

HILLCREST RESOURCES LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2011

Dated April 27, 2012

This Management Discussion & Analysis ("MD&A") is provided by management of Hillcrest Resources Ltd. ("Hillcrest" or the "Company") as at and for the year ended December 31, 2011. The commentary in this MD&A is based on information available to April 27, 2012.

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This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 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 year ended December 31, 2011 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).

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

OIL AND GAS PROPERTIES

The Company produced oil from two fields located within the State of Texas in 2011. During the year, the Company maintained and increased production by selective work-overs of individual wells within the Livingston Property and by drilling, completing and tying in the Donner #2 well within the Hartburg Project area. 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	December 31, 2011		December 31, 2010	
	Production, Bbls	Revenue \$	Production, Bbls	Revenue \$
Texon	1,218	129,441	1,294	90,133

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:

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	<u>Donner #1</u>	<u>Donner 2 and Prospect 2</u>
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	December 31, 2011		December 31, 2010	
	Production, Bbls	Revenue \$	Production, Bbls	Revenue \$
Donner #1	4,735	522,571	2,212	179,262
Donner #2	955	102,916	-	-

The increase in revenue for the Donner #1, for the year ended December 31, 2011 when compared to the corresponding year, was attributable to an increase in commodity prices and the well was in production for the whole year as opposed to 4 months during the year ended December 31, 2010.

The increase in production for Donner #2 for the year ended December 31, 2011 was due to the well commencing production during 2011.

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)

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SELECTED QUARTERLY INFORMATION

By recent eight Quarters (\$)

	IFRS	IFRS	IFRS	IFRS	GAAP	GAAP	GAAP	GAAP
	December	September	June 30,	March 31,	December	September	June 30,	March
	31, 2011	30, 2011	2011	2011	31, 2010	30, 2010	2010	31, 2010
Total assets	3,445,915	2,568,595	2,677,401	2,737,770	1,211,457	968,088	843,079	448,641
Total liabilities	313,378	219,714	300,332	401,693	509,774	324,230	262,927	39,089
Shareholders equity	3,132,537	2,348,881	2,377,069	2,336,077	701,683	643,858	571,428	417,230
Revenues	207,894	165,300	197,947	183,787	155,495	70,197	43,704	Nil
Major expense items								
Consulting fees	103,672	57,597	38,258	41,500	34,750	1,500	7,000	1,000
Management fees	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Professional fees	53,885	1,015	84,891	6,279	25,192	5,518	8,021	1,137
Depletion	11,984	19,047	12,133	16,559	33,225	4,373	2,204	Nil
Stock-Based Compensation	Nil	185,756	Nil	525,295	Nil	Nil	Nil	Nil
Write-down of resource properties	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net income (loss)	(64,045)	(104,772)	(18,149)	(512,588)	48,826	48,707	16,403	(7,679)
Income (loss) per share	0.00	0.00	0.00	(0.03)	0.00	0.00	0.00	(0.01)

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RESULTS OF OPERATIONS

For the years ended December 31, 2011 and 2010

We generated total revenue of \$754,928 for the year ended December 31, 2011, an increase of approximately 180% from revenues of \$269,396 for the year ended December 31, 2010. The increase in total revenue for the year ended December 31, 2011, when compared to the year ended December 31, 2010, was caused by the addition of producing wells in Texas, USA.

Costs and Expenses

We incurred costs and expenses in the amount of \$1,466,841 for the year ended December 31, 2011, representing approximately an eight fold increase from costs and expenses of \$169,531 for year ended December 31, 2010.

