

**HILLCREST RESOURCES LTD.**

**MANAGEMENT DISCUSSION AND ANALYSIS**

For the 9 months Ended September 30, 2013

Dated November 22, 2013

This Management Discussion & Analysis ("MD&A") is provided by management of Hillcrest Resources Ltd. ("Hillcrest" or the "Company") as at and for the 9 months ended September 30, 2013. The commentary in this MD&A is based on information available to November 22, 2013.

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This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2012 and 2011. All amounts are in Canadian dollars unless otherwise specified.

Additional information relating to the Company, including the consolidated financial statements for the 9 months ended September 30, 2013 are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

### **Forward-Looking Statements**

The MD&A, which contain certain forward-looking statements, 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. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such risks include, but are not limited to, fluctuations in the currency markets such as the Canadian and US dollar, fluctuations in the commodity price of oil and natural gas, changes in government legislation, taxation, controls, regulations and political or economic developments in Canada and the United States or other countries in which the Company carries or may carry on business in the future, the speculative nature of exploration and development in the oil and gas industry, including the risk of obtaining necessary licenses and permits, and the quantities or estimation of reserves. The Company believes these expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward looking statements included herein should not be unduly relied upon. Actual results and developments may differ materially from those contemplated by the forward looking statements. The forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A and, accordingly, is subject to change after such date. We expressly disclaim any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law.

### **Overview**

#### **PRINCIPAL BUSINESS AND CORPORATE HISTORY**

**Hillcrest Resources Ltd.** was incorporated under the Company Act (British Columbia) on May 2, 2006 and on May 28, 2007 the Company changed its name from Shanghai Creek Minerals Ltd. to Hillcrest Resources Ltd.

The Company is in the business of acquiring and developing exploration interests in oil and gas projects in the United States of America.

The Company is subject to several categories of risk associated with the exploration of oil and gas. Oil and gas exploration and production is a speculative business, and involves a high degree of risk. Among the factors that have a direct bearing on the Company's prospects are uncertainties inherent in estimating oil and gas reserves, future hydrocarbon production, and cash flows, particularly with respect to wells that have not been fully tested and with wells having limited production histories; access to additional capital; changes in the price of oil and gas; availability and cost of services and equipment; and the presence of competitors with greater financial resources and capacity.

The oil and gas industry is subject, by its nature, to environmental hazards and clean-up costs. At this time, management knows of no substantial costs from environmental accidents or events for which the Company may be currently liable. In addition, the Company's oil and gas business makes it vulnerable to changes in prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be

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volatile in the future. By definition, proved reserves are based on estimated future oil and gas prices and costs. Price declines reduce the estimated quantity of proved reserves and increase annual depletion expense (which is based on proved and probable reserves).

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 the company's founding on May 2, 2006, the company has acquired seed funding, put in place an operation structure, set up offices in Vancouver, British Columbia, and Houston, Texas and engaged key exploration and land personnel, and added to its initial oil and natural gas assets and associated equipment by raising capital via private placements and internally generated funds.

### OIL AND GAS PROPERTIES

The Company produced oil from two fields located within the State of Texas in 2011. During the year, the Company maintained and increased production by selective work-overs of individual wells within the Livingston Property and by drilling, completing and tying in the Donner #2 well within the Hartburg Project area.

Hillcrest Resources Ltd. currently has interests in the following oil and gas properties:

#### a) Livingston Property, Texas

By agreement dated November 1, 2009, the Company entered into an Assignment of Oil and Gas Lease and Bill of Sale for the assignment of a 30% working interest and a 22.5% net revenue interest in certain oil and gas mineral leases known as the Livingston property in Polk County, Texas. In consideration the Company paid a lump sum of \$96,120 (US\$90,000). The Company is responsible for their proportionate share of all future costs of the development of the property. The following table shows the production and revenue produced by this property;

| Well Name | 3 months ended<br>Sept. 30, 2013 |            | 3 months ended<br>Sept. 30, 2012 |            |
|-----------|----------------------------------|------------|----------------------------------|------------|
|           | Production, Bbls                 | Revenue \$ | Production, Bbls                 | Revenue \$ |
| Texon     | 249                              | 27,301     | 487                              | 48,139     |

| Well Name | 9 months ended<br>Sept. 30, 2013 |            | 9 months ended<br>Sept. 30, 2012 |            |
|-----------|----------------------------------|------------|----------------------------------|------------|
|           | Production, Bbls                 | Revenue \$ | Production, Bbls                 | Revenue \$ |
| Texon     | 868                              | 91,985     | 1,446                            | 148,776    |

The decrease in oil production for both the three and nine months ended September 30, 2013, when compared to the prior year, was caused by some of the wells not in production during the period due to work-overs, and a decline in reserves. Hence revenue decreased, however this was offset by an increase in commodity prices for oil and a stronger US dollar relative to the Canadian dollar.

