

This Management's Discussion and Analysis ("MD&A") is a review of operations, current financial position and outlook for Pinecrest Energy Inc., formerly Antler Creek Energy Corp. ("Pinecrest" or the "Company") for the three months ended March 31, 2011 with comparatives for the three months ended April 30, 2010 and should be read in conjunction with the unaudited condensed interim financial statements for the three months ended March 31, 2011. This MD&A is dated as of May 16, 2011.

## **DESCRIPTION OF THE COMPANY**

Pinecrest is a Calgary, Alberta based petroleum and natural gas exploration, production and development company, with operations in the Canadian provinces of Alberta and Saskatchewan. Pinecrest completed its recapitalization transaction in May 2010 and trades on the Toronto Stock Venture Exchange ("TSX-V") under the symbol PRY. Additional information related to the Company, including the Company's Annual Information Form ("AIF") may be found on the Canadian Securities Administrators' System for Electronic Distribution and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com).

Pinecrest received approval to change its year end from July 31 to December 31 in late 2010, consequently this MD&A reflects a three month period for the quarter ended March 31, 2011 with comparative information for the three months ended April 30, 2010. Due to the different period ends, the information may not be fully comparable.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

On January 1, 2011, Pinecrest adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes. The unaudited interim condensed financial statements for the three months ended March 31, 2011 are the Company's first financial statements prepared under IFRS, with a transition date of August 1, 2009. Securities regulations require that if a change in year-end occurs, and the new year-end is less than nine months, the Company must choose the beginning of the "old reporting year" which is the twelve months ended July 31, 2010, for its transition to IFRS.

The unaudited condensed interim financial statements and the financial data contained in the MD&A have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and are in accordance with International Financial Reporting Standard ("IFRS") 1 *First-time Adoption of International Financial Reporting Standards*, as issued by the International Accounting Standards Board ("IASB") and are in Canadian currency.

For all accounting periods prior to this, the Company prepared its financial statements under Canadian generally accepted accounting principles ("GAAP"). The adoption of IFRS has not had an impact on the Company's strategic decisions, operations, or cash flow. Further information on the IFRS impacts is provided in the Accounting Changes and Pronouncements section of this MD&A as well as in Note 20 to the unaudited condensed interim financial statements.

## **NON-IFRS MEASURES**

The Company uses the following terms for measurement within the MD&A that do not have a standardized prescribed meaning under IFRS and these measurements may differ from other companies and accordingly may not be comparable to measures used by other companies. The terms "funds flow from operations", "funds flow from operations per share", "operating netback per boe" and "cash flow netback per boe" in this MD&A are not recognized measures under IFRS. Management of the Company believes that these terms are useful, in addition to profit and loss and cash flow from operating activities as defined by IFRS, for evaluating the Company's operating performance and leverage. Funds flow from operations is expressed as cash flow from operating activities before changes in non-cash working capital and asset retirement expenditures. Funds flow from operations per share is calculated using the weighted-average basic and diluted shares used in calculating earnings per share (see "Calculation of Cash Flow from Operations" below). Operating netback is a measure of operating margin used in capital allocation decisions. Pinecrest defines operating netback as average realized price per boe, less royalties per boe, less operating and transportation expenses per boe, plus any realized gain or loss per boe on financial instruments.

Cash flow netback is a measure of operating netback, plus other operating income less net cash general and administrative and cash interest expenses. **Readers are cautioned that these measures should not be construed as an alternative to profit or loss, or cash flow from operating activities as calculated under IFRS as an indication of the Company's performance.**

**BOE Conversion or (51-101 Advisory)**

In accordance with National Instrument 51-101, Standards for Disclosure of Oil and Gas Activities ("NI 51-101"), petroleum and natural gas reserves and volumes are converted to an equivalent measurement basis referred to as a "barrel of oil equivalent" ("boe") on the basis of 6 thousand cubic feet of natural gas equal to 1 barrel of oil. This conversion is based on an energy equivalency conversion method applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that boe may be misleading, particularly if used in isolation.

**Frequently Used Terms:**

The following terms are frequently used in this MD&A:

Barrel	bbl
Barrel(s) of oil equivalent	boe
Barrel(s) of oil equivalent per day	boe/d
Thousand cubic feet	mcf
Thousand cubic feet per day	mcf/d
Natural gas liquids	NGL

**FORWARD LOOKING STATEMENTS**

Certain statements in this document constitute forward-looking statements under applicable securities laws. Such statements are based on assumptions of future events and actual results could vary from these assumptions. Events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Company. These include, but are not limited to, risks associated with petroleum and natural gas exploration, production, marketing and transportation, such as loss of market, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, imprecision of accounting estimates, environmental risk, competition from other producers and ability to access sufficient capital from internal and external sources. Although Management believes that the expectations reflected in such forward-looking statements and information are reasonable, it can give no assurance that such expectations will prove to be accurate, as results and future events could differ materially from those expected or estimated in such statements. As such, readers are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements and information contained in this document are made as of the date hereof for the purposes of providing the readers with the Company's expectations for the coming year. The forward-looking statements and information may not be appropriate for other purposes. Furthermore, the Company undertakes no obligation to update or revise these forward-looking statements or information as a result of new information, future events or otherwise.

**FINANCIAL AND OPERATIONAL HIGHLIGHTS**

The following MD&A is a review of Pinecrest's financial and operating performance for the three months ending March 31, 2011 with comparative analysis for the three months ended December 31, 2010 and the three months ended April 30, 2010. Subsequent to April 30, 2010 there have been significant changes in the Company's management and operations, therefore, the most relevant comparison to the three months ended March 31, 2011 is the three months ended December 31, 2010.

	Three months ended March 31 2011	Three months ended December 31 2010	Mar 31, 2011 vs. Dec 31, 2010 %Change	Three months ended April 30 2010	Mar 31, 2011 vs. Apr 30, 2010 %Change
<b>FINANCIAL (\$ except per share amounts)</b>					
Petroleum and natural sales	6,099,936	1,386,045	340	194,464	3,037
Funds flow from (used in) operations (non-IFRS)	3,592,975	(237,131)	1,615	46,568	7,615
Per share, basic and diluted	\$0.02	(\$0.00)	100	\$0.01	50
Net loss	(326,621)	(1,516,256)	(78)	(90,478)	265
Per share, basic and diluted	(\$0.00)	(\$0.01)	100	(\$0.02)	100
Capital expenditures	47,487,678	78,232,897	(39)	296,639	15,911
Net debt and working capital surplus	5,712,947	49,466,281	(88)	729,287	683
Common Shares Outstanding					
End of period – basic & diluted	170,000,964	169,638,917	-	4,735,400	3,490
Weighted average – basic & diluted	169,923,202	141,490,383	20	4,053,587	4,092
<b>OPERATING</b>					
Number of producing days	90	92		89	
Production					
Crude oil (bbls/d)	748	183	309	26	2,777
Natural gas (mcf/d)	1	32	(97)	9	(89)
Natural gas liquids (bbls/d)	5	2	150	1	400
Barrels of oil equivalent (boe/d – 6:1)	753	190	296	29	2,497
Average realized price					
Crude oil (\$/bbl)	90.30	80.88	12	79.73	13
Natural gas (\$/mcf) <sup>(1)</sup>	(18.99)	4.19	>(100)	4.93	>(100)
Natural gas liquids (\$/ bbl)	58.56	46.21	27	54.98	7
Barrels of oil equivalent (\$ - 6:1)	90.03	78.54	15	76.38	18
Netback per boe (\$)					
Petroleum and natural gas sales	90.03	78.54	15	76.38	18
Royalties	11.67	13.64	(14)	12.20	(4)
Operating & transportation expenses	18.04	16.32	11	21.46	(16)
Operating netback	60.32	48.58	24	42.72	41
Wells drilled (net)					
Gross	10	8	25	-	-
Net	7.0	3.6	94	-	-
Success rate (%)	100	100	-	-	-

(1) Natural gas prices were negative reflecting a revenue accrual reversal from December 31, 2010 associated with the property acquisitions in Alberta which closed at the end of November 2010.

