HILLCREST RESOURCES LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

For the 3 months Ended March 31, 2012

Dated May 25, 2012

This Management Discussion & Analysis ("MD&A") is provided by management of Hillcrest Resources Ltd. (“Hillcrest” or the “Company”) as at and for the 3 months ended March 31, 2012. The commentary in this MD&A is based on information available to May 25, 2012.

This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2011 and 2010. All amounts are in Canadian dollars unless otherwise specified.

Additional information relating to the Company, including the consolidated financial statements for the 3 months ended March 31, 2012 are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at **www.sedar.com.**

Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements. The use of any of the words "believe", "expect", "estimate", "will", "should", "intend" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes these expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward looking statements included herein should not be unduly relied upon. Actual results and developments may differ materially from those contemplated by the forward looking statements. The forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A and, accordingly, is subject to change after such date. We expressly disclaim any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law.

Overview

PRINCIPAL BUSINESS AND CORPORATE HISTORY

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

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

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

The oil and gas industry is subject, by its nature, to environmental hazards and clean-up costs. At this time, management knows of no substantial costs from environmental accidents or events for which the Company may be currently liable. In addition, the Company's oil and gas business makes it vulnerable to changes in prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future. By definition, proved reserves are based on estimated future oil and gas prices and costs. Price declines reduce the estimated quantity of proved reserves and increase annual depletion expense (which is based on proved and probable reserves).

Management and consultants of the company have extensive experience in oil and gas exploration, development and production and have the capability to expand the scope of the Company's activities as appropriate opportunities arise. Since the company's founding on May 2, 2006, the company has acquired seed funding, put in place an operation structure, set up offices in Vancouver, British Columbia, and Houston, Texas and engaged key exploration and land personnel, and added to its initial oil and natural gas assets and associated equipment by raising capital via private placements and internally generated funds..

OIL AND GAS PROPERTIES

The Company produced oil from two fields located within the State of Texas in 2011. During the year, the Company maintained and increased production by selective work-overs of individual wells within the Livinsgston Property and by drilling, completing and tying in the Donner #2 well within the Hartburg Project area. The Company also benefited from an increase in commodity prices for the year ended December 31, 2011.

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

a) Livingston Property, Texas

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

Well Name	March 31, 2012		March 31, 2011	
	Production, Bbls	**Revenue $**	**Production, Bbls**	**Revenue $**
Texon	422	44,813	336	32,995

The increase in production for the wells at the Livingston property for the 3 months ended March 31, 2012 was due to the work-over that the Company initiated, when compared to the corresponding period in the prior year.

b) Hartburg Project, Texas

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

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

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

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

	Donner #1	Donner 2 and Prospect 2
Before payout	54%	48%
After payout	22.5%	27%

The main focus for the Company is a 3 to 4 well drilling and production program in Newton County, Texas. The Company has successfully drilled and completed the first well with production starting in August 2010. The well (Donner#1) has maintained production averaging 47 barrels per day. With the success for the first well, the Company commissioned a 51-101 National Instrument report for the purpose of the prospectus filing. Results of the report can be found in the body of the prospectus document.

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

Well Name	March 31, 2012		March 31, 2011	
	Production, Bbls	**Revenue $**	**Production, Bbls**	**Revenue $**
Donner #1	843	108,614	1,536	150,792
Donner #2	132	13,326	-	-

The decrease in revenue for Donner #1, for the 3 months ended March 31, 2012 when compared to the corresponding year, was attributable to a decrease in working interest as a result of attaining the after payout terms as stated above..

The increase in production for Donner #2 for the 3 months ended March 31, 2012 was due to the well commencing production in late 2011.

c) Tulla Property, Teton and Pondera County, Texas

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

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

Well Name	March 31, 2012		March 31, 2011	
	Production, Bbls	**Revenue $**	**Production, Bbls**	**Revenue $**
Tulla	623	51,906	-	-

SELECTED ANNUAL & QUARTERLY INFORMATION

SELECTED ANNUAL INFORMATION

For the years ended December 31, 2011, 2010 and 2009 ($)

Audited	2011	2010	2009
Total assets	3,445,915	1,211,457	295,699
Total Liabilities	313,378	509,774	31,772
Shareholders equity	3,132,537	701,683	263,927
Revenue	754,928	269,396	2,537
Write down of resource properties	-	-	(20,388)
Foreign exchange gain	12,359	6,392	-
Other income	-	-	13,940
Expenses	1,466,841	169,531	128,965
Net income(loss)	(699,554)	106,257	(128,636)
Income (loss) per share	(0.03)	0.00	(0.01)

SELECTED QUARTERLY INFORMATION

By recent eight Quarters ($)