#### b) Hartburg Project, 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 land leases known as the Hartburg Project in Newton County, Texas. In consideration the Company paid a lump sum of

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\$117,040 (US\$111,266). The Company is responsible for their 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 and Prospect 2, 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.

The effect of the Exploration Agreement and the HRI Assignment was to create the following net revenue interests to the Company in Donner #1, Donner #2, and Prospect 2:

|                      | <u>Donner #1</u> | <u>Donner 2 and Prospect 2</u> |
|----------------------|------------------|--------------------------------|
| <b>Before payout</b> | 54%              | 48%                            |
| <b>After payout</b>  | 22.5%            | 27%                            |

The main focus for the Company is a 3 to 4 well drilling and production program in Newton County, Texas. The Company has successfully drilled and completed the first well with production starting in August 2010.

The Company completed the drilling of prospect #1 (the Donner #2 well) which commenced production during the month of August 2011. The table below shows the revenue and production produced by these prospects;

| Well Name | 3 months ending Sept. 30, 2013 |                 |            | 3 months ending Sept. 30, 2012 |                 |            |
|-----------|--------------------------------|-----------------|------------|--------------------------------|-----------------|------------|
|           | Production, Bbls               | Production, MCF | Revenue \$ | Production, Bbls               | Production, MCF | Revenue \$ |
| Donner #1 | 886                            | -               | 96,268     | 926                            | -               | 89,447     |
| Donner #2 | 0                              | 11,919          | 36,473     | -                              | 10,819          | 28,533     |

| Well Name | 9 months to Sept. 30, 2013 |                 |            | 9 months to Sept. 30, 2012 |                 |            |
|-----------|----------------------------|-----------------|------------|----------------------------|-----------------|------------|
|           | Production, Bbls           | Production, MCF | Revenue \$ | Production, Bbls           | Production, MCF | Revenue \$ |
| Donner #1 | 2,635                      | -               | 277,254    | 2,604                      | -               | 263,124    |
| Donner #2 | 63                         | 40,048          | 126,847    | 132                        | 14,288          | 50,213     |

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The increase in revenue for Donner #1, for the 3 and 9 months ended September 30, 2013 when compared to the corresponding year, was attributable to an increase in the commodity price of oil and an increase in the US dollar relative to the Canadian dollar. However, there was a small decrease in production for the 3 months ended September 30, 2013 due to maintenance issues during the period.

The increase in natural gas production for Donner #2 for the 3 and 6 months ended September 30, 2013 was due to the well pressure stabilizing and production increasing when compared with the corresponding year, when the well was still in early production and the Company was conservatively managing the well. The Company also benefited from an increase in commodity prices for natural gas and a strengthening of the US dollar when compared to the Canadian dollar. The Company experienced some oil production from Donner #2; however, this will be sporadic in the future.

The Company has permitted and arranged drilling for Donner 4. The location is approximately 500 feet southwest of the Company's Donner #1 well. The well should be drilled by the end of the fourth quarter in 2013.

### c) **Tulla Property, Teton and Pondera County, Texas**

On November 1, 2011 the Company entered into a purchase and sale agreement with Washington-based Longshot Oil LLC, with respect to the acquisition by the company from Longshot of certain oil and gas properties in Pondera County, Montana. Pursuant to the terms of the purchase and sale agreement, the Company acquired Longshot's legal and beneficial right, title and interest in and to certain oil and gas properties in Pondera county, Montana, including all oil and gas leases, all geological and geophysical data (including all seismic data) and copies of all records with respect to such oil and gas properties. As consideration for the acquisition of the properties, the Company paid Longshot \$350,000 in cash.