---

## RESULTS OF OPERATIONS

The following are the highlights of Pinecrest's operations for the three months ended March 31, 2011:

- Between January 1 and March 31, 2011; drilled a total of nine gross (6.0 net) horizontal oil wells and one gross (one net) vertical test well, for an overall success rate of 100%.
- Placed a total of 15 gross (7.2 net) horizontal wells on production in the three months ended March 31, 2011, for a total of 16 gross (7.6 net) horizontal wells on production at March 31, 2011;
- Increased average daily production by 296% to 753 boe/d compared to 190 boe/d for the three months ended December 31, 2010; and by 2,497% compared to 29 boe/d for the three months ended April 30, 2010;
- Increased cash flow from operating activities by 521% to \$2,347,352 (\$0.01 per basic and diluted share) compared to a cash flow loss of \$557,001 (\$0.00 per basic and diluted share) for the three months ended December 31, 2010; and
- Approved the 2011 Capital Budget of \$105 million, which will be primarily focused on the drilling, completion and tie-in of wells in the Slave Point light oil resource play in the Greater Red Earth area.

## PINECREST 2011 OUTLOOK

From its beginning as a newly capitalized company in May of 2010, the focus of Pinecrest's management team and board of directors has been dedicated to the identification; evaluation and acquisition of high working interest, operated lands in the emerging Slave Point resource play located in the Greater Red Earth area. The successful execution of the Company's business plan has resulted in the Company assembling an enviable land position, a significant drilling inventory and strategic producing infrastructure in the heart of the Slave Point light oil resource play in the Greater Red Earth area.

Building on the Company's success in assembling its position in the Slave Point play, Pinecrest is now focused on the execution of an aggressive capital program to organically grow its reserves, production and cash flow per share. Pinecrest's acreage position in the Greater Red Earth area is characterized by large original oil in place within the Slave Point formation. Pinecrest believes the implementation of a secondary recovery ("waterflooding") scheme will result in lowering decline rates and materially improve overall oil recovery. Consequently, Pinecrest and its partner are implementing a waterflood project in the Evi field located on the west side of the Greater Red Earth area. The Company has received Government approval and injection is expected to commence during the second quarter of 2011.

Since May 2010, Pinecrest has participated in the drilling of 21 gross (12.1 net) wells, which resulted in a 100% success rate. Pinecrest operated the drilling of 15 gross (10.1 net) horizontal wells and one gross (one net) vertical test well in the Greater Red Earth core area targeting the Slave Point light oil resource. Pinecrest currently has 20 gross (11.1 net) horizontal oil wells on production.

The Company's Board of Directors has approved a capital budget of \$105 million for 2011, of which a total of \$47.6 million has been spent to the end of March 31, 2011. All of the budget will be dedicated to the high netback Slave Point oil opportunities, including the implementation of the Company's first waterflood in the Slave Point formation.

## PRODUCTION

Pinecrest increased daily production by 296% for the three months ended March 31, 2011 to 753 boe/d compared to 190 boe/d for the three months ended December 31, 2010. The majority of Pinecrest's production for the period ended March 31, 2011 comes from the Slave Point wells in the Greater Red Earth area. The production increase over the three months ended December 31, 2010 reflects new production from 16 wells which were placed on production in the three months ended March 31, 2011. Production for the current period also reflects a full three months of production from the property acquisitions in the Greater Red Earth area which closed in late November 2010. In addition, one new well in southeast Saskatchewan was placed on production near the end of December 2010.

Daily production for the three months ended March 31, 2011 increased 2,497% compared to 29 boe/d for the three months ended April 30, 2010. The large increase in production over April 30, 2010 reflects Pinecrest's property acquisitions and successful drilling program in the Greater Red Earth area which was initiated in early August 2010.

	Three months ended March 31 2011	Three months ended December 31 2010	Mar 31, 2011 vs. Dec 31, 2010 %Change	Three months ended April 30 2010	Mar 31, 2011 vs. Apr 30, 2010 %Change
<i>Number of producing days</i>	90	92	-	89	-
Crude oil (bbls/d)	748	183	309	26	2,777
Natural gas (mcf/d)	1	32	(97)	9	(89)
Natural gas liquids (bbls/d)	5	2	150	1	400
Total (boe/d - 6:1)	753	190	296	29	2,497
Crude oil (%)	99	96	3	90	10
Natural gas (%)	-	3	(100)	6	(100)
Natural gas liquids (%)	1	1	-	4	(75)
Total (%)	100	100	-	100	-

Pinecrest's production profile for the three months ended March 31, 2011 was comprised of 100% oil and NGL's and 0% natural gas. The Company's production profile is weighted more towards light oil at the end of March 31, 2011, which reflects the success of the Slave Point, light oil drilling program in the Greater Red Earth area.

Production is split by the Company's main operating regions as follows:

<b>boe/d</b>	Three months ended March 31 2011	Three months ended December 31 2010	Mar 31, 2011 vs. Dec 31, 2010 %Change	Three months ended April 30 2010	Mar 31, 2011 vs. Apr 30, 2010 %Change
Greater Red Earth	556	141	294	-	100
Southeast Saskatchewan	197	49	302	29	579
Total	753	190	296	29	2,497

Production over the last six quarters is as follows:

	<b>Q1 Mar. 31 2011</b>	<b>Q4 Dec. 31 2010</b>	<b>Q3 Sep. 30 2010</b>	<b>Q4 Jul. 31 2010</b>	<b>Q3 Apr. 30 2010</b>	<b>Q2 Jan. 31 2010</b>
	Three months	Three months	Two months	Three months	Three months	Three months
Crude oil (bbls/d)	748	183	111	71	26	50
Natural gas (mcf/d)	1	32	23	20	9	4
Natural gas liquids (bbls/d)	5	2	4	4	1	1
<b>Total (boe/d – 6:1)</b>	<b>753</b>	<b>190</b>	<b>119</b>	<b>78</b>	<b>29</b>	<b>52</b>

## PETROLEUM AND NATURAL GAS REVENUE

	<b>Three months ended March 31 2011</b>	<b>Three months ended December 31 2010</b>	<b>Mar 31, 2011 vs. Dec 31, 2010 %Change</b>	<b>Three months ended April 30 2010</b>	<b>Mar 31, 2011 vs. Apr 30, 2010 %Change</b>
Petroleum and Natural Gas Sales	6,099,936	1,386,045	340	194,464	3,037
Royalties	790,973	239,580	230	31,072	2,446
<b>Petroleum and Natural Gas Revenue</b>	<b>5,308,963</b>	<b>1,146,465</b>	<b>363</b>	<b>163,392</b>	<b>3,149</b>

## PETROLEUM AND NATURAL GAS SALES

Petroleum and natural gas sales (before royalties), increased 340% to \$6,099,936 for the three months ended March 31, 2011 up from \$1,386,045 for the three months ended December 31, 2010 and increased 3,037% up from \$194,464 for the three months ended April 30, 2010. Higher revenue is primarily the result of increased production and higher realized average prices for the three months ended March 31, 2011 reflecting the Company's property acquisitions and new drills.

	<b>Three months ended March 31 2011</b>	<b>Three months ended December 31 2010</b>	<b>Mar 31, 2011 vs. Dec 31, 2010 %Change</b>	<b>Three months ended April 30 2010</b>	<b>Mar 31, 2011 vs. Apr 30, 2010 %Change</b>
Crude oil sales	6,075,259	1,363,335	346	185,867	3,169
Natural gas sales	(2,123)	12,358	(117)	3,750	(157)
Natural gas liquids sales	26,800	10,352	159	4,847	453
<b>Total sales</b>	<b>6,099,936</b>	<b>1,386,045</b>	<b>340</b>	<b>194,464</b>	<b>3,037</b>

## REALIZED PRICES

Pinecrest realized an average price of \$90.03 per boe for the three months ended March 31, 2011, a 15% increase compared to the three months ended December, 2010 and a 18% increase compared to the three months ended April 30, 2010. The increase is due mainly to light crude oil price increases for the three months ended March 31, 2011.

