

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 five months ended December 31, 2010, with comparatives for the twelve month period ended July 31, 2010 and should be read in conjunction with the audited annual financial statements for the year ended December 31, 2010. The audited financial statements and financial data contained in the MD&A have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian currency. This MD&A is dated as of March 23, 2011.

DESCRIPTION OF THE COMPANY

Pinecrest is a Calgary, Alberta based oil 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.

NON-GAAP MEASURES

The Company uses the following terms for measurement within the MD&A that do not have a standardized prescribed meaning under GAAP 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" and "corporate netback" in this MD&A are not recognized measures under GAAP. Management of the Company believes that these terms are useful, in addition to net earnings and cash flow from operating activities as defined by GAAP, 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. Corporate netback is a measure of operating netback less general and administrative and interest expenses. Pinecrest defines corporate netback as operating netback per boe plus other income per boe less general and administrative expenses per boe less interest expense per boe (see "Netbacks" below). ***Readers are cautioned that these measures should not be construed as an alternative to net earnings, or cash flow from operating activities as calculated under GAAP as an indication of the Company's performance.***

BOE CONVERSIONS 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	bbbl
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 oil and 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, timing of phases of the International Financial Reporting Standards ("IFRS") conversion project, anticipated policy choices and adjustment to the opening balance sheet at transition to IFRS. 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 five months ending December 31, 2010, which is the Company's new fiscal year end. The reader should be cautioned that the following comparative analysis of the three months ended December 31, 2010 is not comparable to the two months ended September 30, 2010; nor is the time period of five months ended December 31, 2010 comparable to the twelve months (year ended) July 31, 2010.

	Five months ended December 31, 2010	Year ended July 31, 2010	%Change
FINANCIAL (\$ except per share amounts)			
Petroleum and natural gas sales	1,906,353	1,219,663	56
Funds flow (used) in operations (non-GAAP)	(214,187)	(110,008)	95
Per share, basic and diluted	\$(0.00)	\$(0.01)	100
Net loss	(2,040,648)	(1,221,192)	23
Per share, basic and diluted	(\$0.02)	(\$0.07)	250
Capital expenditures	69,897,433	10,611,670	559
Asset acquisitions	17,280,421	18,079,841	(4)
Net debt and working capital surplus	49,466,280	17,531,301	182
Common Shares Outstanding			
End of period – basic & diluted	169,638,917	85,315,774	99
Weighted average – basic & diluted	121,544,951	17,071,207	6
OPERATING			
Number of producing days	153	365	-
Production			
Crude oil (bbls/d)	155	43	260
Natural gas (mcf/d)	29	9	222
Natural gas liquids (bbls/d)	3	1	200
Barrels of oil equivalent (boe/d – 6:1)	162	46	252
Average realized price			
Crude oil (\$/bbl)	78.90	74.98	5
Natural gas (\$/mcf)	4.05	4.74	(15)
Natural gas liquids (\$/ bbl)	48.63	51.27	(5)
Barrels of oil equivalent (\$ - 6:1)	76.50	72.67	5
Netback per boe (\$)			
Petroleum and natural gas sales	76.50	72.67	5
Royalties	11.37	9.20	23
Operating & transportation expenses	18.24	18.58	(2)
Operating netback	46.89	44.89	4
Wells drilled (net)			
Gross	11	-	100
Net	5.1	-	100
Success rate (%)	100	-	100

RESULTS OF OPERATIONS

2010 HIGHLIGHTS

The following are the highlights of Pinecrest's operations for the five months ending December 31, 2010:

- In October 2010, Pinecrest announced it had entered into a number of separate strategic asset acquisitions in the Greater Red Earth Area, for an aggregate purchase price of approximately \$65.8 million. Concurrently, Pinecrest established a \$30 million demand revolving operating line of credit;
- In October 2010, Pinecrest received regulatory approval to change its year end from July 31 to December 31;
- In November 2010, Pinecrest raised a total of \$86.3 million in a bought-deal financing;
- Between August 1 and December 31, 2010; drilled a total of 11 (5.1 net) oil wells, for an overall success rate of 100%;
- Increased average daily production by 252% to 162 boe/d compared to 46 boe/d for the twelve months ended July 31, 2010;
- Increased proved plus probable reserves by 158% to 1,806 million BOE, up from 698.1 million BOE at July 31, 2010;
- Assembled significant undeveloped land positions in the emerging Slave Point light oil play resulting in net undeveloped land holdings of 40,309 acres at December 31, 2010 compared to 16,005 acres as at July 31, 2010.

PINECREST OUTLOOK

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 emerging Slave Point resource style play in the Greater Red Earth area. The successful execution of the Company's business plan has resulted in the Company having assembled a significant drilling inventory and strategic producing infrastructure in the Red Earth area.