The table below shows the revenue and production produced by these prospects;

| Well Name    | 3 months ending<br>Sept. 30, 2013 |            | 3 months ending<br>Sept. 30, 2012 |            |
|--------------|-----------------------------------|------------|-----------------------------------|------------|
|              | Production, Bbls                  | Revenue \$ | Production, Bbls                  | Revenue \$ |
| <b>Tulla</b> | -                                 | -          | 234                               | 16,098     |

| Well Name    | 9 months to<br>Sept. 30, 2013 |            | 9 months to<br>Sept. 30, 2012 |            |
|--------------|-------------------------------|------------|-------------------------------|------------|
|              | Production, Bbls              | Revenue \$ | Production, Bbls              | Revenue \$ |
| <b>Tulla</b> | -                             | -          | 1,527                         | 116,337    |

During August 2012, the Company sold Tulla for its net book value, to Bakken Oil Holdings LLC. ("Bakken"), and Bakken exchanged the remaining amount owing on the Woodrow Montana Project.

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### SELECTED ANNUAL & QUARTERLY INFORMATION

#### SELECTED ANNUAL INFORMATION

For the years ended December 31, 2012, 2011 and 2010, presented in accordance with International Financial Reporting Standards: (\$)

| Audited                                  | 2012      | 2011      | 2010      |
|--|-----------|-----------|-----------|
| <b>Total assets</b>                      | 3,553,604 | 3,445,915 | 1,211,457 |
| <b>Total Liabilities</b>                 | 170,665   | 313,378   | 509,774   |
| <b>Shareholders equity</b>               | 3,382,939 | 3,132,537 | 701,683   |
| <b>Revenue</b>                           | 785,622   | 754,928   | 269,396   |
| <b>Write down of resource properties</b> | 478,145   | -         | -         |
| <b>Foreign exchange gain/(loss)</b>      | (9,528)   | 12,359    | 6,392     |
| <b>Other income</b>                      | 24        | -         | -         |
| <b>Expenses</b>                          | 1,029,106 | 1,466,841 | 169,531   |
| <b>Net income/(loss)</b>                 | (731,133) | (699,554) | 106,257   |
| <b>Income (loss) per share</b>           | (0.02)    | (0.03)    | 0.00      |

#### SELECTED QUARTERLY INFORMATION

By recent eight Quarters (\$)

|                                   | September 30, 2013 | June 30, 2013   | March 31, 2013  | December 31, 2012 | September 30, 2012 | June 30, 2012   | March 31, 2012  | December 31, 2011 |
|-----------------------------------|--------------------|-----------------|-----------------|-------------------|--------------------|-----------------|-----------------|-------------------|
| Total assets                      | 4,130,251          | 3,396,572       | 3,531,167       | 3,553,604         | 3,583,604          | 4,140,609       | 4,400,455       | 3,445,915         |
| Total liabilities**               | 1,164,428          | 121,000         | 202,956         | 170,665           | 80,884             | 154,331         | 155,958         | 313,378           |
| Shareholders equity               | 2,965,823          | 3,275,572       | 3,328,211       | 3,382,939         | 3,980,865          | 3,986,278       | 4,244,497       | 3,132,537         |
| <b>Revenues</b>                   | <b>168,978</b>     | <b>184,157</b>  | <b>178,112</b>  | <b>183,183</b>    | <b>191,334</b>     | <b>205,497</b>  | <b>205,608</b>  | <b>207,894</b>    |
| <b>Major expense items</b>        |                    |                 |                 |                   |                    |                 |                 |                   |
| Consulting fees                   | 140,048            | 49,571          | 47,989          | 56,961            | 50,977             | 73,673          | 59,953          | 103,672           |
| Professional fees                 | 101,023            | 30,120          | 34,941          | 44,914            | 20,947             | 42,435          | 19,583          | 53,885            |
| Depletion                         | 81,345             | 89,299          | 98,585          | 75,166            | 52,475             | 37,860          | 28,215          | 11,984            |
| Stock-Based Compensation          | 82,446             | -               | -               | (17,204)          | 474                | 2,474           | 25,487          | Nil               |
| Write down on resource property * | -                  | -               | -               | -                 | 478,145            | -               | -               | -                 |
| <b>Net income (loss)</b>          | <b>(392,195)</b>   | <b>(56,529)</b> | <b>(54,728)</b> | <b>(102,579)</b>  | <b>(472,062)</b>   | <b>(62,285)</b> | <b>(94,207)</b> | <b>(64,045)</b>   |
| Income (loss) per share           | (0.01)             | (0.00)          | (0.00)          | (0.00)            | (0.01)             | 0.00            | 0.00            | 0.00              |

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\*The results for the quarter ending September 30, 2012 have been revised to include the write-off a resource property due to the relinquishing of leases.

