HILLCREST RESOURCES LTD.

Interim Consolidated Financial Statements

June 30, 2011

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars Unless Otherwise Stated)

Notice of No Auditor Review of the Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these interim consolidated financial statements they must be accompanied by a notice indicating that these interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of Hillcrest Resources Ltd. ("the Company"), for the six months ended June 30, 2011, have been prepared by management and have not been the subject of a review by the Company's independent auditor.

HILLCREST RESOURCES LTD.
Interim Consolidated Statement of Financial Position
(Unaudited - prepared by Management)

	June 30 2011	December 31 2010	Janaury 1 2010
ASSETS			
Current			
Cash	**$ 1,037,440**	$ 65,736	$ 16,506
Short term investment	**-**	-	20,000
Accrued interest receivable	**-**	-	785
Accounts receivable	**52,552**	99,702	2,537
Government remittances	**34,853**	14,210	2,456
Prepaid expenses	**40,000**	-	-
Fund advanced for exploration	**-**	-	36,760
Due from related parties	**579**	-	-
Total current assets	**1,165,424**	179,648	79,044
Non-current assets			
Advances on exploration expenditures	**196,024**	-	-
Deferred financing costs	**114,981**	125,197	-
Equipment *(note 6)*	**2,152**	1,723	3,495
Oil and gas properties (*note 7)*	**1,198,820**	904,889	213,160
TOTAL ASSETS	**$ 2,677,401**	$ 1,211,457	$ 295,699
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	**$ 300,332**	$ 297,382	$ 31,772
Loan payable *(note 8)*	**-**	212,392	-
Total current liabilities	**300,332**	509,774	31,772
LIABILITIES & SHAREHOLDERS’ EQUITY			
Share capital *(note 9)*	**3,490,678**	1,891,930	1,560,431
Reserves			
Equity settled employee benefits	**525,295**	-	-
Warrants	**82,080**	-	-
Other comprehensive loss	**(2,799)**	-	-
Deficit	**(1,718,185)**	(1,190,247)	(1,296,504)
	2,377,069	701,683	263,927
TOTAL LIABILITIES & SHAREHODLERS' EQUITY	**$ 2,677,401**	**$** 1,211,457	**$** 295,699

Significant Accounting Policies *(note 2)*

APPROVED ON BEHALF OF THE BOARD:

“Stewart Jackson” *Director*

“David Stone” *Director*

HILLCREST RESOURCES LTD.
Interim Consolidated Statements of Comprehensive Loss and Deficit
(Unaudited - prepared by Management)
For The six months ended June 30, 2011 and 2010

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Revenue	**$ 197,947**	$ 14,738	**$ 381,734**	$ 14,738
Expenses				
Natural gas and oil operating costs	**$ 21,959**	$ -	**$ 49,603**	$ -
Amortization	**285**	-	**570**	-
Bank charges and interest	**528**	922	**1,049**	987
Consulting fees *(note 10)*	**38,258**	6,500	**79,758**	7,500
Debt issue cost	**5,109**	-	**10,216**	-
Depletion	**12,133**	-	**28,692**	-
Filing and transfer agent fees	**22,258**	150	**72,147**	300
Investor relations and business development	**12,561**	1,888	**20,448**	1,946
Office and general	**4,610**	602	**9,539**	905
Professional fees	**84,891**	3,787	**91,170**	4,924
Property investigation cost	**-**	-	**-**	4,872
Stock-based compensation	**-**	-	**525,295**	-
Travel	**7,283**	179	**13,462**	179
	209,875	14,028	**901,949**	21,613
Loss before other items	**(11,928)**	710	**(520,215)**	(6,875)
Other items				
Interest expense on loan	**514**	-	**6,350**	-
Foreign exchange (gain) loss	**4,266**	3,195	**1,373**	3,195
Net loss before other comprehensive income/(loss)	**(16,708)**	(2,485)	**(527,938)**	(10,070)
Other comprehensive income/(loss)				
Cumulative translation adjustment	**(1,441)**	-	**(2,799)**	-
Comprehensive loss for the periods	**(18,149)**	(2,485)	**(530,737)**	(10,070)
Deficit, beginning of periods	**(1,702,835)**	(1,134,089)	**(1,190,247)**	(1,126,504)
Deficit, end of periods	**$ (1,720,984)**	$ (1,136,574)	**$ (1,720,984)**	$ (1,136,574)
Basic and diluted loss per share	**$ (0.00)**	$ (0.00)	**$ (0.02)**	$ (0.00)
Weighted average number of common shares outstanding	**28,525,533**	22,908,557	**23,958,010**	21,620,168