(\$)	Three months ended March 31 2011	Three months ended December 2010	Mar 31, 2011 vs. Dec 31, 2010 %Change	Three months ended April 30 2010	Mar 31, 2011 vs. Apr 30, 2010 %Change
<b>Average Realized Prices</b>					
Crude oil (\$/bbl)	90.30	80.88	12	79.73	13
Natural gas (\$/mcf)	(18.99)	4.19	>(100)	4.93	>(100)
Natural gas liquids (\$/bbl)	58.56	46.21	27	54.98	7
<b>Total (\$/boe – 6:1)</b>	<b>90.03</b>	<b>78.54</b>	<b>15</b>	<b>76.38</b>	<b>18</b>
<b>Benchmark Prices</b>					
Edmonton light crude (\$/bbl)	88.51	80.73	10	79.35	12
AECO natural gas (\$/Mmbtu)	3.79	3.31	15	4.66	(19)

### **Oil Prices**

The Company's crude oil prices are based on Alberta's Edmonton light stream, adjusted for quality differentials. Realized oil price increased by 12% to \$90.30/bbl for the three months ended March 31, 2011 compared to \$80.88/bbl for the three months ended December 31, 2010. Oil prices increased by 13% compared to \$79.73/bbl for the three months ended April 30, 2010. The Company realizes a small pricing premium from the benchmark price due to the overall high quality of the Slave Point and Granite Wash light sweet oil production in Red Earth and Bakken light sweet oil production in southeast Saskatchewan.

### **Natural Gas Prices**

The Company's natural gas prices are based on the Alberta AECO reference price. Due to the high heating content of the Company's sweet solution gas conserved from its Bakken oil production in Saskatchewan, Pinecrest receives premium pricing as compared to the AECO benchmark. Natural gas prices remain relatively low, mainly due to increased natural gas inventories and supply from North American shale gas drilling, however increased by 15% for the three months ended March 31, 2011 compared to the three months ended December 31, 2010. Natural gas sales and prices were negative for the quarter reflecting a reversal of revenue accruals from December 31, 2010 associated with the property acquisitions which closed end of November 2010. Natural gas prices realized in southeast Saskatchewan were \$4.18/mcf for the three months ended March 31, 2011

### **Liquids Prices**

The Company's natural gas liquids prices are based on market prices and vary depending on the specific proportion of liquids products in the Company's production mix. Pinecrest recorded an increase of 27% in natural gas liquids price to \$58.56/bbl in the three months ended March 31, 2011, compared to \$46.21/bbl in the three months ended December 31, 2010 and an increase of 7% from \$54.98/bbl in the three months ended April 30, 2010.

### **Risk Management**

The risk exposure inherent in fluctuations in the price of crude oil and natural gas, the US/Cdn dollar exchange rate and interest rates are monitored by the Company's management and its board of directors. A hedging policy has been established to mitigate these risks. Currently, the Company has not undertaken any risk management contracts or commodity price contracts, and therefore has no realized or unrealized gains or losses in the three months ended March 31, 2011 nor was there any for the three months ended December 31, 2010 nor the three months ended April 30, 2010.

### ROYALTY EXPENSE

The following table provides a summary of royalty expenses for the three months ended March 31, 2011, the three months ended December 31 and the three months ended April 30, 2010:

	Three months ended March 31 2011	Three months ended December 2010	Mar 31, 2011 vs. Dec 31, 2010 %Change	Three months ended April 30 2010	Mar 31, 2011 vs. Apr 30, 2010 %Change
<b>Royalty \$</b>					
Crown	378,613	166,485	127	-	100
Freehold and freehold production tax	382,002	49,167	677	26,925	1,319
Gross overriding and other	30,358	23,928	27	4,147	632
<b>Total royalties</b>	<b>790,973</b>	<b>239,580</b>	<b>230</b>	<b>31,072</b>	<b>2,446</b>
<b>Average Royalty Rate (% of sales)</b>					
Crown	6	12	(50)	-	-
Freehold and freehold production tax	6	4	50	14	(57)
Gross overriding and other	1	1	-	2	(50)
Total	13	17	(24)	16	(19)
\$ Per boe	11.67	13.64	(14)	12.20	(4)

Royalties were \$790,973 (13% of total sales) for the three months ended March 31, 2011 compared to \$239,580 (17% of sales) for the three months ended December 31, 2010, and compared to \$31,072 (16% of total sales) for the three months ended April 30, 2010.

The average royalty rate for the three months ended March 31, 2011 was lower than the prior three months as a result of the newly drilled wells qualifying for the Alberta Horizontal Oil New Well Royalty Rates. New horizontal drilling in the Greater Red Earth area qualifies for lower royalty rates which were introduced by the Alberta Government in 2009. A total of 16 new wells were placed on production in the three months ended March 31, 2011, three of which were in Saskatchewan. Thirteen wells placed on production in Alberta during the first quarter 2011 will attract the Horizontal Oil New Well Royalty Rates ("HONWRR", which provide for a maximum royalty rate of 5% on production between 24 to 30 months or on the first 60,000 to 70,000 barrels, whichever comes first ("HONWRR" is a function of the total measured depth of each horizontal well)).

Production in Alberta is primarily from Crown lands and, as it originates from previously drilled wells which have been acquired through acquisitions, does not qualify for the Alberta Governments' new drilling incentives or credits under the existing Alberta Royalty Framework. Pinecrest completed three property acquisitions in October and November 2010 in the Greater Red Earth Area of Alberta. The existing production on these properties attracts Alberta Crown royalties, and do not benefit from any of the current Alberta royalty incentive and/or royalty reduction programs. Consequently, the average royalty rate was higher for the three months ended December 31, 2010 compared to the three months ended March 31, 2011 and the three months ended April 30, 2010.

Pinecrest's production in Saskatchewan is from horizontal Bakken wells which are on freehold lands and attract a royalty rate of approximately 6% of revenues. Corporate freehold royalty rates as a percentage of sales are higher for the three months ended March 31, 2011 due placing 3 new wells onto production as compared to one well placed on production in the three months ended December 31, 2010. Overall corporate freehold royalty rates are lower for the three months ended March 31, 2011 compared to the three months ended April 30, 2010 because there of the addition of production in Alberta, from the Greater Red Earth area. Production for the three months ended April 30, 2010 includes production from 6 non-operated wells in the Bakken area of southeast Saskatchewan.

## OPERATING AND TRANSPORTATION EXPENSE

Operating and transportation expense was \$1,222,589, an increase of 326% in the three months ended March 31, 2011 compared to \$286,784 for the three months ended December 31, 2010 and increased 2,138% from \$54,634 for the three months ended April 30, 2010. This increase is the result of increased production.

Per unit operating and transportation expense increased to \$18.04/boe for the three months ended March 31, 2011 compared to \$16.32/boe for the three months ended December 31, 2010 and decreased by 16%, from \$21.46/boe for the three months ended April 30, 2010. Increased operating and transportation costs per boe for the first quarter are primarily due to trucking and work over costs associated with the Ogston and Red Earth fields. As Pinecrest continues to exploit its assets, finalize the commissioning of its oil gathering system and increase production in its core operating areas, it expects that operating and transportation expenses per boe will decrease to approximately \$12.75 per boe.

	Three months ended March 31 2011	Three months ended December 31 2010	Mar 31, 2011 vs. Dec 31, 2010 %Change	Three months ended April 30 2010	Mar 31, 2011 vs. Apr 30, 2010 %Change
Operating and transportation expense	1,222,589	286,784	326	54,634	2,138
\$ Per boe	18.04	16.32	11	21.46	(16)

## EXPLORATION EXPENSE

Under IFRS, costs such as undeveloped land acquisition and lease costs, geological and geophysical costs and exploratory drilling costs associated with determining the technical feasibility and commercial viability of the land are capitalized and classified as exploration and evaluation assets. Costs associated with undeveloped lands that expire in the period are expensed in the statement of comprehensive loss. Under the full cost method of accounting for oil and gas properties under Canadian GAAP, these costs would be moved into the cost pool to be depleted.

Exploration expense associated with expired undeveloped land of \$1,879,428 (\$27.74/boe) was recorded for the three months ended March 31, 2011 (three months ended December 31, 2010 – nil; three months ended April 30, 2010 – nil). These expired leases were acquired by the Company through the seven property acquisitions that closed between July and November 2010. Pinecrest's strategy is to only permit lands that are not key to our exploitation plans to expire.

## GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expenses decreased by 52% to \$806,128 (\$11.90/boe) for the three months ended March 31, 2011 compared to \$1,697,035 (\$96.59/boe) for the three months ended December 31, 2010. The decrease in general and administrative expense on a per boe basis for the first quarter 2011 reflects the 296% increase in production over the three months ended December 31, 2010.

The decrease in expense is due primarily to increased recoveries of \$515,702 (a 352% increase compared to the three months ended December 31, 2010) which are directly related to the increase in the Company's operated capital expenditures for the three months ended March 31, 2011. These recoveries are charged to capital projects as part of the permitted expenditures under the joint operating agreements with joint venture partners. As such, the Company's partners have been billed for their share of these costs incurred during the three months ended March 31, 2011. In addition, Pinecrest capitalizes personnel expense directly attributable to new capital projects. During the three months ended March 31, 2011 a total of \$141,728 was capitalized to projects, which is approximately 12% of gross personnel expense.

General and administrative expenses increased for the three months ended March 31, 2011 to \$806,128 an increase of 1,877% from \$58,808 for the three months ended April 30, 2010 reflecting the change in the Company's operations. Effective May 2010, Pinecrest was recapitalized with a new management team with an operating strategy of taking operatorship of its capital program resulting in the hiring of a full complement of technical staff. The Company had limited general and administrative expense for the period ended April 30, 2010 because it had 6 non-operated producing wells in southeast Saskatchewan. No general and administrative costs were capitalized during the three month period ended April 30, 2010 as the Company did not have any capital projects under way at that time.

(\$)	Three months ended March 31 2011	Three months ended December 31 2010	Mar 31, 2011 vs. Dec 31, 2010 %Change	Three months ended April 30 2010	Mar 31, 2011 vs. Apr 30, 2010 %Change
General and administrative	1,162,485	1,008,728	15	58,808	1,877
Overhead recoveries	(515,702)	(113,997)	352	-	100
Capitalized	(141,728)	(143,901)	9	-	100
Net cash general & administrative	505,055	750,830	(33)	58,808	(759)
Share based payments (net) <sup>1</sup>	301,073	946,202	(68)	-	100
<b>General and administrative</b>	<b>806,128</b>	<b>1,697,032</b>	<b>(52)</b>	<b>58,808</b>	<b>1,271</b>
\$ Per boe net cash G&A	7.46	42.74	(83)	23.10	(68)
\$ Per boe share based payments	4.44	53.85	(92)	-	100
<b>\$ Per boe</b>	<b>11.90</b>	<b>96.59</b>	<b>(88)</b>	<b>23.10</b>	<b>(48)</b>

<sup>1</sup> Share-based payments (net) is a non-cash charge to the statement of comprehensive loss.

### Share-based Payments

The Company has an incentive stock option plan whereby options may be granted from time to time to directors, officers, employees and consultants of the Company with shares to be reserved for issuance as options not to exceed 10% of the issued and outstanding common shares. One third of the options vest immediately, with one third vesting in 12 months and the remainder vesting in 24 months from date of grant. Stock awards granted are measured at fair value at the grant date, with graded vesting, and expensed over the vesting period, based on the Company's estimate of stock awards that will vest. When stock awards vest in installments each installment is accounted for as a separate arrangement. The fair value of the options was estimated using the Black Scholes option pricing model using the following assumptions: weighted average risk free interest rate of 2.0%, forecast volatility of 55%, forfeiture rate of 0%, dividend yield of 0% with a weighted average useful life of 5 years.

No options were issued in the three months ended March 31, 2011 compared to 4,975,000 issued for the three months ended December 31, 2010. Net share-based payment expense was \$301,073 (\$4.44/boe) for the three months ended March 31, 2011 compared to \$946,202 (\$ 53.85/boe) for the three months ended December 31, 2010. The decrease in share based payments is due to the amortization of the vested outstanding stock option compared to the prior quarter which recognized the full expense associated with the immediate vesting of one-third of the options granted in that period.

Share-based payments for the period ended March 31, 2011 increased by 100% compared to the three months ended April 30, 2010 because all the stock options that were issued prior to the period ended April 30, 2010 had fully vested and were fully expensed.

(\$)	Three months ended March 31 2011	Three months ended December 31 2010	Mar 31, 2011 vs. Dec 31, 2010 %Change	Three months ended April 30 2010	Mar 31, 2011 vs. Apr 30, 2010 %Change
Total share-based payments	403,777	1,270,473	(68)	-	100
Share-based payments capitalized	(102,704)	(324,271)	(68)	-	100
<b>Share-based payments expense</b>	<b>301,073</b>	<b>946,202</b>	<b>(68)</b>	<b>-</b>	<b>100</b>
\$ per boe	4.44	53.85	(92)	-	100
Number of stock options granted	-	4,975,000	(100)	-	100
Number of stock options exercisable	1,685,336	1,685,336	-	-	100

## FINANCE EXPENSE

Finance expense includes accretion and interest expense

### *Accretion expense*

Pinecrest records its decommissioning liability as the present value of the estimated abandonment and reclamation costs for its well sites, pipelines and facilities using a credit adjusted risk-free interest rate. Management reviews and updates, when necessary, the costs and discount rate at each reporting period to reflect current market assessments of the risks specific to the obligation. Changes in these estimates are added or deducted to the liability with an offset to the asset. In addition, the liability is increased when properties are acquired, new wells are drilled and due to the passage of time. Accretion expense for the three months ended March 31, 2011 increased 5% to \$17,958 compared to \$17,071 for the three months ended December 31, 2010. The increase is due mainly to the passage of time resulting in an increase in the expense. Costs associated with 8 new wells spud were offset, in part, by changes in discount rate estimates for the three months ended March 31, 2011.

Accretion expense for the three months ended March 31, 2011 increased by 905% to \$17,958 from \$1,787 for the three months ended April 30, 2010. The increase is due mainly to increased overall fair value of the obligations relating to an increased number of wells and facilities for the three months ended March 31, 2011.

### *Interest expense*

Interest expense for the three months ended March 31, 2011 decreased 100% to \$nil compared to \$46,644 for the three months ended December 31, 2010. During October 2010, Pinecrest established a demand operating credit facility in the amount of \$30 million, bearing interest at prime plus 2%. As a result, the Company incurred a one-time fee of \$300,000. The line of credit was fully drawn for a one month period for purposes of funding the acquisition of crown lands in Alberta in October, which resulted in interest expense of \$46,644. There were no borrowings on the debt for the period ended March 31, 2011.

Interest expense for the three months ended March 31, 2011 decreased 100% from the three months ended April 30, 2010. Interest recorded for the three months ended April 30, 2010 was due to an outstanding related party loan, with an interest rate of 4% per annum. The related party loan balance was paid in full in May 2010 with proceeds from the Company's recapitalization transaction.

	Three months ended March 31	Three months ended December 31	Mar 31, 2011 vs. Dec 31, 2010	Three months ended April 30	Mar 31, 2011 vs. Apr 30, 2010
(\$)	2011	2010	% Change	2010	% Change
Accretion <sup>(1)</sup>	17,958	17,071	5	1,787	905
Interest	-	46,644	(100)	3,383	(100)
Finance costs	-	300,000	(100)	-	(100)
<b>Total finance expense</b>	<b>17,958</b>	<b>363,715</b>	<b>(95)</b>	<b>5,170</b>	<b>247</b>
\$ Per boe	0.27	20.70	(99)	2.03	(87)

<sup>(1)</sup>Accretion expense is a non-cash charge to the statement of comprehensive loss

## DEPLETION AND DEPRECIATION EXPENSE

Under IFRS, the Company has chosen to deplete its oil and gas assets using proved plus probable reserves as the depletion base. Costs relating to the development of petroleum and natural gas reserves are capitalized. These costs, along with estimated future development capital expenditures to be incurred in order to develop proved and probable reserves, and estimated costs relating to asset retirement obligations, are depleted on a unit of production basis, using estimated proved plus probable petroleum and natural gas reserves. Corporate assets are depreciated using the declining balance method, at rates ranging from 20% - 30%. Depletion and depreciation increased to \$1,725,189 (\$25.46/boe) for the three months ended March 31, 2011 compared to \$418,842 (\$23.84/boe) for the three months ended December 31, 2010. The increase in depletion and depreciation is primarily due to the addition of costs to bring the new wells onto production in the first quarter ended March 31, 2011.