Building on the Company's success in capturing the Slave Point resource, the focus of Pinecrest is the execution on an aggressive capital program to organically grow its reserves, production and cash flow per share. Approximately 95% of the Company's 2011 capital spending will be dedicated to the Company's high netback Slave Point oil opportunities, including the implementation of its first waterflood in the Slave Point formation.

At the completion of the winter drilling program, Pinecrest has participated in the drilling of 16 gross (8.8 net) in the company's greater Red Earth core area targeting the Slave Point light oil resource play. Of these wells, 11 gross (7.8 net) wells were operated by Pinecrest.

Pinecrest now has 12 gross (5.3 net) oil wells currently producing, three gross (2.5 net) awaiting tie-in and one gross (one net) oil well scheduled to be fracture stimulated March 25 2011. All wells are anticipated to be producing on or before April 15, 2011. The Company will be releasing specific detailed well and production data, along with a 2011 budget on April 21, 2011.

PRODUCTION

Pinecrest increased daily production by 60% for the three months ended December 31, 2010 to 190 boe/d compared to 119 boe/d for the two months ended September 30, 2010. The increase came primarily from three property acquisitions in the Greater Red Earth area, all of which closed during the five months ended December 31, 2010. Daily production for the five months ended December 31, 2010 increased 252% to 162 boe/d, compared to the year ended July 31, 2010. The period ended December 31, 2010 reflects a full five months of production from property acquisitions that closed in July 2010, as well as production from property acquisitions which closed in October and November 2010. In addition, one new well in southeast Saskatchewan was placed on production near the end of December 2010. Pinecrest's December 2010 exit production rate was 351 boe/d as compared to 191 boe/d for July 31, 2010.

	Three months ended December 31 2010	Two months ended September 30 2010	%Change	Five months ended December 31 2010	Year ended July 31 2010	%Change
<i>Number of producing days</i>	92	61	-	153	365	-
Crude oil (bbls/d)	183	111	65	155	43	260
Natural gas (mcf/d)	32	23	39	29	9	222
Natural gas liquids (bbls/d)	2	4	(50)	3	1	200
Total (boe/d - 6:1)	190	119	60	162	46	252
Crude oil (%)	96	94	2	96	93	3
Natural gas (%)	3	3	-	3	3	-
Natural gas liquids (%)	1	3	(67)	1	4	(75)
Total (%)	100	100	-	100	100	-

Pinecrest's production profile for the five months ended December 31, 2010 was comprised of 97% oil and NGL's and 3% natural gas. The majority of Pinecrest's production comes from its core Greater Red Earth area for the five months ended December 31, 2010, and the Company's production profile remains consistent with its profile for the year ended July 31, 2010.

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

	Three months ended December 31 2010	Two months ended September 30 2010	%Change	Five months ended December 31 2010	Year ended July 31 2010	%Change
Greater Red Earth	141	70	2,725	113	4	2,725
Southeast Saskatchewan	49	49	17	49	42	17
Total	190	119	252	162	46	252

Production over the last six quarters is as follows:

	Q4 Dec. 31 2010	Q3 Sep. 30 2010	Q4 Jul. 31 2010	Q3 Apr. 30 2010	Q2 Jan. 31 2010	Q1 Oct. 31 2009
	Three months	Two months	Three months	Three months	Three months	Three months
Crude oil (bbls/d)	183	111	71	26	50	24
Natural gas (mcf/d)	32	23	20	9	4	4
Natural gas liquids (bbls/d)	2	4	4	1	1	1
Total (boe/d - 6:1)	190	119	78	27	52	25

REVENUE

Revenue, before royalties, for the three months ended December 31, 2010 was \$1,386,045, a 166% increase over the two months ended September 30, 2010. Petroleum and natural gas revenue increased 56% to \$1,906,353 for the five months ended December 31, 2010, up from \$1,219,663 for the year ended July 31, 2010. Higher revenue is primarily the result of increased production and higher realized average prices for the three months, and five months ended December 31, 2010.

	Three months ended December 31 2010	Two months ended September 30 2010	%Change	Five months ended December 31 2010	Year ended July 31 2010	%Change
Crude oil sales	1,363,335	502,925	171	1,866,260	1,176,377	59
Natural gas sales	12,358	5,361	131	17,719	15,918	11
Natural gas liquids sales	10,352	12,022	(14)	22,374	27,368	(18)
Total revenues	1,386,045	520,308	166	1,906,353	1,219,663	56

REALIZED PRICES

Pinecrest realized an average price of \$78.54 per boe (a 10% increase) for the three months ended December 31, 2010 compared to the two months ended September 30, 2010. The average realized price increased 5% per boe to \$76.50 for the five months ended December 31, 2010, up from \$72.67 for the year ended July 31, 2010. The increase is due mainly to the increase in light crude oil prices.