\*\* Total liabilities have increased due to the long term loan of \$1m.

### **RESULTS OF OPERATIONS**

#### **For the 3 months ended September 30, 2013**

We generated total revenue of \$168,978 for the 3 months ended September 30, 2013, a reduction of approximately 12% from revenues of \$191,334 for the 3 months ended September 30, 2012. The decrease in total revenue for the 3 months ended September 30, 2013, when compared to the 3 months ended September 30, 2012, was caused by the disposal of the Tulla well and a reduction in production from the Livingston wells.

#### *Costs and Expenses*

We incurred costs and expenses in the amount of \$526,796 for the 3 months ended September 30, 2013, representing approximately an 141% reduction from costs and expenses of \$188,281 for 3 months ended September 30, 2012.

The significant increase in costs and expenses for the 3 months ended September 30, 2013, when compared to the 3 months ended September 30, 2012, 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 \$35,745 (2012: \$43,969). The reduction in operating costs was caused by the sale of the Tulla well, hence the Company no longer incurring costs related to this well.
2. Consulting fees increased to \$140,048 (2012: \$50,977). The increase of 175% was due to amounts paid to the President of the Company, and other consultants that the Company contracted to further its financing initiatives.
3. Depletion and depreciation increased to \$81,345 for the 3 months ended September 30, 2013, as compared to \$52,475 for the corresponding period in the previous year. The significant increase was caused by the addition of costs of developing the third well in the Hartburg property.
4. Investor relations and business development costs for the 3 months ended September 30, 2013 increased by 497% to \$45,348 (2012: \$7,593). The Company has embarked on an investor marketing campaign.
5. Professional fees increased to \$101,023 for the 3 months ended September 30, 2013, representing an increase of 382% from \$20,947 for the 3 months ended September 30, 2012. The increase was caused by increased legal costs relating to the Company's debt instrument.
6. Stock-based compensation increased to \$82,446, for the 3 months ended September 30, 2013 as compared to \$474 for the 3 months ended September 30, 2012. The Company issued 1,750,000 stock options to directors, officers and consultants at an option price of \$0.06, which are exercisable for a period of 5 years. The Company uses the Black-Scholes valuation method to value the stock options at the time of grant.
7. Travel increased to \$10,809 (2012: \$2,236), due to costs relating to raising of funds by the CEO and consultants of the Company.

#### *Income/(loss) before other items*

The loss before other items for the 3 months ended September 30, 2013 was \$357,818, compared to a net income before other items of \$3,053 for the 3 months ended September 30, 2012.

#### *Other items*

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We reported a foreign exchange loss of \$4,445 for the 3 months to September 30, 2013, as compared to a foreign exchange gain of \$3,013 for the 3 months ended September 30, 2012. The Company reported interest paid of \$29,932 for the 3 months ending September 30, 2013, compared to \$nil for the corresponding period in the prior year. The interest was paid on senior secured loan facility of \$1,000,000. The interest payable will be 15% per annum payable monthly. We reported other income arising from interest earned of \$nil (2012: \$17).

#### *Net Loss and Comprehensive loss for the period*

Comprehensive loss for the 3 months ended September 30, 2013 was \$392,195, compared to a comprehensive income of \$6,083 for the 3 months ended September 30, 2012. The increase in loss for the 3 months ended September 30, 2013 was attributable to the items indicated above.

#### **For the 9 months ended September 30, 2013**

We generated total revenue of \$531,247 for the 9 months ended September 30, 2013, a reduction of approximately 13% from revenues of \$602,439 for the 9 months ended September 30, 2012. The decrease in total revenue for the 9 months ended September 30, 2013, when compared to the 9 months ended September 30, 2012, was caused by the disposal of the Tulla well and a reduction in production from the Livingston wells. This was partially offset by increases in production from Hartburg wells.

