MANAGEMENT'S DISCUSSION AND ANALYSIS

Six Month Period Ended
June 30, 2017

Report Date – August 21, 2017

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is provided by the management of Hillcrest Petroleum Ltd. ("Hillcrest" or the "Company") as at and for the six month period ended June 30, 2017. This MD&A should be read in conjunction with the Company's condensed interim consolidated financial statements for the six month period ended June 30, 2017 and the audited annual consolidated financial statements for the years ended December 31, 2016 and 2015 (the "Annual Financial Statements").

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

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

CORPORATE OVERVIEW

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

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

The Company is in the business of acquiring and developing exploration and production interests in oil and gas projects in North America. Management and consultants of the Company have extensive experience in oil and gas exploration, development and production and have the capability to expand the scope of the Company's activities as appropriate opportunities arise. Currently, the Company's focus is on conventional oil and gas opportunities in Western Canada (Refer to "Oil and Gas Properties" section).

OIL AND GAS PROPERTIES

a) Western Canada Properties

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

During the six month period ended June 30, 2017, the Company entered into a binding joint venture agreement ("JV Agreement") with a Canadian oil and gas company ("Juniorco") whereby the Company, via a wholly owned subsidiary, may earn up to a 75% Working Interest and become the operator of record in two petroleum assets located in the WCSB. Subject to completion of due diligence and necessary regulatory approvals, we expect this agreement to take effect during the third quarter of 2017.

OIL AND GAS PROPERTIES (continued)

a) Western Canada Properties (continued)

The primary terms of the JV Agreement are as follows:

- the Company, appointed as operator, will earn up to 75% of the Juniorco's working interest in the fields by contributing technical expertise and financing to restore production from the fields. The Company's working interest will revert to 50% once the Company has recovered all production restoration costs from the production revenues. Gross production from both fields collectively is expected to be approximately 400 barrels of oil per day upon restoration.

- Hillcrest has arranged third party project financing, and these funds are to be provided on a non-dilutive basis to Hillcrest shareholders. Total project financing, including the placement of operator deposits and license liability rating ("LLR") bonds, is estimated to cost $2,200,000. Project financing will be secured by both the assets and the Company.

- Approximately $900,000 in project costs is required to re-establish production from the fields by way of equipment installation and upgrades and well workovers. These projects are expected to reduce operating expenses and restore production, thereby increasing the operating netbacks.

- Project costs include the placement of approximately $1,300,000 in LLR bonds. The Company will, consistent with the regulatory requirements, request the return of these LLR bonds once economic production from the fields has been re-established for a certain period of time, thereby substantially reducing the net investment in the project.

- Hillcrest will immediately commence assessment of additional infield development opportunities, such as well recompletions and infill development drilling, which will be pursued in the second half of this year.

- Hillcrest shall obtain the regulatory approvals required for the Company to perform as an oil and gas operator within the provinces of Alberta and Saskatchewan.

- Upon obtaining all regulatory approvals, the production restoration project will commence.

On July 25, 2017, the Company received approval from the Alberta Energy Regulator ("AER") to operate oil and gas assets in Alberta.

OIL AND GAS PROPERTIES (continued)

b) Gulf of Mexico Properties

With an effective date of December 19, 2014, the Company completed the purchase of Gulfsands Petroleum USA Inc. ("GPUSA") for gross proceeds of US$50,000. GPUSA was subsequently renamed Hillcrest GOM Inc. ("HGOM"), and as at December 31, 2016 was a wholly owned subsidiary of Hillcrest.

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

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

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

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

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

All disclosure of scientific or technical information on the Company's Gulf of Mexico oil and gas property reserves contained in this MD&A is based on information prepared by or under the supervision of the Company's Independent Qualified Reserves Evaluators, D. Braxton and Associates. The Company filed its most recent annual 51-101F2 Report on Reserves Data as at December 31, 2016 on SEDAR on May 1, 2017.