Depletion and depreciation increased for the three months ended March 31, 2011 to \$1,725,189 (\$25.46/boe) compared to \$127,788 (\$50.19/boe) for the three months ended April 30, 2010. The per unit decrease in depletion and depreciation is the result of increased production for the three months ended March 31, 2010.

	Three months ended March 31	Three months ended December 31	Mar 31, 2011 vs. Dec 31, 2010	Three months ended April 30	Mar 31, 2011 vs. Apr 30, 2010
(\$)	2011	2010	%Change	2010	% Change
<b>Depletion and depreciation expense<sup>(1)</sup></b>	<b>1,725,189</b>	<b>418,842</b>	<b>312</b>	<b>127,788</b>	<b>1,250</b>
\$ Per boe	25.46	23.84	7	50.19	(49)

<sup>(1)</sup>Depletion and depreciation is a non-cash charge to the statement of comprehensive loss.

## NET EARNINGS AND CASH FLOW

### Net Earnings

Pinecrest recorded a net loss of \$326,621 (\$0.00 per basic and diluted share) in the three months ended March 31, 2011, as compared to a net loss of \$1,516,256 (loss of \$0.01 per basic and diluted share) in the three months ended December 31, 2010 and compared to a net loss of \$90,478 (loss of \$0.02 per basic and diluted share) in the three months ended April 30, 2010. The decrease in net loss for the three months ended March 31, 2011 reflects an increase in net revenues, offset by non-cash charges for exploration expense and depletion and depreciation.

### Cash Flow

The Company recorded a 521% increase in cash flow from operations of \$2,347,350 (\$0.01 per basic and diluted share) for the three months ended March 31, 2011 compared to a cash flow deficit from operations of \$557,001 ((\$0.00 per basic and diluted share) for the three months ended December 31, 2010. Cash flow from operations for the three months ended March 31, 2011 increased to \$2,347,350 (\$0.01 per basic and diluted share) from \$55,248 (\$0.01 per basic and diluted share) for the three months ended April 30, 2010. The increase was primarily the result of an increase in petroleum and natural gas revenue, offset by a decrease in general and administrative and finance expenses for the three months ended March 31, 2011.

### Funds Flow from Operations (Non-IFRS Measure)

The Company recorded funds flow from operations of \$3,592,975 (\$0.02 per basic and diluted share) for the three months ended March 31, 2011, as compared to funds flow deficiency from operations of \$237,131 (\$0.00 per basic and diluted share) for the three months ended December 31, 2010. Funds flow from operations for the three months ended March 31, 2011 increased from \$46,568 (\$0.01 per basic and diluted share).

### Calculation of Funds Flow from Operations<sup>1</sup>

	Three months ended March 31 2011	Three months ended December 31 2010	Mar 31, 2011 vs. Apr 30, 2010 %Change	Three months ended April 30 2010	Mar 31, 2011 vs. Apr 30, 2010 %Change
Cash flow from (used in) operations (IFRS)	2,347,350	(557,001)	485	55,248	28,633
<i>Deduct:</i>					
Change in non-cash working capital	(1,245,625)	(319,870)	553	8,680	141,393
<b>Funds flow from (used in) operations (Non-IFRS)</b>	<b>3,592,975</b>	<b>(237,131)</b>	<b>1,615</b>	<b>46,568</b>	<b>7,615</b>
Basic and diluted per share	\$0.02	\$ (0.00)	100	\$0.01	100

<sup>(1)</sup> Funds flow from Operations is a Non-IFRS measure and is defined by the Company as cash flow from operations, less the change in non-cash working capital.

### Netbacks

Pinecrest realized a 24% increase in operating netback of \$60.32/boe for the three months ended March 31, 2011, compared to the three months ended December 31, 2010 and an increase of 41% compared to the \$42.72/boe for the three months April 30, 2010. Increased operating netback is due primarily to increased commodity prices and a decrease in the per unit operating and transportation expenses, due to increased production, for the three months ended March 31, 2011.

The follow table summarizes the net loss on a barrel of oil equivalent for the periods indicated:

\$ Per boe	Three months ended March 31 2011	Three months ended December 31 2010	Mar 31, 2011 vs. Dec 31, 2010 %Change	Three months ended April 30 2010	Mar 31, 2011 vs. Apr 30, 2010 %Change
Average realized price	90.03	78.54	15	76.38	18
Royalty expenses	(11.67)	(13.64)	(14)	(12.20)	(4)
Operating & transportation expenses	(18.04)	(16.32)	11	(21.46)	(16)
<b>Operating netback</b>	<b>60.32</b>	<b>48.58</b>	<b>24</b>	<b>42.72</b>	<b>41</b>
Other income	0.17	0.04	325	-	100
Cash general & administrative expenses	(7.46)	(42.74)	(83)	(23.10)	(68)
Cash financing	-	(19.73)	(100)	(1.33)	(100)
<b>Cash flow netback</b>	<b>53.03</b>	<b>(13.85)</b>	<b>483</b>	<b>18.29</b>	<b>190</b>
Exploration expense <sup>(1)</sup>	(27.74)	-	100	-	100
Depletion and depreciation	(25.46)	(23.84)	7	(50.19)	(49)
Accretion	(0.27)	(0.97)	(72)	(0.70)	(61)
Share-based payments (net)	(4.44)	(53.85)	(92)	-	(100)
Deferred tax (recovery) expense	(1.33)	5.86	123	(2.93)	55
<b>Net loss</b>	<b>(6.21)</b>	<b>(86.65)</b>	<b>(93)</b>	<b>(35.53)</b>	<b>(83)</b>

<sup>(1)</sup>Exploration expense represents the cost of expired lands acquired in previous property acquisitions

## CAPITAL EXPENDITURES, ACQUISITIONS AND CAPITAL RESOURCES

### Capital Expenditures

During the three months ended March 31, 2011, Pinecrest spent a total of approximately \$47.6 million compared to approximately \$78.2 million in the three months ended December 31, 2010 and \$296 thousand spent in the three months ended April 30, 2010. The majority of the expenditures for the three months ended March 31, 2011 were on completion, equipping and facilities in the Greater Red Earth area of Alberta.

	Three months ended March 31 2011	Three months ended December 31 2010	Mar 31, 2011 vs. Apr 30, 2010 %Change	Three months ended April 30 2010	Mar 31, 2011 vs. Apr 30, 2010 %Change
<b>Evaluation and exploration (E&amp;E) expenditures</b>					
Undeveloped land	31,720	50,463,228	(99)	-	100
Geological and geophysical	-	18,525	(100)	-	-
Drilling	710,801	-	100	-	100
E&E acquisitions	20,000	4,690,016	(99)	-	100
	<b>762,521</b>	<b>55,171,769</b>	<b>(99)</b>	<b>-</b>	<b>100</b>
<b>Property, plant and equipment expenditures</b>					
Geological and geophysical	5,171	124,316	(96)	-	100
Drilling and completions	30,760,722	9,182,542	235	130,212	23,524
Equipment and facilities	15,334,197	1,029,349	1,390	51,381	29,744
Property acquisitions	461,530	12,546,965	(96)	115,000	301
Capitalized administrative	141,728	143,901	(2)	-	100
Corporate assets	21,809	34,055	(36)	-	100
	<b>46,725,157</b>	<b>23,061,128</b>	<b>103</b>	<b>296,593</b>	<b>15,654</b>
<b>Total capital expenditures</b>	<b>47,487,678</b>	<b>78,232,897</b>	<b>(39)</b>	<b>296,593</b>	<b>15,911</b>

### Drilling Results

Pinecrest drilled a total of 9 (6.0 net) horizontal oil wells in the three months ended March 31, 2011, and one (one net) vertical test well which achieved a 100% success rate. From May 2010, Pinecrest has drilled a total of 16 gross (8.8 net) horizontal wells, and 1 gross (1 net) vertical well into the Slave Point formation in the Greater Red Earth area of Alberta. In addition, Pinecrest has drilled 4 gross (2.3 net) horizontal wells in the Bakken formation in southeast Saskatchewan. Of the total 21 gross (12.1 net) wells drilled, Pinecrest operated 12 gross (8.8 net) wells.