#### *Costs and Expenses*

We incurred costs and expenses in the amount of \$1,001,954 for the 9 months ended September 30, 2013, representing approximately a 35% increase from costs and expenses of \$741,764 for 9 months ended September 30, 2012.

The increase in costs and expenses for the 9 months ended September 30, 2013, when compared to the 9 months ended September 30, 2012, 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 \$98,268 (2012: \$188,319). The reduction in operating costs was caused by the sale of the Tulla well, hence the Company no longer incurring costs related to this well.
2. Consulting fees increased to \$237,608 (2012: \$184,603). The increase of 29% was due to amounts paid to the Company's President, and other consultants that the Company contracted to further its financing initiatives.
3. Depletion and depreciation increased to \$269,229 (2012: \$118,550). The significant increase was caused by the addition of costs of developing the third well in the Hartburg property and a reduction in the reserve estimates on the Company's producing wells by its third party reserve engineers.
4. Investor relations and business development costs decreased by 23% to \$64,723 (2012: \$84,087). The Company has embarked an investor marketing campaign and the further increases in costs will occur during the fourth quarter of 2013.
5. Professional fees were \$166,084 (2012: \$82,965). The increase was caused by an increase in legal costs associated with the issue of the senior secured loan instrument.
6. Stock-based compensation was \$82,446 (2012: \$28,435), The Company issued 1,750,000 stock options to directors, officers and consultants at an option price of \$0.06, which are exercisable for a period of 5 years.. The Company uses the Black-Scholes valuation method to value the stock options at the time of grant.
7. Travel increased to \$25,488 (2012: \$9,947), due to costs relating to raising of funds by the CEO and consultants of the Company.

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### *Income/(loss) before other items*

The loss before other items for the 9 months ended September 30, 2013 was \$470,707, compared to a net loss before other items of \$139,326 for the 9 months ended September 30, 2012.

### *Other items*

We reported other income, generated from foreign exchange gain of \$960 for the 9 months ended September 30, 2013, as compared to a foreign exchange loss of \$11,109 for the 9 months ended September 30, 2012. The US dollar has strengthened against the Canadian dollar, and the Company receives all its revenue from wells located in the United States of America. We reported other income arising from interest earned of \$117 (2012: \$24). The Company paid \$29,932 as interest on its senior secured loan facility of \$1,000,000 for the 9 months ending September 30, 2013 (2012: \$nil).

### *Net Loss and Comprehensive loss for the period*

Comprehensive loss for the 9 months ended September 30, 2013 was \$499,562, compared to a comprehensive loss of \$150,411 for the 9 months ended September 30, 2012. The increase in loss for the 9 months ended September 30, 2013 was attributable to the items indicated above.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company had a working capital of \$296,052 as at September 30, 2013, compared to \$29,851 as at December 31, 2012. The increase in working capital was caused by the issuance of a senior secured loan facility of \$1,000,000; however this was reduced by the expenses incurred in arranging the facility.

The revenue we currently generate from natural gas and oil sales does not exceed our operating expenses. Our management anticipates that the current cash on hand may not be sufficient to fund our continued operations at the current level for the next twelve months. As such, we may require additional financing to fund our operations and proposed drilling activities in the Hartburg property for the year ended December 31, 2013. We will also require additional funds to expand our acquisition, exploration and production of natural oil and gas properties. Additional capital will be required to effectively expand our operations through the acquisition and drilling of new prospects and to implement our overall business strategy. We believe that debt financing may not be an alternative for funding as we have limited tangible assets to secure any debt financing. We intend to seek additional funding in the form of equity financing from the sale of our common stock, but cannot provide any assurance that we will be able to raise sufficient funding from the sale of our common stock to fund our operations and acquisition of new prospects. If we are unable to obtain additional financing, we will experience liquidity problems and management expects that we will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures. In particular, the Company may not be able to drill its third well in the Hartburg property. Any additional equity financing may involve substantial dilution to our then existing shareholders.

### *Cash flows provided by Operating Activities*

Operating activities used \$116,165 in cash for the 9 months ended September 30, 2013, compared to \$185,654 in cash used in operating activities for the 9 months ended September 30, 2012. The Company's increase in cash used in operations was caused by increases in expenses related to the issuance of the Company's loan facility.

