, compared to $6,602,537 as at December 31, 2015. The decrease in working capital deficiency was a result of approximately $2,200,000 in accounts payable being forgiven in connection with the sale of the Eugene Island 32 oil property as well as the receipt of $832,018 in insurance proceeds from a prior period rig incident.

The Company incurred a net loss of $3,561,995 during the year ended December 31, 2016. The revenue currently generated from natural gas and oil sales does not exceed the Company's operating expenses. Accordingly, the Company's ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent upon the continued financial support of the creditors and the shareholders and ultimately, the attainment of profitable operations. Accordingly, in November 2016 and January 2017, the Company completed a non-brokered private placement wherein it issued an aggregate of 16,200,000 units at $0.05 per unit for gross proceeds of $810,000. Each unit was comprised of a common share and one half of a common share purchase warrant, and each whole warrant entitles the holder to acquire an additional common share at $0.08 for a period of two years from the date of closing.

On August 10, 2016, the Company borrowed $300,000 under a secured loan agreement (the "Bridge Loan") bearing interest at 1% per month, compounded monthly, and maturing on August 9, 2017. The Bridge Loan was used to make the initial payments due under the Pettit Agreement and it is secured by the Pettit Project assets. The Company has decided not to move forward with further development of the Pettit Project at this time so funding for the development of this project is not currently required.

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.

In February 2016, the Company placed its wholly-owned subsidiary, Hillcrest GOM Inc., into Chapter 7 liquidation in the U.S. Court for the Southern District of Texas in order to preserve the existing cash in the consolidated entity (Refer to Subsequent Events).

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.

SUBSEQUENT EVENTS

Subsequent to December 31, 2016, the Company:

a) granted an aggregate of 4,500,000 incentive stock options to certain directors, officers, employees and consultants for the purchase of common shares exercisable at a price of $0.07 per share until Feb. 21, 2022.

b) signed a letter agreement with a Canadian oil and gas company, whereby it, via a wholly-owned subsidiary, will become the operator of record in two petroleum assets located in Western Canada. The Company will earn up to a 75% working interest in exchange for posting the requisite $1,300,000 Operator and Licence Liability Rating (LLR) Bonds, providing technical expertise and funding the restoration of existing shut-in wells.

c) completed the second and final tranche of a non-brokered private placement wherein it issued 8,900,000 units at a price of $0.05 per unit. Each unit consisted of one common share in the capital of the Company plus one half of one common share purchase warrant. Each whole warrant of this second tranche offering will entitle the holder to purchase one additional share at a price of $0.08 until January 18, 2019. The Company paid cash commissions of $5,200 in connection with the closing of the second tranche.

d) sold 100% of its interest in the Donner 1 well to an arms-length third party in exchange for a cash payment of US$232,742.

e) placed its wholly-owned subsidiary HGOM into a Chapter 7 liquidation in the U.S. Court for the Southern District of Texas. Consequently, the Company has lost control over all of the assets and liabilities of HGOM.

   A summary of the assets and liabilities of HGOM as at December 31, 2016 and 2015 is as follows:

	2016	**2015**
	($)	**($)**
Cash	136,627	191,710
Restricted cash	2,048,604	2,456,013
Accounts receivable	-	238,577
Prepaid expenses	-	198,039
Oil and gas properties	-	9,499,340
Equipment	3,493	7,608
Total Assets	2,188,724	12,591,287
Accounts payable and accrued liabilities	5,167,444	4,400,685
Asset retirement obligation	2,698,925	13,483,489
Total Liabilities	7,866,369	17,884,174
Net Assets (Liabilities)	(5,677,645)	(5,292,887)

SUBSEQUENT EVENTS (continued)

The net loss of HGOM for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
	($)	($)
Revenue, net of royalties	1,056,444	3,057,238
Expenses		
Operating costs	1,829,379	2,680,324
Consulting fees	10,183	81,979
Depletion and depreciation	466,362	1,914,375
Office and general	1,106,001	1,423,107
	(3,411,925)	(6,099,785)
Other Items		
Financing expenses	(169,497)	(477,374)
Change in estimate of decommissioning liability	(331,575)	-
Gain on disposal of oil and gas properties	961,134	-
Impairment of oil and gas properties	-	(7,469,130)
Proceeds from insurance settlement	832,018	-
	1,292,080	(7,946,504)
Net loss	(1,063,401)	(10,989,051)

The cash flows of HGOM for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
	($)	($)
Cash flows provided by operations	511,137	313,262
Cash flows used in investing activities	(565,437)	(686,451)
Change in cash	(54,300)	(373,189)
Cash, beginning of the year	183,013	556,202
Cash, end of the year	128,713	183,013

OUTSTANDING SHARE DATA

Year Ended December 31, 2016

The Company completed the first tranche of a private placement wherein it issued 7,300,000 units at $0.05 per unit for gross proceeds of $365,000. Each unit was comprised of a common share and one half of a share purchase warrant, and each whole warrant entitles the holder to acquire an additional common share at $0.08 until December 8, 2018.

The Company issued 1,000,000 common shares with a fair value of $30,000 as consideration in connection with an unsecured loan.

The Company issued 1,200,000 common shares with a fair value of $72,000 to a lender as consideration in connection with a secured loan. Furthermore, the Company issued 300,000 common shares with a fair value of $18,000 as a syndication fee in connection with the secured loan.

Year Ended December 31, 2015

No common shares were issued.

The total number of common shares outstanding as of the Report Date was 68,995,655.