	<i>Inception to Date (from May 2010)</i>		Three months ended March 31 2011		Three months ended December 31 2010		Five months ended December 31 2010	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Crude Oil	20	11.1	9	6.0	8	3.6	11	5.1
Natural gas	-	-	-	-	-	-	-	-
Standing	1	1.0	1	1.0	-	-	-	-
<b>Total</b>	<b>21</b>	<b>12.1</b>	<b>10</b>	<b>7.0</b>	<b>8</b>	<b>3.6</b>	<b>11</b>	<b>5.1</b>
Success rate (%)	100	100	100	100	100	100	100	100

### Land Holdings

At March 31, 2011, Pinecrest owned a total of 37,951 net acres of undeveloped land, representing a 6% decrease compared to the year ended December 31, 2010. Pinecrest's land acquisition strategy has been to acquire rights at 100% working interest, where possible. As such, Pinecrest's average working interest in its land holding has increased to 78% at March 31, 2011, compared to 76% at December 31, 2010. During the quarter a total of 2,474 net undeveloped acres of land in non-core fields expired resulting in an exploration expense charge of \$1.9 million to the statement of comprehensive loss.

Pinecrest's land acquisition is concentrated on the emerging Slave Point light oil play in the Greater Red Earth area of Alberta. The majority of the Slave Point rights are encompassed by the same land tenure documents that overlay productive petroleum and natural gas rights, and as such are not technically defined as undeveloped lands.

(Acres)	As at March 31, 2011		As At December 31, 2010		% Change	
	Gross	Net	Gross	Net	Gross	Net
Developed	12,949	6,257	12,189	5,681	6	10
Undeveloped	43,561	37,951	48,451	40,309	(10)	(6)
<b>Total</b>	<b>56,510</b>	<b>44,208</b>	<b>60,640</b>	<b>45,990</b>	<b>(7)</b>	<b>(4)</b>
<b>Average working interest</b>		<b>78%</b>		<b>76%</b>		

Pinecrest's ongoing land acquisition strategy is focused on building the land base with a high working interest, through Crown land sales and strategic property acquisitions to facilitate internally generated prospects.

## LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of approximately \$5.7 million at March 31, 2011 as compared to a working capital of approximately \$49.5 million at December 31, 2010. The decrease in working capital is primarily the result of capital expenditures for the three months ended March 31, 2011. Net working capital was utilized during the three months ended March 31, 2011 as follows: total capital expenditures of approximately \$47.6 million, plus increased accounts receivable balances relating to capital billings to joint venture partners, offset by increased accounts payable of approximately \$13 million.

Pinecrest is in the process of renegotiating its demand revolving credit facility which was in the amount of \$30.0 million to provide supplemental funding for the Company's general operations and capital program. At March 31, 2011, no amounts were outstanding on the demand revolving line of credit.

Management anticipates that the Company will continue to have adequate liquidity to fund future working capital requirements and capital expenditures through combination of cash flows, cash on hand, and the availability of credit facilities.

### Share Capital

The Company had the following outstanding common shares and equity instruments:

	Three months ended March 31 2011	Three months ended December 31 2010	Five months ended December 31 2010	Year ended July 31 2010
<b>Weighted Average Outstanding Common Shares</b>				
Basic	169,923,202	141,490,383	121,544,951	17,071,207
Diluted	169,923,202	141,490,383	121,544,951	17,071,207
<b>Outstanding securities:</b>				
Common Shares	170,000,964	169,638,917	169,638,917	85,315,774
Common Share Purchase Warrants <sup>(1)</sup>	34,396,883	34,758,930	34,758,930	34,758,930
Stock Options	4,975,000	4,975,000	4,975,000	-

<sup>(1)</sup> Includes a total of 4,830,000 performance warrants

### **Total Market Capitalization**

The Company's market capitalization at March 31, 2011 was as follows:

	At March 31, 2011	At December 31, 2010	% Change
Common shares – fully diluted	209,372,847	209,372,847	-
Share price <sup>(1)</sup>	\$2.26	\$2.80	(19)
Market Capitalization	\$473,182,634	\$586,243,972	(19)

<sup>(1)</sup>Represent the close price on the TSX Venture Exchange

During the period from April 1, 2011 to May 16, 2011, a total of 452,400 common share warrants were exercised at a price of \$0.60 per common share. At May 16, 2011 Pinecrest had the following equity instruments outstanding: 170,453,364 common shares, 33,944,483 common share purchase warrants, and 4,975,000 stock options. A total of 48,000 common share purchase warrants will expire on May 25, 2011.

### **BUSINESS RISKS**

Statements in this document may contain forward-looking information including expectations of future production, components of cash flow and earnings, expected future events and/or financial results that are forward-looking in nature and subject to substantial risks and uncertainties. The reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect. The Company cautions the readers that actual performance will be affected by a number of factors, many of which may respond to changes in economic and political circumstances throughout the world. Events or circumstances may cause actual results to differ materially from those predicted, a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. These risks include, but are not limited to:

#### **Development and Production Risk**

Pinecrest's production and exploration activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different sized companies ranging from smaller junior producers to much larger integrated petroleum companies. Pinecrest is exposed to the following development and production risk factors:

- Finding and developing petroleum and natural gas reserves at economic costs;
- Production of petroleum and natural gas in commercial quantities; and
- Marketability of petroleum and natural gas produced.

In order to reduce exploration risk, the Company strives to employ highly qualified and motivated professional employees with demonstrated ability to generate quality proprietary geological and geophysical prospects. To help maximize drilling success, Pinecrest combines exploration in areas that afford multi-zone prospect potential, targeting a range of low to moderate risk prospects with some exposure to select high-risk plays with high-reward opportunities. Pinecrest also explores in areas where the Company's officers and employees have significant drilling and completions experience. The Company mitigates its risk related to producing hydrocarbons through the utilization of the most appropriate technology and information systems. In addition, Pinecrest seeks operational control of its projects, where feasible.

---

***Environmental and Climate Change Risk***

Petroleum and natural gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. In order to mitigate such risks, Pinecrest conducts its operations at high standards and follows safety procedures intended to reduce the potential for personal injury to employees, contractors and the public at large. The Company maintains current insurance coverage for general and comprehensive liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect changing corporate requirements, as well as industry standards and government regulations.

***Commodity Price Risk***

Crude oil prices are affected by worldwide factors such as supply and demand fundamentals, and geopolitical events. Natural gas prices are influenced by the price of alternative fuel sources such as oil or coal, and by North American natural gas supply and demand fundamentals. In accordance with policies approved by our Board of Directors, Pinecrest may, from time to time, manage these risks through the use of physical delivery contracts, swaps, collars or other financial instruments not to exceed 50% of net commodity production (after royalties).

***Credit Risk***

Credit risk is the risk of loss if purchasers or counterparties default on their financial obligations. The maximum exposure of the Company to credit risk at March 31, 2011 and December 31, 2010 is limited to the cash and accounts receivable balances as reported on the balance sheets. Cash is comprised of bank balances. Currently, the Company does not intend to carry short-term investments. Should this change in the future, counterparties will be selected based on credit ratings and management will monitor all investments to ensure a stable return, and all complex investment vehicles with high risk will be avoided.

The Company's accounts receivable are subject to concentration of credit risk as all of the Company's customers are in the oil and gas sector. Management is of the opinion that any risk of loss is reduced due to the financial strength of its operators, and therefore concentration of credit risk is mitigated by having concentrations with credit worthy operators.

***Liquidity Risk***

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities as they come due. Liquidity risk also includes the risk of the Company not being able to liquidate assets in a timely manner at a reasonable price. The Company meets its liquidity requirements by anticipating operating, investing and financing activities and ensuring there are enough funds to cover these activities. Liquidity risks may necessitate the need for the Company to conduct equity issues or obtain debt financing. The Company prepares annual and quarterly capital expenditure budgets, which are regularly monitored and updated when necessary to include a review of debt forecasts and working capital requirements. In addition, Pinecrest uses authorizations for expenditures for operated and non-operated capital projects to facilitate monitoring capital programs.