The increase in costs and expenses for the year ended December 31, 2011, when compared to the year ended December 31, 2010, 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 \$111,876.
2. Consulting fees for the year ended December 31, 2011 increased to \$241,027, compared with \$44,250 for the year ended December 31, 2010. The increase was caused by the addition of executive management as the Company furthered its objectives to become an oil and gas company.
3. Depletion and depreciation increased to \$59,723 for the year ended December 31, 2011, as compared to \$41,574 for the corresponding year. The increase was caused by the addition of producing wells and an increase in production during the year ended December 31, 2011.
4. Filing and transfer agent fees increased to \$99,508 for the year ended December 31, 2011, from \$2,600 for the year ended December 31, 2010. The increase was caused by the Company's initial public offering and private placements during the year ended December 31, 2011.
5. Professional fees increased to \$146,070 for the year ended December 31, 2011, representing an increase of 266% from \$39,868 for the year ended December 31, 2010. The increase was caused by an increase in legal costs relating to the Company's initial public offering and the review of legal documentation relating to the Company's acquisition of oil and gas prospects.
6. Stock-based compensation increased to \$711,051, for the year ended December 31, 2011. The stock options were issued to directors, officers and consultants of the Company and the Black-Scholes valuation method was used to value the options at the time of grant.

Income/(loss) before other items

The loss before other items for the year ended December 31, 2011 was \$(711,913), compared to a net income before other items of \$99,865 for the year ended December 31, 2010.

Other items

We reported other income, generated from foreign exchange gain of \$12,359 for the year ended December 31, 2011, as compared to other income of \$6,392 for the year ended December 31, 2010.

Net Income/(loss) before comprehensive income

Comprehensive income/(loss) for the year ended December 31, 2011 was \$(699,554), compared to a comprehensive income/(loss) of \$106,257 for the year ended December 31, 2010. The increase in loss for the year ended December 31, 2011 was attributable to an increase in expenses, which was partially offset by an increase in revenues from the additions of new producing wells.

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For the 3 months ending December 31, 2011

We generated total revenue of \$207,894 for the 3 months ended December 31, 2011, an increase of approximately 34% from revenues of \$155,495 for the 3 months ended December 31, 2010. The increase in total revenue for the 3 months ended December 31, 2011, when compared to corresponding period ended December 31, 2010, was caused by the addition of producing wells in Texas, USA.

Costs and Expenses

We incurred costs and expenses in the amount of \$248,969 for the 3 months ended December 31, 2011, representing a 75% increase from costs and expenses of \$106,669 for 3 months ended December 31, 2010.

The increase in costs and expenses for the 3 months ended December 31, 2011, when compared to the 3 months ended December 31, 2010, 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 \$41,236.
2. Consulting fees for the 3 months ended December 31, 2011 increased to \$103,672, compared with \$34,750 for the 3 months ended December 31, 2010. The increase was caused by the addition of executive management as the Company furthered its objectives to become an oil and gas company.
3. Depletion and depreciation decreased to \$11,894 for the 3 months ended December 31, 2011, as compared to \$33,225 for the corresponding year. The decrease was caused by an increase in reserves, which resulted in a decrease in depletion for the quarter ended December 31, 2012.
4. Professional fees increased to \$53,885 for the 3 months ended December 31, 2011, representing an increase of 114% from \$25,192 for the 3 months ended December 31, 2010. The increase was caused by an increase in legal costs relating to the Company's review of legal documentation relating to the Company's acquisition of oil and gas prospects.

Income/(loss) before other items

The loss before other items for the 3 months ended December 31, 2011 was \$(41,075), compared to a net income before other items of \$42,434 for the 3 months ended December 31, 2010.

Net Income/(loss) before comprehensive income

Comprehensive income/(loss) for the 3 months ended December 31, 2011 was \$(64,045), compared to a comprehensive income/(loss) of \$48,826 for the 3 months ended December 31, 2010. The increase in loss for the 3 months ended December 31, 2011 was attributable to an increase in expenses, which was partially offset by an increase in revenues from the additions of new producing wells.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital of \$188,922 as at December 31, 2011, compared to \$(330,126) for the year ended December 31, 2010. The increase in working capital was caused by the Company's increase in revenues and the Company's Initial Public Offering