SHARE PURCHASE WARRANTS

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

Number of Options	Exercise Price	Expiry Date
	($)	
5,312,500	0.08	December 30, 2017
3,650,000	0.08	December 8, 2018
4,450,000	0.08	January 18, 2019
13,412,500	0.08	

STOCK OPTIONS

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

Number of Options	Exercise Price	Expiry Date
	($)	
1,400,000	0.06	September 9, 2018
500,000	0.06	November 26, 2018
4,500,000	0.07	February 21, 2022
6,400,000	0.07	

COMMITMENTS

a) 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 remaining base rent payable under the lease is $16,729 up until the lease expires. In addition to the base rent, the Company's share of operating costs is estimated at approximately $1,217 per month.

b) On February 12, 2015, HGOM, 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 civil penalties that had been levied against HGOM. HGOM agreed to pay the balance of the civil penalties of US$313,176 in 60 monthly installments of US$5,220 beginning on March 12, 2015. A total of $260,017 remains unpaid at December 31, 2016 (2015 – $361,741) and is included within accounts payable and accrued liabilities. This debt has been subsequently extinguished through the Chapter 7 liquidation of HGOM (Refer to Subsequent Events).

c) On June 3, 2013, HGOM entered into an office rental agreement in Houston, Texas, with a term of 50 months, terminating on July 31, 2017. The remaining base rent payable under the lease is US$53,577. In addition to the above base rent, the Company's share of the operating costs for calendar year 2016 is estimated at US$5,306 per month. This lease was terminated subsequent to year end and the Company's wholly-owned subsidiary, Hillcrest Exploration Ltd., entered into a new office rental agreement with a term of 72 months, terminating on February 28, 2023. The remaining base rent payable under the lease is $166,776 up until the lease expires. In addition to the base rent, the Company's share of operating costs is estimated at approximately $1,547 per month.

RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the years ended December 31, 2016 and 2015:

Key management compensation

	2016	**2015**
	($)	**($)**
Consulting fees paid or accrued to Michael Krzus, Executive Chairman of the Company	244,181	193,794
Consulting fees paid or accrued to the Don Currie, Chief Executive Officer ("CEO") of the Company	240,610	306,447
Professional and consulting fees paid or accrued to a corporation controlled by Sean McGrath, the Chief Financial Officer ("CFO") of the Company	103,854	98,075
Professional and consulting fees paid or accrued to two corporations controlled by Kulwant Sandher, former CFO of the Company	-	17,500
Salary and consulting fees paid or accrued to Jason Oden, Chief Operating Officer of the Company	258,662	310,187
Share-based payments paid to certain directors and officers of the Company in connection with the extension of the expiry date of share purchase warrants	24,856	-
	872,163	926,003

RELATED PARTY TRANSACTIONS (continued)

a) As at December 31, 2016, a total of $158,767 (2015 - $66,302) 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, 2016, a total of $135,209 (2015 - $50,602) 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, 2016, a total of $25,117 (2015 - $6,600) was included in accounts payable and accrued liabilities owing to a corporation controlled by Sean McGrath, CFO of the Company, for consulting fees.

d) As at December 31, 2016, a total of $67,335 (2015 - $Nil) was included in accounts payable and accrued liabilities owing to a Jason Oden, COO of the Company, for wages.

OUTLOOK

Hillcrest is focused on adding, creating and increasing value through the acquisition, development and production of conventional onshore oil and gas assets in North America. The Company has disposed of the majority of its offshore oil interests and is actively evaluating new 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, to be able to direct operation activity to maximize Company value.

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 oil and gas 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 primarily dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed using best efforts. 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, 2016. The Company is not subject to externally imposed capital requirements.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies used by Hillcrest are disclosed in note 3 to the December 31, 2016 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, 2016.

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

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. This new standard replaces International Accounting Standards ("IAS") 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces a new impairment model for financial assets and new rules for hedge accounting.

IFRS 9 requires financial assets to be classified into one of three measurement categories on initial recognition: FVTPL, fair value through OCI and amortized cost. Measurement and classification of financial assets is dependent on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The new standard retains most of the existing requirements for financial liabilities.

IFRS 9 introduces a new impairment model for financial assets. This new model may result in the earlier recognition of credit losses as it requires the Company to account for expected credit losses from the time the financial instruments are first recognized.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. This new standard is based on the principle that revenue should be recognized to depict the transfer of goods or services to customers at an amount that the entity expects it will be entitled to in exchange for those goods.

IFRS 15 introduces a new five step model for the recognition of revenue based on when control of a good or service transfers to a customer. The notion of control replaces the existing notion of risks and rewards and could result in changes in the timing of revenue recognition for certain contracts.

NEW ACCOUNTING STANDARDS AND PRONOUNCEMENTS (continued)

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

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. This new standard replaces the existing leasing guidance in IAS 17, Leases.

IFRS 16 distinguishes between leases and service contracts on the basis of whether the customer controls the asset being leased. For those contracts determined to meet the definition of a lease, IFRS 16 requires a lessee to recognize on the balance sheet a lease asset along with the associated lease liability which reflects future lease payments, similar to current finance lease accounting. There are limited exceptions for leases with a term of less than 12 months or leases of assets which have a very low value. As a result of the adoption of IFRS 16, operating leases which were previously only recognized on the statement of earnings will be recognized on the balance sheet.

The purpose of the standard is to provide users of the financial statements with a more accurate picture of a company's leased assets and associated liabilities, while also improving the comparability of companies that lease assets to those that purchase them.

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

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 (continued)

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.

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.

<u>Financing Risks and Dilution to Shareholders</u>
The Company has limited financial resources and further exploration or acquisitions will 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.

RISKS & UNCERTAINTIES (continued)

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.

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.

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.

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.

RISKS & UNCERTAINTIES (continued)

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

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.

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.

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.

RISKS & UNCERTAINTIES (continued)

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.

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.

ADDITIONAL DISCLOSURE

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**.

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