***Foreign Currency and Interest Rate Risk***

World oil prices are quoted in United States (US) dollars and the price received is therefore affected by the Canadian/US dollar exchange rate, which will fluctuate over time. In recent years, the Canadian dollar has increased in value against the US dollar, which negatively impacts commodity prices valued in Canadian dollars, thereby indirectly reducing Pinecrest's oil revenues and future value of reserves, as determined by independent evaluators.

Interest rate fluctuations impact the amount required to service debt. At March 31, 2011, Pinecrest had no debt outstanding, and therefore is not exposed to interest rate risk.

---

**CRITICAL ACCOUNTING ESTIMATES**

Certain accounting policies require management to make decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. A summary of Pinecrest's critical accounting estimates and judgments can be found in Note 3 and a summary of significant accounting policies can be found in Note 4 to the unaudited condensed interim financial statements for the period ended March 31, 2011.

Pinecrest's management reviews its estimates frequently; however, the emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. Pinecrest attempts to mitigate this risk by employing individuals with the appropriate skill set and knowledge to make reasonable estimates, developing internal control systems and comparing past estimates to actual results.

The Company's financial and operating results include estimates of the following:

- Depletion, depreciation and accretion and tests for impairment are based on estimates of crude oil and natural gas reserves;
- Revenues, operating expenses and royalties for which accruals have been recorded for actual revenues and costs which have been earned or incurred but have not yet been received;
- Capital expenditures on projects that are in progress;
- Decommissioning liability including estimates of future costs and the timing of the costs;
- Deferred income taxes and the recoverability of deferred income tax assets have been recorded based on temporary differences between the carrying value and tax basis of the Company's assets and liabilities. These provisions require estimating the timing of these temporary differences and estimating whether tax assets will be realized before expiry.

**ACCOUNTING CHANGES AND PRONOUNCEMENTS*****International Financial Reporting Standards ("IFRS")***

In February 2008, the AcSB confirmed that IFRS will be required for interim and annual financial Statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010 and an opening balance sheet showing the changes from Canadian GAAP ("GAAP") to IFRS. For Pinecrest, the date of transition is August 1, 2009 due to the change in fiscal year ends from July 31 to December 31. Securities regulations require that if a change in year-end occurs, and the new year-end is less than nine months, the Company must choose the beginning of the "old reporting year" which is the twelve months ended July 31, 2010, for its transition to IFRS.

Pinecrest has prepared its March 31, 2011 unaudited condensed interim financial statements in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and are in accordance with International Financial Reporting Standard ("IFRS") 1 *First-time Adoption of International Financial Reporting Standards*. The Company's IFRS accounting policies are provided in Note 4 to the unaudited condensed interim financial statements. In addition, Note 20 to the unaudited condensed interim financial statements presents reconciliations to show how the transition from GAAP to IFRS has affected the Company's balance sheet, financial performance and cash flows.

***Accounting Policy Impacts of IFRS Adoption***

Pinecrest's IFRS unaudited interim financial statements have been prepared using IFRS standards that were in effect on March 31, 2011. These unaudited interim financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its December 31, 2011 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time.

The Company's unaudited condensed interim financial statements for the three months ended March 31, 2011 provide the following reconciliations from GAAP to IFRS:

- Equity as at August 1, 2009; April 30, 2010; July 31, 2010 and December 31, 2010
- Comprehensive loss for the five months ended December 31, 2010; the twelve months ended July 31, 2010 and the three months ended April 30, 2010.

The following provides a summary reconciliation of net comprehensive loss between the Company's previous GAAP and IFRS, along with a discussion of the significant accounting policy changes:

	Five months ended December 31, 2010	Twelve months ended July 31, 2010	Three months ended April 30, 2010
GAAP - Net loss and comprehensive loss	\$ (2,040,648)	\$ (1,221,192)	\$ (145,677)
<i>Decrease (increase) in net loss:</i>			
Depletion and depreciation	251,705	43,209	76,564
Share-based payments	286,908	(1,152,702)	-
Deferred income tax recovery	(147,828)	(11,234)	(21,365)
	390,785	(1,120,727)	55,199
<b>IFRS – Net loss and comprehensive loss</b>	<b>\$ (1,649,863)</b>	<b>\$ (2,341,919)</b>	<b>\$ (90,478)</b>

- a) **Property Plant and Equipment (“PP&E”):** Under GAAP, Pinecrest followed the full cost method of accounting whereby all costs directly associated with the exploration, acquisition and development of petroleum and natural gas reserves are capitalized on a country-by country cost center basis. Costs are depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs. Upon transition to IFRS, Pinecrest was required to adopt new accounting policies for its property, plant and equipment.

Pre-exploration costs, costs incurred before the legal right to explore must be expensed under IFRS. Previously, these costs were capitalized under GAAP and were depleted on a unit of production basis. At August 1, 2009 these costs are not material. Evaluation and exploration costs are those expenditures incurred to assess the technical feasibility and commercial viability of various land holdings. Pinecrest capitalized and reported these costs as evaluation and exploration costs on the balance sheet under IFRS. When an area or project is determined to be technically feasible and commercially viable, these costs will be tested for impairment and transferred to property, plant and equipment. Any unrecoverable exploration and evaluation costs will be expensed.

IFRS permits the option to measure PP&E using either the cost model or the revaluation model for each class of PP&E. Pinecrest uses the cost model to account for all PP&E. Development costs include those expenditures that are incurred to bring reserves to commercial production and include drilling, completion and equipping costs. These costs are capitalized under IFRS within property, plant and equipment on the balance sheet. Pinecrest depletes these costs over proved plus probable reserves using the unit-of-production method, by unit of account (specific areas) instead of the country cost center level currently utilized under GAAP.

Under IFRS, divestitures of PP&E will generally result in a gain or loss recognized in net earnings. Under GAAP, proceeds from divestitures are deducted from the full cost pool unless the deduction would result in a change in the depletion rate by more than 20%, in which case the gain or loss would be recorded in net earnings. In addition, Pinecrest is required to perform an impairment test on exploration and evaluation expenditures when there is a determination that the expenditures have resulted in a technically feasible and commercially viable project. At that time, the expenditures would be tested for impairment, and then transferred to the developed and producing assets category.

Pinecrest adopted the IFRS 1 exemption, which allows the Company to deem its August 1, 2009 IFRS petroleum and gas properties costs to be equal to its GAAP historical net book value. On August 1, 2009 the IFRS exploration and evaluation assets were \$154,589, which is equal to the GAAP unproved properties balance. The IFRS development costs are equal to the full cost pool balances under GAAP. These costs have been allocated over the proved plus probable reserves to establish the area level depletion units of account. As at December 31, 2010 the Company's exploration and evaluation assets were \$84,733,613 (July 31, 2010 - \$25,297,075; April 30, 2010 - \$159,565). For the five months ended December 31, 2010, the application of IFRS resulted in a decrease of \$251,705 of depletion (for the twelve months ended July 31, 2010 – a decrease of \$43,209 ; for the three months ended April 30, 2010 – a decrease of \$76,564).

- b) **Impairment of Assets:** Under GAAP, Pinecrest is required to perform an impairment test on its property, plant and equipment at each reporting date, using the undiscounted cash flow from proved reserves for a country level cost center. If the carrying amount of the assets is less than the cash flows, the impairment is measured using the sum of the fair values of the proved and probable reserves, plus the costs of unproved properties. Impairments recognized under GAPP are not reversed.

Under IFRS, Pinecrest is not permitted to test for asset impairment at the cost center level (country level) as permitted under the GAAP full cost guideline. IFRS requires impairment testing to be performed at the cash generating unit level, which is at a lower level than the current cost center level. IFRS uses a one-step approach for testing and measuring asset impairments, with asset carrying values being compared to the higher of value-in-use and fair value less costs to sell. Value in use is defined as the amount equal to the present value of future cash flows expected to be derived from the asset. In the absence of an active market, fair value less costs to sell may also be determined using discounted cash flows. The use of discounted cash flows under IFRS to test and measure asset impairment differs from GAAP, which uses undiscounted cash flows. This may result in more frequent write-downs in the carrying amounts of assets under IFRS because the asset carrying amounts previously supported under GAAP were based on undiscounted cash flows. However under IFRS, impairment losses that were previously recognized may be reversed where circumstances change such that the impairment is reduced.