HILLCREST RESOURCES LTD.
Interim Consolidated Statements of Changes in Stockholders' Equity
(Unaudited - prepared by Management)
Period From December 31, 2008 to June 30, 2011

	Share Capital						
	Number of Shares	*Amount*	*Equity Settled Employee Benefits*	*Warrants*	*Other Comprehensive Income/(loss)*	*Deficit*	*Shareholders' Equity*
Balance, December 31, 2008	17,325,001	$ 1,560,431	$ -	$ -	$ -	$ (1,167,868)	$ 392,563
Net loss for the year	-	-	-	-	-	(128,636)	(128,636)
Balance, December 31, 2009	17,325,001	1,560,431	-	-	-	(1,296,504)	263,927
Issued for cash	6,610,000	330,500	-	-	-	-	330,500
Issued for oil and gas properties	100,000	5,000	-	-	-	-	5,000
Common shares cancelled for restructure of share	(6,387,500)	-	-	-	-	-	-
Common share re-purchased	(1)	(1)	-	-	-	-	(1)
Share issuance cost	-	(4,000)	-	-	-	-	(4,000)
Net income for the year	-	-	-	-	-	106,257	106,257
Balance, December 31, 2010	17,647,500	$ 1,891,930	$ -	$ -	-	$ (1,190,247)	$ 701,683
Issued for cash pursuant to private placements	10,350,000	2,070,000	-	-	-	-	2,070,000
Issued for cash pursuant to exercise of warrants	531,933	92,387	-	-	-	-	92,387
Issued for finder's fee	-	(155,853)	-	155,853	-	-	-
Transfer of contributed surplus on exercise of agent's warrants	-	73,773	-	(73,773)	-	-	-
Cumulative translation adjustment	-	-	-	-	(2,799)	-	(2,799)
Share issuance cost and finder's fee	-	(481,559)	-	-	-	-	(481,559)
Stock-based compensation	-	-	525,295	-	-	-	525,295
Net loss for the period	-	-	-	-	-	(527,938)	(527,938)
Balance, June 30, 2011	**28,529,433**	**$ 3,490,678**	**$ 525,295**	**$ 82,080**	**$ (2,799)**	**$ (1,718,185)**	**$ 2,377,069**

HILLCREST RESOURCES LTD.
Interim Consolidated Statements of Cash Flows
(Unaudited - prepared by Management)
For the six months ended June 30, 2011 and 2010