	Three months ended December 31 2010	Two months ended September 30 2010	%Change	Five months ended December 31 2010	Year ended July 31 2010	%Change
Average Realized Prices						
Crude oil (\$/bbl)	80.88	74.01	9	78.90	74.98	5
Natural gas (\$/mcf)	4.19	3.75	12	4.05	4.74	(15)
Natural gas liquids (\$/bbl)	46.21	50.93	(9)	48.63	51.27	(5)
Total (\$/boe – 6:1)	78.54	71.57	10	76.50	72.67	5
Benchmark Prices						
Edmonton light crude (\$/bbl)	80.73	74.76	8	78.36	76.78	2
AECO natural gas (\$/Mmbtu)	3.31	3.54	(6)	3.58	3.91	(8)

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 9% to \$80.88/bbl for the three months ended December 31, 2010 compared to \$74.01/bbl for the two months ended September 30, 2010. During the fourth quarter of 2010, oil prices strengthened as the global economy continued its recovery and unrest in the Middle East caused market concerns over global crude oil supply. Crude oil prices increased 5% to \$78.90/bbl for the five months ended December 31, 2010 compared to \$74.98/bbl for the year ended July 31, 2010. The Company realizes only a small pricing differential 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. Pinecrest's average realized gas price for the three months ended December 31, 2010 was \$4.19/mcf compared to \$3.75/mcf for the two months ended September 30, 2010. For the five months ended December 31, 2010. The realized natural price decreased by 15% to \$4.05/mcf compared to \$4.74/mcf realized in the year ended July 31, 2010. Natural gas prices remain relatively low, mainly due to increased natural gas inventories and supply from North American shale gas drilling. It is expected that gas prices will remain depressed into the coming year.

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 a decrease of 9% in natural gas liquids price to \$46.21/bbl in the three months ended December 31, 2010, down from \$50.93/bbl in the two months ended September 30, 2010. For the five months ended December 31, 2010, natural gas liquids prices declined 5% to \$48.63/bbl from \$51.27/bbl. The decrease is consistent with the decrease in benchmark gas prices for the same period.

Risk Management

Cash flow management is an integral part of the Company's overall business strategy. 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. At present, 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 five months ended December 31, 2010 or the year ended July 31, 2010.

ROYALTY EXPENSES

The following table provides a summary of royalty expenses for the quarters, five months ended December 31, 2010, and year ended July 31, 2010:

	Three months ended December 31 2010	Two months ended September 30 2010	%Change	Five months ended December 31 2010	Year ended July 31 2010	%Change
Royalty \$						
Crown	166,485	14,484	1,049	180,969	9,046	1,900
Freehold and freehold production tax	49,167	22,391	120	71,558	126,907	(44)
Gross overriding and other	23,928	5,885	307	29,813	18,534	61
Total royalties	239,580	42,760	460	282,340	154,487	83
Average Royalty Rate (% of sales)						
Crown	12	2	500	10	1	900
Freehold and freehold production tax	4	5	(20)	4	10	(60)
Gross overriding and other	1	1	-	1	1	-
Total	17	8	113	15	13	15
\$ Per boe	13.64	5.88	132	11.37	9.20	24

Royalties were \$239,580 (17% of total revenue) for the three months ended December 31, 2010 compared to \$42,760 (8% of total revenue) for the two months ended September 30, 2010. Royalties increased for this period mainly due to property acquisitions in the Greater Red Earth area, which primarily attract Alberta Crown royalties. Royalties increased to 17% of total revenue to \$282,340 for the five months ended December 31, 2010, an 83% increase from \$154,487 for the year ended July 31, 2010. As a percentage of petroleum and natural gas sales, royalties increased to approximately 15% for the five months ended December 31, 2010, compared to 13% for the year ended July 31, 2010.

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 attract 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 is higher for the three months ended December 31, 2010 compared to the two months ended September 30, 2010, and higher for the five months ended December 31, 2010 compared to the year ended July 31, 2010.

Pinecrest's production in Saskatchewan is from horizontal Bakken wells which are on freehold lands and attract a royalty rate of approximately 14% of revenues. Corporate freehold royalty rates as a percentage of sales are lower for the three months ended, and five months ended December 31, 2010 primarily due to an increase in revenues from Alberta properties when compared to the prior two months ended September 30, 2010 and the year ended July 31, 2010.

The Company expects its overall royalty rate to remain low into the future as drilling is planned primarily in the Red Earth area of Alberta, which will qualify for lower royalty rates introduced by the Alberta Government in 2009. Generally, the Horizontal Oil New Well Royalty Rates, when applied to the Company's new wells, 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 (actual numbers are a function of the overall length of each new horizontal well).

