HILLCREST RESOURCES LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2010

Dated April 29, 2011

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, 2010. The commentary in this MD&A is based on information available to April 29, 2011.

This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2010 and 2009. 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, 2010 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 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 acquired its initial oil and natural gas assets and associated equipment.

OIL AND GAS PROPERTIES

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 Company produced oil from two Texas oil fields which currently produces an average of 21 barrels of oil per day.

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, Prospect 1, and Prospect 2:

<u>Donner #1</u>	
Before payout	54%
After payout	22.5%
<u>Prospect 1 and Prospect 2</u>	
Before payout	48%
After payout	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 mid August. The well (Donner#1) has maintained production averaging 42 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.

SELECTED ANNUAL & QUARTERLY INFORMATION

SELECTED ANNUAL INFORMATION

For the years ended December 31, 2010, 2009 and 2008 ($)

Audited	2010	2009	2008
Total assets	1,211,457	295,699	440,330
Total liabilities	509,774	31,772	47,767
Shareholders equity	701,683	263,927	392,563
Revenue	269,396	2,537	Nil
Write down of resource properties	-	(20,388)	(740,167)
Other income	-	13,940	12,798
Expenses	169,531	128,965	310,310
Net income(loss)	106,257	(128,636)	(1,037,679)
Income (loss) per share	0.00	(0.01)	(0.05)

SELECTED QUARTERLY INFORMATION

The following table sets forth selected unaudited financial information prepared by management of the Company for the eight most recently completed quarters ($):

	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Total assets	1,211,457	968,088	843,079	448,641	295,699	345,793	373,940	407,792
Total liabilities	509,774	324,230	262,927	39,089	31,772	69,431	30,998	41,252
Shareholders equity	701,683	643,858	571,428	417,230	263,927	276,362	342,942	366,540
Revenues	155,495	70,197	43,704	Nil	2,537	Nil	Nil	Nil
Major expense items								
Consulting fees	34,750	1,500	7,000	1,000	300	7,000	10,500	18,631
Management fees	Nil	Nil	Nil	Nil	Nil	15,000	Nil	Nil
Professional fees	25,192	5,518	8,021	1,137	2,816	42,699	9,723	4,038
Depletion	33,225	4,373	2,204	Nil	Nil	Nil	Nil	Nil
Write-down of resource properties	Nil	Nil	Nil	Nil	20,388	Nil	Nil	Nil
Net income (loss)	48,826	48,707	16,403	(7,679)	(12,434)	(66,580)	(23,598)	(26,024)
Income (loss) per share	0.00	0.00	0.00	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)

RESULTS OF OPERATIONS

Twelve month period ended December 31, 2010 and 2009

For the year ended December 31, 2010, operating expenses totaled $169,531 and net income was $106,257. The Company had $128,965 in operating expenses and a net loss of $128,636 for the year ended December 31, 2009. Oil and gas revenue increased to $269,396 in 2010 from $2,537 in 2009. The Company wrote off its mineral properties in 2009.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital deficiency of $330,126 as at December 31, 2010, compared to a working capital of $47,272 as at December 31, 2010.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2010, the Company had current assets of $179,648 (2009 - $79,044) to settle current liabilities of $509,774 (2009 – $31,772). On March 3, 2011, the Company completed its Initial Public Offering and issued 10,350,000 common shares at a price of $0.20 per share for gross proceeds of $2,070,000. All of the Company's financial liabilities, other than the loan payable, have contractual maturities of less than 30 days and are subject to normal trade terms.

With the filing of the prospectus, the closing of the IPO and the continued cash flow from oil production, we expect working capital to increase.

The Company does not currently have credit facilities to finance its projects; however, we do not require additional funds other than those considered in the prospectus offering to complete the development objectives.

OUTSTANDING SHARE DATA

The total number of common shares outstanding as of December 31, 2010 was 17,647,500.

SHARE PURCHASE WARRANTS

The total number of share purchase warrants outstanding as of December 31, 2010 was 6,710,000.

STOCK OPTIONS

There are currently no stock options outstanding.

COMMITMENTS

There are no contracts related to management or rent.