The revenue we currently generate from natural gas and oil sales does not exceed our operating expenses. Our management anticipates that the current cash on hand may not be sufficient to fund our continued operations at the current level for the next twelve months. As such, we may require additional financing to fund our operations and proposed drilling activities for the year ended December 31, 2012. We will also require additional funds to expand our acquisition, exploration and production of natural oil and gas properties. Additional capital will be required to effectively expand our operations through the acquisition and drilling of new prospects and to implement our overall business strategy. We believe that debt

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financing will not be an alternative for funding as we have limited tangible assets to secure any debt financing. We anticipate that additional funding will be in the form of equity financing from the sale of our common stock. We intend to seek additional funding in the form of equity financing from the sale of our common stock, but cannot provide any assurance that we will be able to raise sufficient funding from the sale of our common stock to fund our operations and acquisition of new prospects. If we are unable to obtain additional financing, we will experience liquidity problems and management expects that we will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures. Any additional equity financing may involve substantial 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 \$(131,814) in cash for the year ending December 31, 2011, compared to \$143,493 in cash generated from operating activities for the year ended December 31, 2010. The Company used its cash flow to fund acquisition of prospects.

Cash Used in Investing Activities

Cash flows used by investing activities for the year ending December 31, 2011 was \$1,647,377, compared to \$592,438 cash flows used by investing activities for the year ended December 31, 2010. Our negative cash flow from investing activities for the year ending December 31, 2011 was primarily caused by investments in natural gas and oil working interests.

Cash flows from Financing Activities

The Company raised \$2,574,087 from private placements for the year ending December 31, 2011 and \$330,500 for the ended December 31, 2010. This was offset by the repayment of a loan December 31, 2011: \$219,047 and share issue costs of \$308,557.

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 December 31, 2011 was 33,646,433.

SHARE PURCHASE WARRANTS

The total number of share purchase warrants outstanding as of December 31, 2011 was 2,453,000 at an exercise price of \$0.10 per share, exercisable until April 8, 2012.

The total number of Agent's warrants outstanding as of December 31, 2011 was 436,067 at an exercise price of \$0.20 per share, exercisable until March 17, 2013.

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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 December 31, 2011 was 2,700,000 at a weighted average exercise price of \$0.21 per 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 years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Deferred exploration costs paid to a company controlled by a director of the Company	\$ <u> -</u>	\$ <u> -</u>
Consulting fees to directors and companies controlled by a former director of the Company	\$ <u> 101,500</u>	\$ <u> 27,750</u>
Consulting fees to the former president of the Company	\$ <u> 5,000</u>	\$ <u> -</u>

As at December 31, 2011, due from related parties includes \$610 (December 31, 2010 - \$ nil, January 1, 2010 - \$nil) 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 and a company controlled by the former Chief Financial Officer and the former president, a total of \$6,697 (December 31, 2010: \$20,367, January 1, 2010 - \$nil), which is included in accounts payable and accrued liabilities.

Stock-based compensation of \$548,725 was recognised during the year ended December 31, 2011, 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.

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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.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the Company's date of transition).

IFRS 1 requires that the same policies are applied for all periods presented in the first IFRS financial statements and that those policies comply with IFRSs in effect as at the end of the first IFRS annual reporting period. Accordingly, the opening IFRS statement of financial position, 2010 comparatives and current financial statements have been prepared using the same policies. The previously presented 2010 Canadian GAAP financial information has been reconciled to the IFRS information as part of this transition note in accordance with the requirements of IFRS 1. Further, the policies applied have been done so on a full retrospective basis unless an alternative treatment is permitted or required by an IFRS 1 election or exception.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Set out below are the applicable IFRS 1 optional exemptions and mandatory exceptions applied by the Company in the conversion from Canadian GAAP to IFRS:

OPTIONAL EXEMPTIONS

(i) Exemption for share-based payment transactions

An IFRS 1 exemption allows the Company to not apply IFRS 2, '*Share-based Payment*', to equity instruments granted after November 7, 2002 that vested before the date of transition to IFRS. The Company has elected to take the exemption and, as a result, was only required to recalculate the impact on any share based payments that have not vested at the date of transition, of which there were none.