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Cash flows provided by (used in) operating activities				
Net loss for the periods	**$ (18,149)**	$ (2,485)	**$ (530,737)**	$ (10,070)
Items not involving cash				
Amortization	**285**	-	**570**	-
Amortization of debt issue costs	**5,108**	-	**10,216**	-
Accredited interest on loan payable	**514**	-	**6,350**	-
Unrealized foreign exchange (gain) on loan	**(11,128)**	-	**(16,566)**	-
Depletion	**12,133**	-	**28,692**	-
Stock-based compensation	**-**	-	**525,295**	-
	(11,237)	(2,485)	**23,820**	(10,070)
Changes in non-cash working capital:				
Accounts receivable	**16,553**	785	**47,150**	3,322
Government remittances recoverable	**(10,063)**	(314)	**(20,643)**	(606)
Prepaid expenses	**(37,761)**	-	**(40,000)**	-
Funds advanced for exploration	**-**	-	**-**	36,760
Due from related parties	**3**	-	**(579)**	-
Accounts payable and accrued liabilities	**111,430**	3,957	**2,950**	11,274
	68,925	1,943	**12,698**	40,680
Cash flows from (used in) investing activities				
Purchase of equipment	**-**	-	**(999)**	-
Acquisition of oil and gas properties	**10,216**	(387,365)	**10,216**	(512,504)
Short term investment	**-**		**-**	20,000
Advances on exploration expenditures	**(196,024)**	-	**(196,024)**	-
Deferred exploration costs	**(287,503)**	20,000	**(322,623)**	-
	(473,310)	(367,365)	**(509,429)**	(492,504)
Cash flows from financing activities				
Proceeds from issuance of common shares	**-**	147,131	**2,070,000**	300,434
Exercise of warrants for cash	**7,200**	-	**92,387**	-
Loan payable	**(212,392)**	200,000	**(212,392)**	200,000
Share issuance cost and finder's fee	**(68,148)**	(24,000)	**(481,559)**	(24,000)
	(273,340)	323,131	**1,468,436**	476,434
Increase (Decrease) in cash during the periods	**(677,726)**	(42,291)	**971,704**	24,610
Cash, beginning of the periods	**1,715,166**	83,407	**65,736**	16,506
Cash, end of the periods	**$ 1,037,440**	$ 41,116	**$ 1,037,440**	$ 41,116
Additiional Information:				
Income tax paid	**$ -**	$ -	**$ -**	$ -
Interest paid	**$ 514**	**$** -	**$ 6,350**	**$** -

HILLCREST RESOURCES LTD.
Notes to Interim Consolidated Financial Statements
June 30, 2011
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars Unless Otherwise Stated)

1. Nature and Basis of Operations

Hillcrest Resources Ltd. (the "Company") was incorporated on May 2, 2006 under the Business Corporations Act of British Columbia and on May 28, 2007, and is in the business of acquiring and developing exploration interests in oil and gas projects in the United States of America. The Company's registered office is suite 303 – 750 West Pender Street, Vancouver, British Columbia, Canada, V6C 2T7.

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; 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).

2. Basis of Preparation

Statement of compliance

The Company prepares its financial statements in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly the Company has commenced reporting on this basis in these interim consolidated financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1").

Basis of measurement

Subject to certain IFRS 1 transition elections disclosed in note 11, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 11 discloses the impact of the transition to IFRS on the Company's reported statements of financial position and comprehensive income, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

2. Basis of Preparation (continued)

Basis of measurement (continued)
These interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2010. Material changes in reporting from the annual financial statements in Canadian GAAP to these interim consolidated financial statements in IFRS are discussed in Note 11. Results for the period ended June 30, 2011 are not necessarily indicative of future results.

The interim financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is also the Company's functional currency.

Going concern of operations
These consolidated financial statements have been prepared in accordance with IAS 34 on the basis of a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. As at June 30, 2011, the Company had a working capital of $865,092 and an accumulated deficit of $1,718,185. The Company's ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent on the continued financial support of the creditors and the shareholders and ultimately, the attainment of profitable operations. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Critical judgments in applying accounting policies
The preparation of these interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the period. Actual results could differ from these estimates.

These interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of receivables;
- the carrying value and the recoverability of oil and gas properties;
- the inputs used in the accounting for share-based payments.

3. Significant Accounting Policies

The accounting policies set out below are expected to be adopted for the year ending December 31, 2011, and have been applied consistently to all periods presented in these interim consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

Principles of consolidation
These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Hillcrest Exploration Inc. All intercompany balances and transactions have been eliminated.

Foreign currency translation

(i) Functional and presentation currency

The financial results of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency. Income and expenditure transactions of foreign operations are translated at the average rate of exchange for the year except for significant individual transactions which are translated at the rate of exchange in effect at the transaction date. All assets and liabilities, including fair value adjustments and goodwill arising on acquisition, are translated at the rate of exchange ruling at the reporting date. Differences arising on translation from the transition date are recognized as other comprehensive income. When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of the net investment in a foreign operation and are recognized in other comprehensive income. On disposal of part or all of the operations, the proportionate share of the related cumulative gains and losses previously recognized in the comprehensive income are included in determining the profit or loss on disposal of that operation. The consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency, while the US dollar is the functional currency of the Company's subsidiary.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of loss, except for the Company's net investment in its foreign subsidiaries which are recognised in other comprehensive income.