	IFRS	IFRS	IFRS	IFRS	IFRS	GAAP	GAAP	GAAP
	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Total assets	4,400,455	3,445,915	2,568,595	2,677,401	2,737,770	1,211,457	968,088	**843,079**
Total liabilities	155,958	313,378	219,714	300,332	401,693	509,774	324,230	**262,927**
Shareholders equity	4,244,497	3,132,537	2,348,881	2,377,069	2,336,077	701,683	643,858	**571,428**
Revenues	**205,608**	**207,894**	**165,300**	**197,947**	**183,787**	**155,495**	**70,197**	43,704
Major expense items								
Consulting fees	59,953	103,672	57,597	38,258	41,500	34,750	1,500	**7,000**
Management fees	Nil	Nil	Nil	Nil	Nil	Nil	Nil	**Nil**
Professional fees	19,583	53,885	1,015	84,891	6,279	25,192	5,518	**8,021**
Depletion	28,215	11,984	19,047	12,133	16,559	33,225	4,373	**2,204**
Stock-Based Compensation	25,487	Nil	185,756	Nil	525,295	Nil	Nil	**Nil**
Write-down of resource properties	Nil	Nil	Nil	Nil	Nil	Nil	Nil	**Nil**
Net income (loss)	**(94,207)**	**(64,045)**	**(104,772)**	**(18,149)**	**(512,588)**	**48,826**	**48,707**	16,403
Income (loss) per share	0.00	0.00	0.00	0.00	(0.03)	0.00	0.00	0.00

RESULTS OF OPERATIONS

For the 3 months ended March 31, 2012 and 2011

We generated total revenue of $205,608 for the 3 months ended March 31, 2012, an increase of approximately 12% from revenues of $183,787 for the 3 months ended March 31, 2011. The increase in total revenue for the 3 months ended March 31, 2012, when compared to the 3 months ended March 31, 2011, was caused by the addition of producing wells in Texas and Montana, USA.

Costs and Expenses

We incurred costs and expenses in the amount of $292,626 for the 3 months ended March 31, 2012, representing approximately an 58% reduction from costs and expenses of $692,074 for 3 months ended March 31, 2011.

The decrease in costs and expenses for the 3 months ended March 31, 2012, when compared to the 3 months ended March 31, 2011, is primarily attributable to the collective results of the following factors:

1. Operating costs relating to the production of oil and natural gas sales was $69,035 (2011: S27,644). The increase in operating costs was caused by the additional royalties being paid on the Tulla prospect.
2. Consulting fees for 3 months ended March 31, 2012 increased to $59,953, compared with $41,500 for the 3 months ended March 31, 2011. The increase was caused by the addition of executive management as the Company furthered it's objectives to become an oil and gas company.
3. Depletion and depreciation increased to $28,215 for the 3 months ended March 31, 2012, as compared to $16,884 for the corresponding year. The increase was caused by the addition of producing wells and an increase in production during the 3 months ended March 31, 2012 for the properties located in Texas and Montana, USA.
4. Filing and transfer agent fees decreased to $14,874 for the 3 months ended March 31, 2012, from $49,889 for the 3 months ended March 31, 2011. The decrease was caused by a reduction in fees as the Company's initial public offering occurred during the year ended December 31, 2011.
5. Professional fees increased to $19,583 for the 3 months ended March 31, 2012, representing an increase of 212% from $6,279for the 3 months ended March 31, 2011. The increase was caused by an increase in legal costs relating to the Company's private placements and the review of legal documentation relating to the Company's acquisition of oil and gas prospects.
6. Stock-based compensation decreased to $25,487, for the 3 months ended March 31, 2012 as compared to $525,295 for the 3 months ended March 31, 2011. The decrease resulted from a reduction in the issuance of stock options during the 3 months ended March 31, 2012. The Company uses the Black-Scholes valuation method to value the stock options at the time of grant.

Income/(loss) before other items

The loss before other items for the 3 months ended March 31, 2012 was $(87,018), compared to a net income before other items of $(508,287) for the 3 months ended March 31, 2011.

Other items

We reported other income, generated from foreign exchange loss of $7,197 for the 3 months ended March 31, 2012, as compared to other income of $2,893 for the 3 months ended March 31, 2011. We reported other income arising from interest earned of $7 (2011: $nil).

Comprehensive income/(loss) for the period

Comprehensive income/(loss) for the 3 months ended March 31, 2012 was $(94,207), compared to a comprehensive income/(loss) of $(505,344) for the 3 months ended March 31, 2011. The decrease in loss for the 3 months ended March 31, 2012 was attributable to the items indicted above.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital of $452,736 as at March 31, 2012, compared to $1,410,189 as at March 31, 2011. The decrease in working capital was caused by the Company's purchase of oil and gas properties and the loss during the 3 months ended March 31, 2012.