TRANSACTIONS

RELATED PARTY TRANSACTIONS

Consulting fees of $27,750 (2009 - $20,387) were incurred to directors and companies controlled by a director of the Company. These transactions were in the normal course of operations.

As at December 31, 2010, the Company owes the Chief Executive Officer of the Company and a company controlled by the Chief Financial Officer a total of $20,367 (2009 $nil), which is included in accounts payable and accrued liabilities.

OFF- BALANCE SHEET TRANSACTIONS

The Company has not entered into any off-balance sheet arrangements.

SUBSEQUENT EVENTS

Initial Public Offering

On March 3, 2011, the Company completed its Initial Public Offering and issued 10,350,000 common shares at a price of $0.20 per share for gross proceeds of $2,070,000. In consideration of the services performed by the Agent, the Company paid a cash fee of $144,000, a corporate finance fee of $50,000 and administration fee of $2,500. The Company will reimburse the Agent for its reasonable legal fees and expenses in relation to the Offering. The Company also issued 828,000 Agent's warrants with an exercise price of $0.20 per share, exercisable until March 17, 2013.

Stock Options

Effective 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. The stock options granted will vest on the day that is four months from date of Listing.

Exercise of Warrants

Subsequent to the year ended December 31, 2010, the Company issued 212,000 common shares pursuant to the exercise of 212,000 warrants at $0.10 per share for proceeds of $21,200.

FUTURE ACCOUNTING PRONOUNCEMENTS

Business combinations

In January 2009, the CICA issued three new accounting standards, Sections 1582, "*Business Combinations*", Section 1601, "*Consolidated Financial Statements*" and Section 1602 "*Non-controlling Interests*", each of which are effective for fiscal years beginning on or after January 1, 2011, and further align Canadian GAAP with IFRS. Early adoption of these new standards is permitted. The Company does not expect the adoption of these standards will have a significant effect on these consolidated financial statements.

International financial reporting standards ("IFRS")

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

Changes in Accounting Policies including Initial Adoption

The Company has adopted a three-phase IFRS implementation plan that is comprised of following:

- Phase One Scoping Analysis - This phase was conducted during the third and fourth quarter of 2010 to analyze the Company's existing Canadian GAAP accounting policies and determine what are the key differences and options available under IFRS.
- Phase Two In-depth Analysis – This phase was commenced in Q1 2011 and concluded during Q2 2011. The goal of phase to is to determine the impact and specific changes required under the adoption of each IFRS standard.
- Phase Three Implementation – This phase is in progress with planned completion in Q4 of 2011. This phase will result in the preparation of the Company's IFRS opening balance sheet and draft note disclosures.

At this point, the Company's IT accounting and financial reporting systems are not expected to be significantly impacted. Further, the Company has in place internal and disclosure control procedures to ensure continued effectiveness during this transition period.

Based on the work completed under phase one, phase two and phase three of the implementation plan, the Company believes that IFRS will have a significant impact on its current financial position and will result in more extensive note disclosure and analysis of balances and transactions. What management believes to be the key differences and their potential impact based on the work performed to date is as follows:

IFRS Standard	Canadian GAAP currently applied by the Company	Difference under IFRS	Analysis and preliminary conclusions
IFRS 2 – Share based payments	Stock based compensation is determined based on the fair value of the awards issued and is recorded over the award's vesting period.	IFRS applies the same basic principles for determining the expense; however, IFRS requires the fair value to be adjusted for an anticipated forfeiture rate. Under Canadian GAAP, an option exists to account for award forfeitures as they occur.	Management expects the expense for stock based compensation under IFRS to differ from that under the Company's current GAAP dependant on the timing and frequency of award forfeitures. Management expects this difference not to be material.
IAS 12 – Income Taxes	Temporary differences arising from the effect of foreign exchange rates on the tax base of an asset or liability where the functional currency of the asset or liability is in a different currency are not recognized.	Temporary differences arising from the effect of foreign exchange rates on the tax base of an asset or liability where the functional currency of the asset or liability is in a different currency are recognized.	Management expects this difference to effect the calculation of deferred taxes in the United States, which may result in the recognition of previously unrecognized deferred tax liabilities.
IAS 16 – Property plant and equipment	Property, plant and equipment are carried at cost less accumulated amortization. Amortization is determined at rates that will reduce original cost to estimated residual value over the useful life of each asset.	Property, plant and equipment can be recorded either at cost or under the revaluation model. Amortization is determined at rates based on the useful lives of each significant component within property, plant and equipment.	Property, plant and equipment will continue to be recorded at historical cost without revaluation. Management expects that the componentization of the Company's property, plant and equipment to result in a marginally different effective amortization rate with the net effect not being material.