3. Significant Accounting Policies (continued)

Equipment

(i) Cost and valuation

Equipment is carried at historical cost less accumulated amortisation and depreciation and any impairment in value. When an asset is disposed of, it is derecognized and the difference between its carrying value and net sales proceeds is recognized as a gain or loss in the statement of loss.

Equipment includes computer equipment which is recorded at cost on initial acquisition. Cost includes the purchase price and the directly attributable costs of acquisition required to bring an asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management. Subsequent expenditure relating to an item of equipment is capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditure is recognized as repairs and maintenance expenses during the period in which they are incurred.

(ii) Depreciation

Equipment is depreciated on a declining balance basis over the estimated useful life of the asset. Where components of an asset have a different useful life and cost that is significant to the total cost of the asset, depreciation is calculated on each separate component. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date, and adjusted if appropriate. Equipment is amortized over its estimated useful life at the following rates and methods:

Computer equipment - 45% and 55% - declining balance method

Exploration and evaluation

Exploration and evaluation ("E&E") costs are capitalized for projects after the Company has acquired the legal right to explore but prior to their technical feasibility and commercial viability being confirmed, generally determined as the establishment of proved or probable reserves. These costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses, including remuneration of production personnel and supervisory management, the projected costs of retiring the assets, and any activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources.

Once technical feasibility and commercial viability are confirmed the E&E asset is then reclassified to property, plant and equipment and tested for impairment. For purposes of impairment testing, E&E assets are allocated to the appropriate cash-generating units based on geographic proximity.

Expired lease costs are expensed as part of depletion and depreciation expense as they occur and costs incurred prior to the legal right to explore are charged to net income (loss).

3. Significant Accounting Policies (continued)

Oil and gas properties

The Company capitalizes all costs of acquisition, exploration and development of oil and gas reserves, including such costs as acquisition costs, geological expenditures, tangible and intangible development costs, and direct internal costs. When the Company's properties are proven to have reserves, the cost of the oil and gas property are depleted and charged to net income (loss) based on the ratio of current production to proven oil and gas reserves as estimated by independent engineering consultants.

The provision for depletion for oil and natural gas assets is calculated based on each asset's production for the period divided by the Company's estimated total proved and probable oil and natural gas reserve volumes before royalties for that asset. Production and reserves of natural gas and associated liquids are converted at the energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of oil.

Impairment of non-financial assets

At each reporting period the Company assesses whether there are indicators of impairment for its non-financial assets, including oil and gas properties and equipment. If indicators exist, the Company determines if the recoverable amount of the asset or cash generating unit ("CGU") is greater than its carrying amount. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has used geographical proximity, geological similarities, analysis of shared infrastructure, commodity type, assessment of exposure to market risks and materiality to define its CGUs.

If the carrying amount exceeds the recoverable amount, the asset or CGU is recorded at its recoverable amount with the reduction recognized in net income (loss) in depletion expense. The recoverable amount is the greater of the value in use or fair value less costs to sell. Fair value is the amount the asset could be sold for in an arm's length transaction. The value in use is the present value of the estimated future cash flows of the asset from its continued use. The fair value less costs to sell considers the continued development of a property and market transactions in a valuation model. The Company uses the present value of the cash generating unit's estimated future cash flows from both proved and probable reserves in its fair value model. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

Impairments are reversed in subsequent periods when there has been an increase in the recoverable amount of a previously impaired asset or CGU and these reversals are recognized in net income (loss). The recovery is limited to the original carrying amount less depletion and depreciation that would have been recorded had the asset not been impaired.

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Notes to Interim Consolidated Financial Statements
June 30, 2011
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3. Significant Accounting Policies (continued)

Impairment of non-financial assets (continued)

For unproven properties, impairment is assessed based on whether events have occurred which may indicate that impairment may have occurred. The assessment is undertaken for each individual property if the carrying value of the property exceeds 10% of the relevant country's assets. If exploration efforts are unsuccessful in establishing proved reserves and future exploration plans are uncertain, the unproved property related to the area of interest could be impaired, and accumulated costs are charged against earnings.