(ii) Cumulative Translation Adjustment

International Accounting Standard 21 ("IAS 21") requires an entity to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity. However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to IFRSs. If a first-time adopter uses this exemption the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRSs. The Company has elected to apply IAS 21.

(iii) Exemption for borrowing costs

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IFRS 1 allows a first time adopter to apply the transitional provisions set out in IAS 23, '*Borrowing Costs*'. Taking this exemption allows the Company to apply IAS 23 prospectively from the date of transition. The Company has not elected to adopt the remaining voluntary exemptions or they do not apply to the Company.

(iv) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, '*Business Combinations*' retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has elected to apply IFRS 3 to only those business combinations that occurred on or after the transition date and such business combinations have not been restated. As a result of this election, no adjustments were required to the Company's statement of financial position as at the transition date due to no business combinations.

MANDATORY EXCEPTIONS

The IFRS 1 mandatory exception applied by the Company in the conversion from Canadian GAAP to IFRS is as follows:

(i) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP unless those estimates were in error. The Company's IFRS estimates as at the transition date are consistent with its Canadian GAAP estimates as at that date.

IMPACT OF ADOPTING IFRS

In preparing the opening IFRS statement of financial position and the financial statements for the year ended December 31, 2011, the Company did not identify any adjustments to the amounts reported previously in the financial statements prepared in accordance with Canadian GAAP. IFRS 1 requires an entity to reconcile equity, comprehensive loss, and cash flows for prior periods. There were no changes made to the statements of financial position, statements of loss and comprehensive loss, and cash flows.

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.

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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.

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Consolidated Statement of Financial Position (Unaudited)

	31-Dec-2009	IFRS	1-Jan-2010	
	GAAP	Adjustments	Notes	IFRS
ASSETS				
Current				
Cash	\$ 16,506	\$ -	\$	16,506
Short term investment	20,000	-		20,000
Accrued interest receivable	785	-		785
Accounts receivable	2,537	-		2,537
Government remittances	2,456	-		2,456
Prepaid expenses	-	-		-
Fund advanced for exploration	36,760	-		36,760
Due from related parties	-	-		-
Total current assets	79,044	-		79,044
Non-current assets				
Deferred financing costs	-	-		-
Equipment (note 5)	3,495	-		3,495
Oil and gas properties (note 6)	213,160	-		213,160
TOTAL ASSETS	\$ 295,699	\$ -	\$	295,699
LIABILITIES & SHAREHOLDERS EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	\$ 31,772	\$ -	\$	31,772
Total current liabilities	31,772	-		31,772
SHAREHOLDERS' EQUITY				
Share capital (note 9)	1,560,431	-		1,560,431
Reserves				
Deficit	(1,296,504)	-		(1,296,504)
Total shareholders' equity	263,927	-		263,927
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	\$ 295,699	\$ -	\$	295,699

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

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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 year ended December 31, 2011.

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

SUBSEQUENT EVENTS

The Company entered into a purchase and sale agreement with 0914577 BC Ltd. to acquire certain oil and gas properties in Pondera County, Montana. As consideration the Company will issue 2,000,000 common shares.

Offering of a non-brokered private placement of up to 10 million units at a price of \$0.18 per unit. Each unit will consist of one common share and one half warrant with each whole warrant exercisable at a price of \$0.30 for a term of 2 years.

The Company purchased the override position held by Arizona Energy Explorations LLC ("AEE") in the Pedregosa Basin in Cochise County, Arizona. AEE held a 25% interest in the first well, exploration work and participation right for future wells. The Company purchased the interest for consideration of 1,500,000 million shares and is now the sole owner and beneficiary of the leases.

HILLCREST RESOURCES LTD.

Management Discussion & Analysis
For the Year Ended December 31, 2011

BOARD OF DIRECTORS

Donald Currie
Jason Oden
Dr. David Stone
Martin Wood

OFFICERS

Chairman and CEO – Donald Currie
CFO – Kulwant Sandher, CA