On February 3, 2017, the Company placed its wholly-owned subsidiary HGOM into a Chapter 7 liquidation in the U.S. Court for the Southern District of Texas. As a result, the Company derecognized the remaining net liabilities of HGOM totaling $5,506,973.

OIL AND GAS PROPERTIES (continued)

c) Hartburg Properties, Texas

The Hartburg Properties currently consist of the following working interests to the Company:

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

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

During 2014, both the Donner 4 well and the Brown 1 well were completed and placed into production. However, the Donner 4 was shut in during December 2014 due to sand coming into and plugging the well bore. Initial attempts to swab in the well to remove the sand led to a portion of the swab line and swab mandrel becoming stuck in the well bore, and this obstruction must be removed via a "fishing" operation prior to the well being returned to production.

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

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

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

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

All disclosure of scientific or technical information on the Company's Hartburg oil and gas property reserves contained in this MD&A is based on information prepared by or under the supervision of the Company's Independent Qualified Reserves Evaluators, D. Braxton and Associates. The Company filed its most recent annual 51-101F2 Report on Reserves Data as of December 31, 2016 on SEDAR on May 1, 2017.

SELECTED QUARTERLY INFORMATION

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

	June 30, 2017	**March 31, 2017**	**December 31, 2016**	**September 30, 2016**
	($)	**($)**	**($)**	**($)**
Total assets	240,928	341,393	2,603,374	**13,956,890**
Total liabilities	1,342,837	1,115,837	9,386,371	**20,197,178**
Revenue, net of royalties	7,850	28,449	60,513	**176,982**
Expenses	(399,868)	6,457,881	(1,251,827)	**(1,735,227)**
Net income (loss)	(392,018)	6,486,330	(1,191,314)	**(1,558,245)**
Earnings (loss) per share	(0.01)	0.10	(0.02)	**(0.03)**
Weighted average common shares outstanding	68,995,655	67,314,544	54,700,003	53,377,177

	June 30, 2016	**March 31, 2016**	**December 31, 2015**	**September 30, 2015**
	($)	**($)**	**($)**	**($)**
Total assets	13,855,275	13,771,072	15,208,251	**23,746,172**
Total liabilities	18,608,373	19,277,904	19,165,727	**21,771,923**
Revenue, net of royalties	582,967	478,752	712,630	**993,644**
Expenses	(411,267)	(1,462,888)	(11,651,381)	**(1,929,033)**
Net income (loss)	171,700	(984,136)	(10,938,751)	**(935,389)**
Earnings (loss) per share	0.00	(0.02)	(0.22)	**(0.01)**
Weighted average common shares Outstanding	51,295,655	51,174,776	50,295,655	50,295,655

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

a) During the quarter ended June 30, 2017, revenue declined due to the sale of the Donner 1 well interest. The Company no longer has any producing wells in the Hartburg field.

b) During the quarter ended March 31, 2017, assets and liabilities both decreased substantially due to the derecognition of the net liabilities of HGOM, post Chapter 7 filing. Accordingly, the Company reported a gain on loss of control of HGOM of $6,847,550.

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

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

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

SELECTED QUARTERLY INFORMATION (continued)

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

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

SELECTED ANNUAL INFORMATION

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

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

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital deficiency of $805,512 as at June 30, 2017, compared to $6,279,346 as at December 31, 2016. The improvement in working capital deficiency was a result of approximately $5,700,000 in net liabilities being derecognized when the Company placed HGOM into Chapter 7 liquidation in the U.S. Court for the Southern District of Texas.

During the six month period ended June 30, 2017, the Company recorded net income of $6,286,063 which included a gain on loss of control of HGOM of $6,847,550. The revenue currently generated from natural gas and oil sales does not exceed the Company's operating expenses, and the Company reported a cash outflow from operations of $823,986. 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, access to equity financial markets and ultimately, the attainment of profitable operations. As a result, in November 2016 and January 2017, the Company completed two tranches of a non-brokered private placement wherein it issued an aggregate of 16,200,000 units at $0.05 per unit for gross proceeds of $810,000. Each unit was comprised of a common share and one half of a common share purchase warrant, and each whole warrant entitles the holder to acquire an additional common share at $0.08 for a period of two years from the date of closing.