Adoption of IFRS will significantly impact the Company's accounting policies for oil and gas properties. For Canadian GAAP purposes, the Company follows the full cost method of accounting for its conventional crude oil and natural gas properties as prescribed by Accounting Guideline 16 ("AcG-16). Application of the full cost method of accounting is discussed in the "Significant Accounting Policies" section of the 2010 annual financial statements.

Significant differences in accounting for oil and gas properties under IFRS include:

- Pre-exploration costs must be expensed. Under full cost accounting, these costs are currently included in the country cost centre.
- Exploration and evaluation costs will be initially capitalized as exploration and evaluation assets. Once technical feasibility and commercial viability of reserves is established for an area, the costs will be transferred to oil and gas properties. If technically feasible and commercially viable reserves are not established for a new area, the costs must be expensed. Under full cost accounting, exploration and evaluation costs are currently disclosed as oil and gas properties but withheld from depletion. Costs are transferred to the depletable assets when proved reserves are assigned or when it is determined that the costs are impaired.
- Oil and gas for producing properties will be depreciated at an asset level. Under full cost accounting, oil and gas properties are depleted on a country cost centre basis.
- Impairment of oil and gas properties will be tested at a cash generating unit level (the lowest level at which cash inflows can be separately identified). Under full cost accounting, impairment is tested at the country cost centre level.

In addition to the above differences, IFRS 1 – *First-time adoption of international financial reporting standards* ("IFRS 1") provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company plans to elect to take the following IFRS 1 optional exemptions:

- IFRS 2- Share-based payments - The Company will take the election and only reassess the fair value of options that were granted and that have not vested as of the date of transition, January 1,2010.
- IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – The Company will take the election and calculate its open asset retirement obligation under IFRS as at Janurary 1, 2011

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Measurement Uncertainty

Financial statement preparation in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results may vary from the current estimates. Significant estimates include the estimated useful lives of long-lived assets, the recoverability of oil and gas properties, mineral properties and deferred exploration costs, fair value of long-term investments, assessment of asset retirement obligations, valuation allowance on future income taxes, and estimates used in calculating stock-based compensation. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Financial instruments - recognition and measurement

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current year net earnings (loss).

The Company has classified its cash and short term investment as held-for-trading, and accounts receivable as loans and receivables. Accounts payable and accrued liabilities, and loan payable are classified as other financial liabilities. Transaction costs incurred upon the issuance of debt instruments or modification of a financial liability are deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

CICA Section 3862 "*Financial Instruments – Disclosure*" requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Section 3862 prioritizes the inputs into three levels that may be used to measure fair value:

i) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

ii) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

iii) Level 3 – Applies to assets or liabilities for which there are unobservable market data.

The Company's financial instruments consist principally of cash, accounts receivable, accounts payable and accrued liabilities, and loan payable. Pursuant to Section 3862, fair value of assets and liabilities measured on a recurring basis include cash determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of accounts receivable, accounts payable and accrued liabilities, and loan payable approximate their current fair value because of their nature and respective maturity dates or durations.

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 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 year ended December 31, 2010.

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, 2010. 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**

BOARD OF DIRECTORS

Stewart Jackson, P. Geo
Donald Currie
Jason Oden
Dr. David Stone
Lewis Edward Parker

OFFICERS

Chairman and CEO – Donald Currie
President – Stewart Jackson
CFO – Wan Jung, C.G.A
Corporate Secretary – Desmond Balakrishnan