Costs directly associated with the acquisition and evaluation of unproved properties are excluded from the depletion computation until it is determined whether or not proved reserves can be assigned to the properties or whether impairment has occurred. When the Company has properties with proven reserves, the costs are added to the capitalized costs, subject to depletion.

Impairment of financial assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

Financial instruments

(i) Non-derivative financial assets

All financial instruments are classified into one of five categories: financial assets at fair value through profit or loss, 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. Financial assets at fair value through profit or loss are measured at fair value and changes in fair value are recognized in net income (loss). 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 as a financial asset at fair value through profit or loss, and accounts receivable as loans and receivables.

The Company derecognizes a financial asset when its contractual obligations to the cash flows from the asset are discharged or cancelled or expire.

HILLCREST RESOURCES LTD.
Notes to Interim Consolidated Financial Statements
June 30, 2011
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars Unless Otherwise Stated)

3. Significant Accounting Policies (continued)

Financial instruments (continued)

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company classifies the non-derivative financial liabilities to the following categories: loans and borrowings, bank overdrafts, and trade and other payables. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

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.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments, which are readily convertible into cash and generally have maturities of three months or less when acquired. As of June 30, 2011, and 2010, there were no cash equivalents.

Decommissioning and restoration costs

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of the Company's assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates. As a result, there could be significant adjustments to the provisions established which would affect future financial results. In the Company's judgment, the most appropriate discount rate to use is the Company's credit adjusted rate.

As at June 30, 2011, and 2010, the Company has not incurred significant asset retirement obligations related to its oil and gas and mineral exploration properties.

HILLCREST RESOURCES LTD.
Notes to Interim Consolidated Financial Statements
June 30, 2011
(Unaudited – Prepared by Management)
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3. Significant Accounting Policies (continued)

Share-based payment

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credit to share capital, adjusted for any consideration paid.

Basic and Diluted Earnings (Loss) Per Share

Earnings (loss) per share are calculated using the weighted-average number of common shares outstanding during the year. In calculating diluted earnings (loss) per share, the Company considers the potential exercise of outstanding share purchase options and warrants to the extent each option, warrant or contingent issuance was dilutive. Potentially dilutive securities were excluded in the computation of diluted loss per share as their inclusion would be anti-dilutive.

Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

i) Current income tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

HILLCREST RESOURCES LTD.
Notes to Interim Consolidated Financial Statements
June 30, 2011
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars Unless Otherwise Stated)

3. Significant Accounting Policies (continued)

Taxes (continued)

ii) Deferred income tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for the following temporary differences:

- liabilities arising from initial recognition of goodwill for which amortization is not deductible for tax purposes;
- liabilities arising from the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or the taxable profit; and
- liabilities arising from undistributed profits from investments where the entity is able to control the timing of the reversal of the difference and it is probable that the reversal will not occur in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

iii) Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables that are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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3. Significant Accounting Policies (continued)

Standards, amendments and interpretations not yet effective

The following standards and amendments to existing standards have been published and are mandatory for the Company's annual accounting periods beginning January 1, 2013, with early adoption permitted:

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.

Management anticipates that the above standards will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the impact of the adoption of these standards.

4. 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 pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate available or committed financial resources to complete such acquisitions.

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

There were no changes in the Company's approach to capital management during the period ended June 30, 2011. The Company is not subject to externally imposed capital requirements.

5. Risk Factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

The Company's credit risk is primarily attributable to cash and cash equivalents. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents are held with reputable financial institutions, from which management believes the risk of loss to be remote.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2011, the Company had current assets of $1,165,424 (December 31, 2010 - $179,648, January 1, 2010 - $79,044) to settle current liabilities of $300,332 (December 31, 2010 – $509,774, January 1, 2010 - $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 loan payable, have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk

Market risk is the risk of loss that may arise from changes in market factor such as interest rates, foreign exchange rates, and commodity and equity prices.

Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term certificates of deposits issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Foreign currency risk

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company operates in Canada and the United States. All of the Company's oil and natural gas sales are denominated in United States dollars.

