



MANAGEMENT'S DISCUSSION AND ANALYSIS

Nine Month Period Ended
September 30, 2016

Report Date – November 25, 2016

HILLCREST PETROLEUM LTD.

Management's Discussion & Analysis
Nine Month Period Ended September 30, 2016

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 nine month period ended September 30, 2016. This MD&A should be read in conjunction with the Company's condensed interim consolidated financial statements for the nine month period ended September 30, 2016 and the audited annual consolidated financial statements for the year ended December 31, 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 new listing has expanded Hillcrest's corporate exposure and enables US investors to more easily acquire an ownership interest in the Company.

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

OIL AND GAS PROPERTIES

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

a) Gulf of Mexico Properties

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

After the acquisition of 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%. With the acquisition, the Company also assumed 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.

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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 all of its Working Interest in the Eugene Island 32 oil field in exchange for the settlement of US\$1,662,121 in existing payables owing to the purchaser, and the release of liability for any future asset retirement obligations currently estimated at US\$6,736,079 on an undiscounted basis.

Other Producing Fields

Hillcrest also produces 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 owns between a 4.1% and a 10.4% Working Interest in these Other Producing Fields.

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

b) Hartburg Property, Texas

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

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

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OIL AND GAS PROPERTIES (continued)

b) Hartburg Property, Texas (continued)

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

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

During 2014, both the Donner 4 well and the Brown 1 well were completed and placed into production. However, the Donner 4 was shut in during December 2014 due to sand coming into and plugging the well bore.

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. The contract operator has provided a cost summary focused on potentially solving issues for both the Donner 4 and Donner 2 wells. The cost summaries are currently being reviewed, and the Company expects to make a decision on how best to proceed by year end.

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

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

* Subject to a 10% overriding royalty that was granted to a lending group as part of the consideration for a Loan Facility.

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

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EXPLORATION AND EVALUATION PROPERTIES

a) 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 property and, accordingly, recorded an impairment of \$345,706.

b) 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 September 30, 2016, a total of 250,000 common shares of Black Stallion have been received. No new wells have been drilled on the property.

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EXPLORATION AND EVALUATION PROPERTIES (continued)

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 Carrera 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.

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.

d) Petit Project – Louisiana

On July 29, 2016, the Company entered into a definitive agreement (“Petit Agreement”) for the right to acquire up to a 75% working interest in 6,200 acres in the state of Louisiana. The terms of the Petit Agreement are as follows:

- The Company has agreed to undertake an initial six well development drilling program with a maximum commitment of US\$3,000,000. The Company will progressively earn a 75% working interest in 80 acre well spacing units associated with each well drilled in the initial program.
- The Company may, at its sole discretion, continue drilling to earn a 75% working interest in the entire project area by drilling a total of 10 wells, including the six wells from the initial program. After 10 wells are drilled, or when further development drilling in the project area is deemed to be self-financing from project production revenue, the Company will finance its working interest share of 75% of the cost of additional development wells.
- The Company will pay the vendor a cash acreage payment for each well drilled in the project area.
- The Company and vendor will negotiate a bonus to be paid in common shares of Hillcrest, subject to Exchange approval, for each barrel of oil reserves incrementally added to the proved, developed producing (“PDP”) category.
- The Company must pay US\$240,000 upon signing for acreage fees associated with the first six wells. (Paid)

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SELECTED ANNUAL INFORMATION

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

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

¹ Refer to Non-IFRS Financial Measures

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

SELECTED QUARTERLY INFORMATION

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

	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
	(\$)	(\$)	(\$)	(\$)
Total assets	13,956,890	13,855,275	13,771,072	15,208,251
Total liabilities	20,197,178	18,608,373	19,277,904	19,165,727
Revenues	176,982	582,967	478,752	712,630
Net income (loss)	(1,558,245)	171,700	(984,136)	(10,938,751)
Earnings (loss) per share	(0.03)	0.00	(0.02)	(0.22)
Weighted average common shares outstanding	53,377,177	51,295,655	51,174,776	50,295,655

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SELECTED QUARTERLY INFORMATION (continued)

	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
	(\$)	(\$)	(\$)	(\$)
Total assets	23,746,172	22,910,027	24,552,452	27,959,385
Total liabilities	21,771,923	18,957,554	18,655,110	18,377,583
Revenues	993,644	1,241,813	977,698	304,216
Net income (loss)	(935,389)	(1,560,902)	(1,267,481)	6,743,466
Earnings (loss) per share	(0.01)	(0.03)	(0.03)	0.17
Weighted average common shares outstanding	50,295,655	50,295,655	50,295,655	39,901,633

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

- a) During the quarter ended September 30, 2016, the Company recognized approximately US\$700,000 in previously disputed operating costs.
- b) During the quarter ended June 30, 2016, the Company received an insurance settlement payment of \$824,758 in connection with a 2013 rig incident at the Ship Shoal 271 field.
- c) During the quarter ended March 31, 2016, the total revenue decreased primarily due to the low oil price environment.
- d) 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.
- e) 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.
- f) 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 September 30, 2016

Revenues

The Company generated total revenue of \$176,982 during for the three month period ended September 30, 2016 ("Current Quarter"), a decrease of \$816,662 (82%) over the three month period ended September 30, 2015 ("Prior Quarter"). The 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 55 boe in the Current Quarter as compared to 262 boe in the Prior Quarter.