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### *Cash Used in Investing Activities*

Cash flows used by investing activities for the 9 months ended September 30, 2013 was \$162,812, compared to \$588,984 cash flows used by investing activities for the 9 months ended September 30, 2012. The Company sold 50% of its Montana project for US\$550,000 and the Company sold 50% of holding in Muddy Creek for US\$400,000.

### *Cash flows from Financing Activities*

On July 19, 2013, the Company closed its initial draw of \$1,000,000 (the "Initial Draw") pursuant to a senior secured loan facility of up to \$2,000,000 arranged with Ascendant Securities Inc. ("ASI") on behalf of a group of clients of ASI (the "Lenders"). An additional \$1,000,000 may be drawn at the option of the Company subject to the terms and conditions of a trust indenture between the Company and ASI. In connection with the Initial Draw, the Company has issued senior secured debentures of the Company (the "Debentures") in an aggregate principal amount of \$1,000,000. The Debentures will bear interest at a rate of 15% per annum, compounded monthly. The principal amount of the Debentures evidencing the Initial Draw will mature on July 18, 2015. As part of the consideration for the Loan Facility, the Lenders will receive an aggregate 6% overriding royalty interest in the Company's proceeds from all oil, gas and other hydrocarbons produced from any new wells developed on the Company's Donner Properties using any portion of the proceeds from the Initial Draw. The Company has paid ASI a cash agent's fee of \$60,000, the first installment of an annual monitoring fee of \$25,000 and a 2% Royalty Interest for acting as collateral agent. The Company also issued an aggregate of 1,200,000 agent warrants. The Agent Warrants entitle the holder thereof to purchase up to 1,200,000 common shares of the Company at a price of \$0.10 per share until July 18, 2015. The Company incurred financing costs of \$135,000 which was deferred.

The Company raised net proceeds of \$340,304 from private placements for the 9 months ended September 30, 2012.

### *Off-Balance Sheet Arrangements*

We do not have any off-balance sheet debt nor did we 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**

The total number of common shares outstanding as of September 30, 2013 was 39,570,655.

## **SHARE PURCHASE WARRANTS**

The total number of share purchase warrants outstanding as of September 30, 2013 was 853,111 at a weighted average exercise price of \$0.12 per share, exercisable until February 28, 2014.

The total number of Agent's warrants outstanding as of September 30, 2013 was 1,311,600 at a weighted average exercise price of \$0.11 per share, exercisable until February 28, 2014 and July 18, 2015.

## **STOCK OPTIONS**

On March 22, 2011, the Company granted 1,550,000 stock options to officers and directors of the Company and 350,000 stock options to two consultants of the Company. The stock options are exercisable for a period of 5 years from the date of listing on the TSX Venture Exchange ("Listing") at an exercise price of \$0.20 per common share.

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On September 26, 2011, the Company granted 800,000 stock options to directors and consultants of the Company. The stock options are exercisable for a period of 5 years from the date of listing on the TSX Venture Exchange (“Listing”) at an exercise price of \$0.25 per common share.

On February 16, 2012, the Company granted 125,000 stock options to a consultant for investor relations. The stock options are exercisable for a period of 2 years from the date of listing on the TSX Venture Exchange (March 22, 2011) at an exercise price of \$0.20 per common share. The stock options granted have a vesting period of 25% that vest immediately and 25% vest over the next 9 months at three month intervals. Total stock-based compensation expense of \$11,231 has been charged to operations. The weighted average fair value of the options granted was \$0.09 per option. These options have expired as of June 30, 2013.

On September 6, 2013, the Company granted 1,750,000 stock options to officers, directors and consultants of the Company. The stock options are exercisable for a period of 5 years from the date of listing on the TSX Venture Exchange at an exercise price of \$0.06 per common share. The stock options granted vested immediately. Total stock-based compensation expense of \$82,446 has been charged to operations. The weighted average fair value of the options granted was \$0.05 per option.

The total number of stock options outstanding as of September 30, 2013 was 3,600,000 (2012: 2,825,000) at a weighted average exercise price of \$0.14 per share (2012: \$0.21).

### COMMITMENTS

There are no contracts related to management or rent.