The Company also borrowed $140,950 under a secured convertible debenture that bears interest at a rate of 20% per annum, payable semi-annually, and matures on May 31, 2019. The loan is convertible at the option of the lender into common shares of the Company at a price of $0.07.

LIQUIDITY AND CAPITAL RESOURCES (continued)

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.

Refer to Subsequent Events.

RESULTS OF OPERATIONS

Three Month Period Ended June 30, 2017

<u>Revenues</u>
The Company generated total revenue of $7,850 during for the three month period ended June 30, 2017 ("Current Quarter") as compared to $582,967 in the three month period ended June 30, 2016 ("Prior Quarter"). The 99% 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. The Company had no production in the Current Quarter as compared to 160 boe in the Prior Quarter. The revenue recorded in the Current Quarter related to the sale of oil that remained in the tanks as at March 31, 2017 when the Donner 1 well interest was sold.

<u>Expenses</u>
The Company's expenses for the Current Quarter marginally decreased by $11,399. This was due primarily to a reduction in office and general costs.

Six Month Period Ended June 30, 2017

<u>Revenues</u>
The Company generated total revenue of $36,299 during for the six month period ended June 30, 2017 ("Current Period") as compared to $1,061,719 in the six month period ended June 30, 2016 ("Prior Period"). The 97% decrease is a result of the significantly lower oil production in the Current Period after the disposal of the EI32 property which closed in October 2016. While the Company had producing assets, it produced an average of 6 boe in the Current Period as compared to 160 boe in the Prior Period.

<u>Expenses</u>
The Company's expenses for the Current Quarter decreased by $7,932,168. This was due primarily to the derecognition of HGOM which resulted in a gain on loss of control of $6,847,550. In addition, operating and administrative expenses were substantially reduced after the disposal of the Eugene Island 32 oil property interests.

RESULTS OF OPERATIONS (continued)

Production Information

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

	Six Month Period Ended June 30,		
	2017	**2016**	**Change**
			(%)
Crude oil (bbl)	546	22,082	(96)
Natural gas (Mcf)	-	54,279	(100)
Total boe	546	31,129	(97)
Crude oil (bopd)	6	122	(96)
Natural gas (Mcfgpd)	-	300	(100)
Total boepd	6	172	(97)
Crude oil (%)	100	71	47
Natural gas (%)	-	29	(100)
Total (%)	100	100	

OFF BALANCE SHEET ARRANGEMENTS

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

OUTSTANDING SHARE DATA

As at the Report Date there are 74,590,512 common shares outstanding.

SHARE PURCHASE WARRANTS

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

Number of Options	Exercise Price	Expiry Date
	($)	
5,312,500	0.08	December 30, 2017
3,650,000	0.08	December 8, 2018
4,450,000	0.08	January 18, 2019
1,997,428	0.10	July 7, 2019
800,000	0.10	July 14, 2019
16,209,928		

STOCK OPTIONS

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

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

SUBSEQUENT EVENTS

Subsequent to June 30, 2017, the Company completed a non-brokered equity private placement wherein it issued 5,594,857 units at $0.07 per unit for gross proceeds of $391,640. Each unit will consist of a common share and one half of a common share purchase warrant wherein each whole warrant entitles the holder to acquire an additional common share at a price of $0.10 for two years from the date of closing.

RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions during the six month periods ended June 30, 2017 and 2016:

Key management compensation

	2017	**2016**
	($)	**($)**
Consulting fees paid or accrued to Michael Krzus, Executive Chairman of the Company	-	158,858
Consulting fees paid or accrued to the Don Currie, Chief Executive Officer ("CEO") of the Company	-	158,426
Professional and consulting fees paid or accrued to a corporation controlled by Sean McGrath, the Chief Financial Officer ("CFO") of the Company	15,000	66,535
Salary and consulting fees paid or accrued to Jason Oden, Chief Operating Officer of the Company	-	-
Share-based payments paid to certain directors and officers of the Company in connection with the extension of the expiry date of share purchase warrants	141,411	159,734
	156,411	543,553

a) As at June 30, 2017, a total of $15,336 (December 31, 2016 - $158,767) was included in accounts payable and accrued liabilities owing to the CEO of the Company for consulting fees and reimbursable expenses.

b) As at June 30, 2017, a total of $26,638 (December 31, 2016 - $135,209) was included in accounts payable and accrued liabilities owing to the Executive Chairman of the Company for consulting fees and reimbursable expenses.

c) As at June 30, 2017, a total of $Nil (December 31, 2016 - $25,117) was included in accounts payable and accrued liabilities owing to a corporation controlled the CFO of the Company for consulting fees.

d) As at June 30, 2017, a total of $2,854 (December 31, 2016 - $67,335) was included in accounts payable and accrued liabilities owing to the COO of the Company for wages and reimbursable expenses.

COMMITMENTS

a) The Company entered into an office rental agreement in Vancouver, British Columbia with a term of 36 months, terminating on June 15, 2020. The remaining base rent payable under the lease is $73,378 up until the lease expires. In addition to the base rent of $2,067, the Company's share of operating costs is estimated at approximately $944 per month.

b) HEL entered into an office rental agreement with a term of 72 months, terminating on February 28, 2023. The remaining base rent payable under the lease is $159,827 up until the lease expires. In addition to the base rent, the Company's share of operating costs is estimated at approximately $1,547 per month.

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.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies used by Hillcrest are disclosed in note 3 to the December 31, 2016 audited annual consolidated financial statements. Preparing financial statements in accordance with IFRS requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position. There were no changes to Hillcrest's critical accounting estimates during the six month period ended June 30, 2017.

CAPITAL MANAGEMENT

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

The Company is primarily dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed using best efforts. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate available or committed financial resources to complete such acquisitions.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the six month period ended June 30, 2017. The Company is not subject to externally imposed capital requirements.

NEW ACCOUNTING STANDARDS AND PRONOUNCEMENTS

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

IFRS 9, Financial instruments

This new standard replaces International Accounting Standards ("IAS") 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces a new impairment model for financial assets and new rules for hedge accounting.

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

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

IFRS 15, Revenue from Contracts with Customers

This new standard is based on the principle that revenue should be recognized to depict the transfer of goods or services to customers at an amount that the entity expects it will be entitled to in exchange for those goods.

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

IFRS 2, Share-based Payment

Amendments to IFRS 2 in relation to the classification and measurement of share-based payment transactions.

IFRS 4, Insurance Contracts

Amendments to IFRS 4 are related to the adoption of IFRS 9, *Financial Instruments*. The amendments provide two options for entities that issue insurance contracts that fall within the scope of the standard.

IFRS 7, Financial Instruments: Disclosures

Amendments to IFRS 7 related to the application of IFRS 9, *Financial Instruments*.

IAS 40, Investment Property

Amendments to IAS 40 to clarify transfers of property to, or from, investment property.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

IFRIC 22 is a new interpretation, which clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

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 new standard replaces the existing leasing guidance in IAS 17, Leases.

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

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

The following standard has been issued for annual periods beginning on or after January 1, 2021 but is not yet effective:

IFRS 17, Insurance Contracts

IFRS 17 is a new standard that requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4, *Insurance Contracts*, and related interpretations.

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

FORWARD-LOOKING STATEMENTS

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

FORWARD-LOOKING STATEMENTS (continued)

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

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

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

RISKS & UNCERTAINTIES

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

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

RISKS & UNCERTAINTIES (continued)

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

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

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

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

RISKS & UNCERTAINTIES (continued)

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

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

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

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

RISKS & UNCERTAINTIES (continued)

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

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

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

ADDITIONAL DISCLOSURE

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

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