The Company has performed a sensitivity analysis on its foreign currency denominated financial instruments. Based on the Company's foreign currency exposure noted above and assuming that all other variables remain constant, a 10% appreciation of the US dollar against the Canadian dollar would result in the increase of net loss of $37,230 at June 30, 2011 (2010 - $Nil). For a 10% depreciation of the above foreign currencies against the Canadian dollar, assuming all other variables remain constant, there would be an equal and opposite impact on net loss.

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of natural

resources, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

6. Equipment

	Computer $
Cost	
Balance at January 1, 2010 and December 31, 2010	12,521
Additions	999
Balance at June 30, 2011	13,520
Depreciation	
Balance at January 1, 2010	9,026
Depreciation for the year	1,772
Balance at December 31, 2010	10,798
Depreciation for the period	570
Balance at June 30, 2011	11,368
Carrying amounts	
Balance at January 1, 2010	3,495
Balance at December 31, 2010	1,723
Balance at June 30, 2011	2,152

7. Oil and Gas Properties

	Hartburg Project $	Livingston Project $	Total $
Balance at January 1, 2010	117,040	96,120	213,160
Acquisition costs	–	22,635	22,635
Exploration costs	677,708	31,188	708,896
Depletion	(33,484)	(6,318)	(39,802)
Balance at December 31, 2010	761,264	143,625	904,889
Exploration costs	320,193	2,430	322,623
Depletion	(23,444)	(5,248)	(28,692)
Balance at June 30, 2011	1,058,013	140,807	1,198,820

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7. Oil and Gas Properties (continued)

Hartburg Project, Newton County, 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 $111,266 US ($117,040 CDN). 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:

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

Livingston Property, Polk County, 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 leases known as the Livingston property in Polk County, Texas. In consideration the Company paid a lump sum of $90,000 US ($96,120 CDN). The Company is responsible for their proportionate share of all future costs of the development of the property.

8. Loan Payable

During the year ended December 31, 2010, the Company received a loan in the principal sum of US$200,000. The term of the loan is for a twelve (12) month period ending June 8, 2011. Interest is calculated at 12% per annum, compounded annually.

8. Loan Payable (continued)

During the initial six months of the term, no payments of principal or interest is payable. On the first day of the seventh month of the term, the Company shall make its first payment of no less than the proportionate amount of principal and interest then due and payable. Thereafter, the Company shall make payments of not less than the proportionate amount of principal and interest due and payable on a quarterly basis until the end of the term. During the year ended December 31, 2010, the Company and the lender mutually agreed to delay the commencement of repayment until April 2011.

If the Company elects, at any time during the term of the loan, to repay the lender the full amount of principal and interest then due and payable, it is free to do so, but in doing it agrees to pay an additional sum of 3% of the principal amount of the loan as an exit fee. If the Company elects, at any time during the second 12 months of the term, to repay the lender the full amount of principal and interest then due and payable, it is free to do so, but in doing it agrees to pay an additional sum of 1.5% of the principal amount of the loan as an exit fee.

At any time during the term, regardless of whether the Company is current with its interest payments, the lender may, at its option, by giving the Company written notice of its intentions, convert not more than the amount of principal and interest then due and payable into one or a combination of the following:

a) Common shares at $0.05 per common share; and/or
b) The acquisition of a working interest(s) in the hydrocarbon production of the Company in which the value of each flowing barrel, to be determined at the time the conversion, shall be equal to the current market value for a flowing barrel of oil, discounted by an amount to be agreed upon at the time by the Company and the lender.

At March 31, 2011, the Company determined the equity component of the conversion option to have a nominal fair value.

On May 9, 2011, the full amount of principal and interest of the loan was paid.

9. Share Capital

Authorized:

Unlimited number of common shares without par value

Issued and outstanding:

<u>Six Months Ended June 30, 2011</u>

Issued for Cash

On March 17, 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. The Company also issued 828,000 Agent's warrants with an exercise price of $0.20 per share, exercisable until March 17, 2013.

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9. Share Capital (continued)

During the quarter ended June 30, 2011, the Company issued 495,933 common shares pursuant to the exercise of 140,000 warrants at $0.10 per share and 391,933 agent's warrants at $0.20 per share for total proceeds of $92,387.