The revenue we currently generate from natural gas and oil sales does not exceed our operating expenses. Our management anticipates that the current cash on hand may not be sufficient to fund our continued operations at the current level for the next twelve months. As such, we may require additional financing to fund our proposed drilling activities for the year ended December 31, 2012. We may also require additional funds to expand our acquisition, exploration and production of natural oil and gas properties. Additional capital will be required to effectively expand our operations through the acquisition and drilling of new prospects and to implement our overall business strategy. We anticipate that additional funding will be in the form of equity and/or debt financing from the sale of our common stock. We intend to seek additional funding in the form of equity and/or debt financing from the sale of our common stock, but cannot provide any assurance that we will be able to raise sufficient funding from the sale of our common stock to for the acquisition of new prospects. If we are unable to obtain additional financing, we will experience liquidity problems and management expects that we will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures. Any additional equity financing may involve dilution to our then existing shareholders.

The Company does not currently have credit facilities to finance its projects; however, we do not require additional funds at present to complete the development objectives.

Cash flows provided by Operating Activities

Operating activities used $(264,053) in cash for the 3 months ended March 31, 2012, compared to $(56,227) in cash generated from operating activities for the 3 months ended March 31, 2011. The Company's increase in cash used in operations was caused by the loss during the quarter ended March 31, 2012, the reduction in accounts payable and an increase in accounts receivable.

Cash Used in Investing Activities

Cash flows used by investing activities for the 3 months ended March 31, 2012 was $247,055, compared to $36,119 cash flows used by investing activities for the 3 months ended March 31, 2011. Our negative cash flow from investing activities for the 3 months ended March 31, 2012 was primarily caused by investments in natural gas and oil working interests.

Cash flows from Financing Activities

The Company raised $330,580 from private placements for the 3 months ended March 31, 2012 and $1,741,776 for the 3 months ended March 31, 2011.

Off-Balance Sheet Arrangements

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

OUTSTANDING SHARE DATA

The total number of common shares outstanding as of March 31, 2012 was 40,650,211.

SHARE PURCHASE WARRANTS

The total number of share purchase warrants outstanding as of March 31, 2012 was 3,127,889 at a weighted average exercise price of $0.19 per share, exercisable until April 8, 2012 and February 28, 2014.

The total number of Agent's warrants outstanding as of March 31, 2012 was 547,667 at a weighted average exercise price of $0.20 per share, exercisable until March 17, 2013 and February 28, 2014.

STOCK OPTIONS

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

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

The total number of stock options outstanding as of March 31, 2012 was 2,825,000 at a weighted average exercise price of $0.21 per share. The total number of stock options exercisable on March 31, 2012 are 2,731,250 at an weighted average exercise price of $0.21 per common share.

COMMITMENTS

There are no contracts related to management or rent.

TRANSACTIONS

RELATED PARTY TRANSACTIONS

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

The following summarizes the Company's related party transactions during the three months ended March 31, 2012 and 2011:

	2012	2011
Consulting fees to directors and companies controlled by a director of the Company	**$ 39,500**	$ 21,000

As at March 31, 2012, due from related parties includes $599 (December 31, 2011 - $ 610) advanced to a company controlled by the Chief Executive Officer of the Company for legal fee. The Company owes the Chief Executive Officer of the Company, a company controlled by the Chief Financial Officer and the director a total of $8,171 (December 31, 2011- $6,697), which is included in accounts payable and accrued liabilities.

Stock-based compensation of $nil was recognised during the three months ended March 31, 2012 (year ended December 31, 2011 - $548,725), related to stock options granted to directors and officers.

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

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies used by Hillcrest are disclosed in note 3 to the December 31, 2011 audited consolidated financial statements. Preparing financial statements in accordance with IFRS requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position. There were no changes to Hillcrest's critical accounting estimates during the year ended December 31, 2011.

NEW ACCOUNTING STANDARDS AND PRONOUNCEMENTS

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

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

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

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

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

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

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

IAS 19 'Employee Benefits' – revises the accounting for defined benefit plans as well as the recognition and measurement of defined benefit plan pension expense and other benefits.

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

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

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

Management anticipates that the above standards will be adopted in the Company's financial statements for the period beginning January 1, 2012 or later, and currently evaluating the impact of the adoption of these standards.

CAPITAL MANAGEMENT

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

The Company is dependent on external financing to fund its activities. In order to carry out planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek

to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate available or committed financial resources to complete such acquisitions.

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

There were no changes in the Company's approach to capital management during the 3 months ended March 31, 2012.

DISCLOSURE CONTROLS AND PROCEDURES

Management has assessed the effectiveness of the Company's disclosure controls and procedures used for the financial statements and MD&A as at December 31, 2011. Management has concluded that the disclosure controls are effective in ensuring that all material information required to be filed has been made known to them in a timely manner. The required information was effectively recorded, processed, summarized and reported within the time period necessary to prepare the annual filings. The disclosure controls and procedures are effective in ensuring that information required to be disclosed pursuant to applicable securities laws are accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. Additional disclosures pertaining to the Company's material change reports, press releases and other information are available on the SEDAR website at **www.sedar.com**

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LISTINGS

TSX Venture Exchange: **HRH**

CAPITALIZATION
(as at May 25, 2012)
Shares Authorized: Unlimited
Shares Issued: 40,650,211

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