Pinecrest did not recognize an asset impairment on the IFRS opening balance sheet at August 1, 2009.

- c) **Asset Retirement Costs:** Pinecrest is required to recognize asset retirement obligations under GAAP and IFRS. However, under IFRS, the recognition criteria for contingent liabilities are much more explicit than Canadian GAAP and may potentially require the booking of additional liabilities associated with the asset retirement obligations of Pinecrest's petroleum and natural gas assets. Liabilities for decommissioning and restoration are recognized for both legal and constructive obligations. Under IFRS, the estimated liability is re-measured at each reporting period using estimates of credit adjusted risk-free rates to adjust future cash outflows, whereas under GAAP the estimated liability is not re-measured using current discount rates. Pinecrest continues to use its credit adjusted risk-free discount rate to determine its decommissioning liabilities under IFRS, and has performed its preliminary calculation for decommissioning costs at August 1, 2009.

Pinecrest did not have any change to the liability on transition date. There was also no change to the liability at December 31, 2010, July 31, 2010 nor April 30, 2010.

- d) **Stock-based Compensation:** Similar to GAAP, share-based payments under IFRS require that the expense be measured at fair value. However, IFRS requires the expense related to share-based payments to be recognized as the options or warrants vest, each tranche of options must be recognized separately and requires that forfeitures are estimated at time of grant. Because Pinecrest recognized the expense associated with stock-based compensation using the graded-vesting method under GAAP, the adjustment from GAAP to IFRS was the result of the change in calculation from a determining the expense on a single grant basis to multiple tranches.

Pinecrest has taken the IFRS 1 exemption for share-based payments, and consequently there was no impact to its opening balance sheet at August 1, 2009. For the three months ended December 31, 2010, the application of IFRS resulted in a decrease of \$286,908 of share-based compensation expense, and a reduction of \$98,120 of capitalized share-based payments to property, plant and equipment. There was no impact for the twelve months ended July 31, 2010 nor the three months ended April 30, 2010.

- e) **Flow-through Shares:** Under IFRS, proceeds from a flow-through share offering are allocated between the sale of the shares and the sale of the tax benefit. The allocation is made based on the difference between the quoted market price of the existing shares and the amount the investor pays for the flow through shares. A liability is established for the difference that is reversed upon renunciation of the tax benefit and the difference between the liability and the deferred tax liability is recorded as an income tax expense or recovery, if applicable.

Prior to August 1, 2009 the Company issued flow-through shares for proceeds of \$271,650. The provision for the tax benefit of \$67,912 was established at date of transition, with an increase to provisions for liabilities and other charges and a reduction to share capital. The expenditures were renounced to investors for the year ended July 31, 2010 and the full amount of the provision was reversed against the deferred tax asset.

During the year ended July 31, 2010, Pinecrest issued flow-through units to various officers, directors and employees of the company at a cost of \$0.375 per unit. Under IFRS 2 – Share-based payments, the Company is required to record a share-based payment expense for an amount that is the deemed fair value benefit from the sale of the shares. Accordingly, the Company recorded a \$1.2 million share-based payment expense associated with the sale of the flow-through units in the twelve months ended July 31, 2010, with a provision for the sale of the tax benefit.

### **Recent Pronouncements Issued**

All accounting standards effective for periods beginning on or after March 31, 2011 have been adopted as part of the transition to IFRS. The following new IFRS pronouncements have been issued but are not yet effective.

- IFRS 1 *First-time adoption of International Financial Reporting Standards*, amendments regarding Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters; effective for annual periods beginning on or after July 1, 2011.
- IFRS 7 *Financial Instruments: Disclosures*, amendments regarding *Disclosures – Transfers of Financial Assets*; effective for annual periods beginning on or after July 1, 2011.
- IFRS 9 *Financial Instruments* (New; to replace IAS 39); effective for annual periods beginning on or after January 1, 2013.
- IAS 12 *Income Taxes*, amendments regarding Deferred Tax: Recovery of Underlying Assets; effective for annual periods beginning on or after January 1, 2012.

Management is currently assessing the impact of these new standards on the Company's accounting policies and financial statement presentation.

**INTERNAL CONTROLS**

There has been no change to the Company's internal controls since year end December 31, 2010.

**OFF BALANCE SHEET ARRANGEMENTS**

No off balance sheet arrangements existed at March 31, 2011.

**RELATED PARTY TRANSACTIONS**

The Company utilized the services of a law firm in which the Corporate Secretary and the Chairman of the Board are Partners. During the three months ended March 31, 2011, the Company incurred \$30,252 on services and disbursements. The related party transactions were conducted in the normal course of business and have been measured at the fair value amount.

**SUBSEQUENT EVENTS**

There were no events subsequent to the period end March 31, 2011.

**SUPPLEMENTAL QUARTERLY INFORMATION**

The following summarizes key financial and operating information by quarter, IFRS basis:

	<b>Q1</b> <b>Mar. 31 2011</b>	<b>Q4</b> <b>Dec. 31 2010<sup>(1)</sup></b>	<b>Q3</b> <b>Sep. 30 2010<sup>(1)</sup></b>	<b>Q4</b> <b>Jul. 31 2010<sup>(1)</sup></b>	<b>Q3</b> <b>Apr. 30 2010<sup>(1)</sup></b>	<b>Q2</b> <b>Jan. 31 2010<sup>(1)</sup></b>
	Three months	Three months	Two months	Three months	Three months	Three months
<b>FINANCIAL (\$ except per share amounts)</b>						
Petroleum and natural gas sales <sup>(2)</sup>	6,099,936	1,386,045	520,308	561,351	194,464	300,381
Cash flow from (used in) operating activities	2,347,350	(557,001)	(308,012)	(942,474)	55,248	479,415
Per share, basic and diluted	\$0.01	(\$0.00)	(\$0.00)	(\$0.01)	\$0.01	\$0.12
Net loss	(326,621)	(1,156,225)	(133,608)	(2,188,915)	(90,478)	(40,268)
Per share, basic and diluted	(\$0.00)	(\$0.01)	(\$0.00)	(\$0.04)	(\$0.02)	(\$0.01)
Capital expenditures	47,487,678	78,232,897	8,944,956	27,641,369	296,583	712,535
Total assets	211,968,939	184,693,215	87,520,307	51,086,261	3,330,740	3,161,301
Working capital (deficit)	5,712,947	49,466,279	41,617,140	17,531,301	(729,287)	(688,216)
<b>OPERATING</b>						
Number of producing days	90	92	61	91	89	92
Average Daily Production <sup>(2)</sup>						
Crude oil (bbls/d)	748	183	111	71	26	50
Natural gas (mcf/d)	1	32	23	20	9	4
Natural gas liquids (bbls/d)	5	2	4	4	1	1
Total (boe/d – 6:1)	753	190	119	78	28	52
Average Price Received						
Crude oil (bbls/d)	90.30	80.88	74.01	82.12	79.73	63.87
Natural gas (mcf/d)	(18.99)	4.19	3.75	4.62	4.93	5.32
Natural gas liquids (bbls/d)	58.56	46.21	50.93	49.59	54.98	58.19
Combined (\$/boe)	90.03	78.54	71.57	78.24	76.37	63.36
Royalties (\$/boe)	11.67	13.64	5.88	8.56	12.20	9.38
Operating and transportation expenses (\$/boe)	18.04	16.32	22.86	18.54	21.46	12.92
Operating netback (\$/boe)	60.32	48.58	42.83	51.14	42.71	41.06

<sup>(1)</sup> Quarters are restated to reflect the transition to IFRS.

<sup>(2)</sup> Amounts are before royalties.

**ADDITIONAL INFORMATION**

 Additional information about Pinecrest is available on at [www.sedar.com](http://www.sedar.com); at the Company's website at [www.pinecrestenergy.com](http://www.pinecrestenergy.com); or by contacting the Company at Pinecrest Energy Inc. Suite 500, 255 5<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 3G6.