Share Purchase Warrants

	June 30, 2011		*December 31, 2010*	
	Number of shares	***Weighted Average Exercise Price***	*Number of shares*	*Weighted Average Exercise Price*
Balance, beginning of period	**6,710,000**	**$ 0.10**	-	$ -
Issued	**-**	**-**	6,710,000	0.10
Exercised	**(140,000)**	**0.10**	-	-
Balance, end of period	**6,570,000**	**$ 0.10**	6,710,000	$ 0.10

Agent's Warrants

On March 17, 2011, the Company completed its Initial Public Offering and issued 828,000 Agent's warrants with an exercise price of $0.20 per share, exercisable until March 17, 2013. During the period ended June 30, 2011, 391,933 agent's warrants were exercised.

	June 30, 2011		*December 31, 2010*	
	Number of shares	***Weighted Average Exercise Price***	*Number of shares*	*Weighted Average Exercise Price*
Balance, beginning of period	**-**	**$ -**	-	$ -
Issued	**828,000**	**0.20**	-	-
Exercised	**(391,933)**	**0.20**	-	-
Balance, end of period	**436,067**	**$ 0.20**	-	$ -

Stock Options

Effective November 4, 2010, the Company adopted a stock option plan to grant stock options to its directors, officers, employees and consultants. Subjective to the requirement of the TSX Venture Exchange (the "Exchange"), the aggregate number of securities reserved for issuance under the plan, at any point in time, will be 10% of the number of common shares of the Company issued and outstanding at the time the option is granted (on a diluted basis), less any common share reserved for issuance under share options granted under share compensation arrangements other than the plan. The exercise price of option grants will be determined by the board, but will not be less than the closing market price of the common shares on the Exchange less allowable discounts at the time of grant. All options granted under the plan will expire not later than the date that is five years form the date that such options are granted.

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9. Share Capital (continued)

Stock Options (continued)
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. The stock options granted will vest on the day that is four months from date of Listing. Total stock-based compensation expense of $525,295 has been charged to operations. The weighted average fair value of the options granted during the period ended March 31, 2011, was $0.28 per option. The fair value of the option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weight average assumptions:

Dividend yield	Nil
Expected volatility	216%
Risk-free rate of return	2.57%
Expected life of options	5 years

	June 30, 2011	
	Number of Stock Options	***Weighted Average Exercise Price***
Outstanding at December 31, 2010	**-**	**$ -**
Granted on March 22, 2011	**1,900,000**	**0.20**
Outstanding at June 30, 2011	**1,900,000**	**$ 0.20**

10. 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 six months ended June 30, 2011 and 2010:

	2011	*2010*
Deferred exploration costs paid to a company controlled by a director of the Company	**$ -**	$ 20,000
Consulting fees to directors and companies controlled by a director of the Company	**$ 44,500**	$ -

As at June 30, 2011, the Company owes the Chief Executive Officer of the Company and a company controlled by the Chief Financial Officer a total of $nil (December 31, 2010: $20,367, January 1, 2010 - $nil), which is included in accounts payable and accrued liabilities.

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.

11. First-time Adoption of International Financial Reporting Standards

The accounting policies set out in note 3 have been applied in preparing the financial statements for the six months ended June 30, 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 period 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:

IFRS exemption options:

(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

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.

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11. First-time Adoption of International Financial Reporting Standards (continued)

(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 under IFRS

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.

In preparing the opening IFRS statement of financial position and the financial statements for the interim period ended June 30, 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.

(i) The Company's first-time adoption did not have a material impact on shareholder's equity as at January 1, 2010, hence no reconciliation has been provided.

(ii) The Company's first-time adoption did not have a material impact on shareholder's equity as at December 31, 2010, and comprehensive income for the year ended December 31, 2010, hence no reconciliation has been provided.

(iii) The Company's first-time adoption did not have an impact on cash flows for the year ended December 31, 2010, hence no reconciliation has been provided.

(iv) The Company's first-time adoption did not have a material impact on shareholder's equity as at March 31, 2010, and comprehensive income for the period ended March 31, 2010, hence no reconciliation has been provided.