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RESULTS OF OPERATIONS (continued)

Costs and Expenses

The Company's expenses for the Current Quarter decreased from \$1,719,440 in the Prior Quarter to \$1,714,949. This was due primarily to reduced operating expenses and depletion expense after the disposal of the EI32 property which had an effective date of August 1, 2016 for the transfer of production rights. This reduction in costs was offset for the most part by the Company's recognition of certain previously disputed operating costs totaling approximately US\$700,000.

In addition, management instituted salary and consulting fee reductions across the Company to reduce corporate overhead while the Company reorganizes and sources a new significant asset acquisition.

Other items

During the Current Quarter, the Company reviewed the carrying value of its oil and gas interests for impairment indicators. It was determined that no indicators were present.

Nine Month Period Ended September 30, 2016

Revenues

The Company generated total revenue of \$1,238,701 during for the nine month period ended September 30, 2016 ("Current Period"), a decrease of \$1,974,454 (61%) over the nine month period ended September 30, 2015 ("Prior Period"). The decrease is a result of lower oil prices and decreased production in the Current Period 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 190 boe in the Current Period as compared to 324 boe in the Prior Period.

Costs and Expenses

The Company's expenses for the Current Period decreased from \$6,822,572 in the Prior Period to \$4,716,676. This was due to lower operating costs after the disposal of the EI32 property which had an effective date of August 1, 2016 for the transfer of production rights. In addition, it included a concerted effort by management to reduce costs in the current oil price environment.

The decrease in expenses during the Current Period is specifically attributable to the collective results of the following factors:

1. Financing expenses decreased by \$244,873 (42%) over the Prior Period due to the reduced principal balance outstanding on outstanding loan facilities.
2. Depletion and depreciation decreased by \$1,468,059 (71%) over the Prior Period. This decrease was caused by the disposal of the EI32 Property.
3. Office and general costs decreased by \$410,855 (27%) over the Prior Period. This was due to management efforts to cut costs in a low price oil environment, specifically to management consulting fees, investor relations and travel.

Other items

During the Current Period, the Company reviewed the carrying value of its oil and gas interests for impairment indicators. It was determined that no indicators were present.

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RESULTS OF OPERATIONS (continued)

The following commodity price estimates were used in determining whether an impairment to the carrying value of the CGUs existed at September 30, 2016:

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

Production Information

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

	Nine Month Period Ended September 30,		
	2016	2015	Change
			(%)
Crude oil (bbl)	25,549	49,824	(48)
Natural gas (Mcf)	63,195	165,133	(62)
Total boe ⁽¹⁾	36,081	77,346	(53)
Crude oil (bopd)	95	192	(51)
Natural gas (Mcfgpd)	234	605	(61)
Total boepd	133	283	(53)
Crude oil (%)	71	64	11
Natural gas (%)	29	36	(19)
Total (%)	100	100	

¹ Refer to Non-IFRS Financial Measures

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LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital deficiency of \$8,156,781 as at September 30, 2016, compared to \$6,602,537 as at December 31, 2015. The increase in working capital deficiency was a result of normal operating costs coupled with the recognition of approximately US\$700,000 in previously disputed operating costs.

Included in accounts payable and accrued liabilities as at September 30, 2016 is a provision for repairs of the drilling rig and offshore platform noted above totaling \$1,636,488 (December 31, 2015 - \$1,732,938). This amount has been accrued for costs and expenses related to Ship Shoal 271, a property located in the Gulf of Mexico, for which the operator has billed but are disputed by the Company as the expenditures were incurred without the consent of the working interest partners. The Company is currently in settlement discussions with the operator to resolve the disputed charges and does not expect to be responsible for the full amount of the provision.

The Company incurred a net loss of \$2,370,681 during and as at the nine month period ended September 30, 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 the Company completed the first tranche of a non-brokered private placement wherein it issued 7,300,000 units at \$0.05 per unit for gross proceeds of \$365,000. Each unit is 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 Petit Agreement and it is secured by the Petit Project assets. The Company will also require additional funds to complete the proposed drilling program at the Petit Project, perform re-completions and to drill additional wells on the Hartburg Project, and to acquire and develop additional oil and natural gas assets to further implement the Company's overall growth strategy.

Management has successfully utilized both debt and equity financing in the past, but there is no assurance that such funding will be available in the future or if it is that it will be on terms that are acceptable. If the Company is unable to obtain additional financing, it will experience liquidity problems and management expects that it will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures. Any additional equity financing may involve substantial dilution.

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.