### TRANSACTIONS

#### **RELATED PARTY TRANSACTIONS**

Related party transactions are with directors and a company controlled by a director and officer of the Company.

The following summarizes the Company’s related party transactions during the six months ended June 30, 2013 and 2012:

|  | <u>2013</u> | <u>2012</u> |
|--|-------------|-------------|
| Consulting fees to the Chief Executive Officer of the Company  | \$ 67,500   | \$ 67,500   |
| Consulting and accounting fees to companies controlled by the Chief Financial Officer of the Company | \$ 54,000   | \$ 53,000   |
| Consulting fee to the Director of the Company  | \$ 44,650   | \$ -        |

As at September 30, 2013, the Company owed \$nil (December 31, 2012 - \$2,822) to a director. Stock-based compensation of \$58,890 was recognised during the nine months ended September 30, 2013 (December 31, 2012 - \$nil), related to stock options granted to directors and officers.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

### **SUBSEQUENT EVENTS**

On October 3, 2013, the Company announces that it has entered into an exploration agreement regarding approximately 220 acres of certain oil and gas leases located in the Newton County, Texas, USA (the “Property”). Pursuant to the terms, the Company will pay a total of USD\$92,476 to the vendor,

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representing the acquisition costs for the Property. The Company shall pay 100% of the costs to drill and complete any agreed upon target wells. There are no mandatory drilling obligations. The drilling costs and completion costs are recoverable by the Company from the proceeds of production from the well to which costs are attributable. After completion of any well and payout of costs to the Company, all wells drilled on the Property are subject to a 50% back-in right of the vendor.

### **ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

Significant accounting policies used by Hillcrest are disclosed in note 3 to the December 31, 2012 audited 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, 2011.

### **NEW ACCOUNTING STANDARDS AND PRONOUNCEMENTS**

The following describes new accounting pronouncements that been issued but are not yet effective:

*IFRS 9 'Financial Instruments: Classification and Measurement'* – introduces new requirements for the classification and measurement of financial instruments.

*IFRS 10 'Consolidated Financial Statements'* – establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

*IFRS 11 'Joint Arrangements'* - provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.

*IFRS 12 'Disclosure of Interests in Other Entities'* - requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

*IFRS 13 'Fair Value Measurement'* - provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

*IAS 1 'Presentation of Financial Statements'* – improves the consistency and clarity of the presentation of items of other comprehensive income.

*IAS 27 'Separate Financial Statements'* – contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

*IAS 28 'Investments in Associates and Joint Ventures'* – prescribes the accounting for investments in associates and joint ventures and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

*IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine'* – clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.

Management anticipates that the above standards will be adopted in the Company's financial statements for the period beginning January 1, 2013 or later, and currently evaluating the impact of the adoption of these standards.

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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 geologic or 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 6 months ended June 30, 2013.

### **DISCLOSURE CONTROLS AND PROCEDURES**

Management has assessed the effectiveness of the Company's disclosure controls and procedures used for the financial statements and MD&A as at June 30, 2013. Management has concluded that the disclosure controls are effective in ensuring that all material information required to be filed has been made known to them in a timely manner. The required information was effectively recorded, processed, summarized and reported within the time period necessary to prepare the annual filings. The disclosure controls and procedures are effective in ensuring that information required to be disclosed pursuant to applicable securities laws are accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. Additional disclosures pertaining to the Company's material change reports, press releases and other information are available on the SEDAR website at [www.sedar.com](http://www.sedar.com)

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### **HEAD OFFICE**

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Tel: (604) 488 - 1514

### **OFFICERS & DIRECTORS**

Donald Currie,  
*President & CEO and Director*

Kulwant Sandher, CA  
*Chief Financial Officer*

Jason Oden  
*Director*

Dr. David Stone  
*Director*

Martin Wood  
*Director*

Thomas Milne  
*Director*

### **LISTINGS**

TSX Venture Exchange: **HRH**

### **CAPITALIZATION**

(as at November 22, 2013)

Shares Authorized: Unlimited

Shares Issued: 39,570,655

### **REGISTRAR TRANSFER AGENT**

Computershare  
11 - 100 University Avenue  
Toronto, ON, M5S 2Y1

### **AUDITOR**

Lancaster & David LLP  
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### **LEGAL COUNSEL**

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Vancouver, BC