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SUBSEQUENT EVENTS

Subsequent to September 30, 2016, the Company:

- a) completed the sale of all of its Working Interest in the Eugene Island 32 oil field in exchange for the settlement of US\$1,662,121 in existing payables owing to the purchaser, and the release of liability for any future asset retirement obligations currently estimated at US\$6,736,079 on an undiscounted basis.
- b) announced a non-brokered private placement wherein it will issue up to 15,000,000 units at \$0.05 per unit for gross proceeds of up to \$750,000. Each unit will be 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. The Company has completed a first tranche, subject to TSX-V approval, of 7,300,000 units for gross proceeds of \$365,000.

OUTSTANDING SHARE DATA

Nine Month Period Ended September 30, 2016

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 52,795,655.

SHARE PURCHASE WARRANTS

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

STOCK OPTIONS

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

Number of Options	Exercise Price (\$)	Expiry Date
1,400,000	0.06	September 9, 2018
500,000	0.06	November 26, 2018
1,900,000	0.06	

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COMMITMENTS

- a) The Company's wholly-owned subsidiary, Hillcrest GOM, Inc., entered into an office rental agreement in Houston, Texas on June 3, 2013, with a term of 50 months, terminating on July 31, 2017. The remaining base rent payable under the lease is US\$84,193. 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.
- b) The Company entered into an office rental agreement in Vancouver, British Columbia on October 8, 2015, with a term of 24 months, terminating on November 30, 2017. The rent payable under the lease is as follows:

Period	Annual Base Rent
	(\$)
July 1, 2016 to November 30, 2016	2,930
December 1, 2016 to July 31, 2017	18,250
	21,180

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

- c) On February 12, 2015, the Company entered into an Installment Agreement with the United States Department of the Interior and through the Office of Natural Resources Revenue (ONRR) in connection with a civil penalty assessed for failure to timely file corrections to monthly reports for plant products sold during the period of 2007-2008. The Company agreed to pay the balance of civil penalties of US\$313,176 in 60 monthly installments of US\$5,220 beginning on March 12, 2015 (Note 6(a)). A total of \$273,273 remains unpaid at September 30, 2016 (December 31, 2015 – \$361,741) and is included within accounts payable and accrued liabilities.

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.

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RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the nine month periods ended September 30, 2016 and 2015:

Key management compensation

	2016	2015
	(\$)	(\$)
Consulting fees paid or accrued to Michael Krzus, Executive Chairman of the Company	207,711	114,134
Consulting fees paid or accrued to the Don Currie, Chief Executive Officer ("CEO") of the Company	204,951	226,341
Professional and consulting fees paid or accrued to a corporation controlled by Sean McGrath, the Chief Financial Officer ("CFO") of the Company	88,837	64,697
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	208,626	230,081
	710,125	652,753

- a) As at September 30, 2016, a total of \$138,191 (December 31, 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 September 30, 2016, a total of \$106,699 (December 31, 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 September 30, 2016, a total of \$28,201 (December 31, 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 September 30, 2016, a total of \$65,460 (December 31, 2015 - \$Nil) was included in accounts payable and accrued liabilities owing to a Jason Oden, COO of the Company, for wages.

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CAPITAL MANAGEMENT

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

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

There were no changes in the Company's approach to capital management during the nine month period ended September 30, 2016.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies used by Hillcrest are disclosed in note 3 to the December 31, 2015 audited annual consolidated financial statements. Preparing financial statements in accordance with IFRS requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position. There were no changes to Hillcrest's critical accounting estimates during the nine month period ended September 30, 2016.

NEW ACCOUNTING STANDARDS AND PRONOUNCEMENTS

New standards, amendments and interpretations to existing standards

The following standards were adopted during the period:

IFRS 11, Accounting for Acquisitions of Interests in Joint Operations

Amended to provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business.

IAS 16 & IAS 38, Clarification of Acceptable Methods of Depreciation and Amortization

Amended to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and (ii) provide a rebuttable presumption for intangible assets.

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NEW ACCOUNTING STANDARDS AND PRONOUNCEMENTS (continued)

IAS 27, Equity Method in Separate Entity Financial Statements

Amended to restore the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

IAS 1, Presentation of Financial Statements

Amended as part of an overall disclosure initiative to improve the effectiveness of disclosure in financial statements.

The adoption of these revised standards did not have a material effect on these condensed interim consolidated financial statements.

The following standards, amendments to standards and interpretations have been issued for annual periods beginning on or after January 1, 2017 but are not yet effective:

IAS 12, Income Taxes

Amended to clarify the recognition of a deferred tax asset for unrealized losses.

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

IFRS 9, Financial instruments

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

IFRS 15, Revenue from Contracts with Customers

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

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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

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

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

NON-IFRS FINANCIAL MEASURES

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

a) BOE

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

b) EBITDA

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

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

c) Netback

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

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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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.

Financing Risks and Dilution to Shareholders

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.

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.

Litigation

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

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RISKS & UNCERTAINTIES (continued)

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.

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.

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RISKS & UNCERTAINTIES (continued)

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.

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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