OPERATING AND TRANSPORTATION EXPENSES

Operating and transportation expenses increased by 73% in the three months ended December 31, 2010 to \$286,784 from \$166,221 for the two months ended September 30, 2010. Operating and transportation expenses were \$16.32/boe, a 29% decrease for the three months ended December 31, 2010 compared to \$22.86/boe for the two months ended September 30, 2010. This decrease is the result of increased production.

Operating and transportation expenses increased to \$453,005 for the five months ended December 31, 2010, a 45% increase from \$311,782 for the year ended July 31, 2010. Per unit operating and transportation expenses decreased to \$18.24/boe for the five months ended December 31, 2010 compared to \$18.58/boe for the year ended July 31, 2010, primarily due to an increase of 48% in total production from the year ended July 31, 2010. As Pinecrest continues to exploit its assets and increase production in its core operating areas, it expects that operating and transportation expenses per boe will decrease to be more in line with expected industry standards, for operations in Pinecrest's core operating areas

	Three months ended December 31 2010	Two months ended September 30 2010	%Change	Five months ended December 31 2010	Year ended July 31 2010	%Change
Operating and transportation expenses	286,784	166,221	73	453,005	311,782	45
\$ Per boe	16.32	22.86	(29)	18.24	18.58	(2)

GENERAL AND ADMINISTRATIVE EXPENSES

Net general and administrative expenses were \$764,109 (\$43.49/boe) for the three months ended December 31, 2010 compared to \$275,114 (\$37.84/boe) for the two months ended September 30, 2010. The increase for the quarter is primarily the result of investor related costs and an increase in staff costs.

Net general and administrative expenses were \$1,039,223 (\$41.84/boe) for the five months ended December 31, 2010, compared to \$825,274 (\$49.17 per boe), an increase of 26% over the year ended July 31, 2010. Net general and administrative expenses have increased mainly reflecting a full five months of office and staffing costs for the five months ended December 31, 2010 as compared to a total of three months of costs for the year ended July 31, 2010.

The Company capitalizes general and administrative expenses directly attributable to new capital projects. During the five months ended December 31, 2010 a total of \$215,940 was capitalized to projects, which is approximately 15% of gross general and administrative costs. In addition, capital recoveries are charged on projects that the Company operates. The increase in recoveries for the five months ended December 31, 2010 reflects the increase in capital activities of Pinecrest for the same period.

	Three months ended December 31 2010	Two months ended September 30 2010	%Change	Five months ended December 31 2010	Year ended July 31 2010	%Change
Gross general and administrative	1,008,728	388,003	160	1,396,731	940,306	49
Overhead recoveries	(113,997)	(27,571)	313	(141,568)	(1,190)	11,796
Capitalized overhead	(130,622)	(85,318)	53	(215,940)	(113,842)	90
General and administrative	764,109	275,114	178	1,039,223	825,274	26
\$ Per boe	43.49	37.84	15	41.84	49.17	(15)

Management believes that it is staffed appropriately and is prepared for significant future growth. As the Company's production base grows from its drilling and exploitation program in Red Earth Alberta and southeast Saskatchewan, the Company expects to see its general and administrative costs per boe decrease significantly, to be more in line with Pinecrest's industry peer group.

INTEREST AND FINANCE EXPENSE

Interest expense for the three months ended December 31, 2010 increased 100% to \$346,644 compared to the two months ended September 30, 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.

Interest and finance expense increased to \$346,644 for the five months ended December 31, 2010 over the year ended July 31, 2010. This increase was due to financing costs associated with the \$30 million revolving line of credit and interest costs associated with utilizing the line. Interest expenses incurred during the year ended July 31, 2010 related to a related party loan, which was fully paid in May 2010 with proceeds from the Company's recapitalization transaction.

There was no outstanding debt at the year ended December 31, 2010.

(\$)	Three months ended	Two months ended	%Change	Five months ended	Year ended	%Change
	December 31	September 30		December 31	July 31	
	2010	2010		2010	2010	
Financing costs	300,000	-	100	300,000	-	100
Interest	46,644	-	100	46,644	30,168	55
Total financing and interest	346,644	-	100	346,644	30,168	1,049
\$ Per boe	19.73	-	100	13.96	1.80	675

NETBACKS

Pinecrest realized a 13% increase in operating netback of \$48.58/boe for the three months ended December 31, 2010 compared to the two months ended September 30, 2010. The operating netback increased by 4% to \$46.89/boe for the five months ended December 31, 2010 compared to \$44.89/boe for the year ended July 31, 2010. Increased netbacks resulted primarily from increased commodity prices and a decrease in the per unit operating and transportation expenses, due to increased production, for the periods reported.

Pinecrest realized a corporate netback loss of \$14.60/boe for the three months ended December 31, 2010 compared to a netback of \$4.99/boe for the two months ended September 30, 2010. The corporate netback loss for the five months ended December 31, 2010 was \$8.88/boe compared to a netback loss of \$6.08/boe for the year ended July 31, 2010. This decrease is the result of financing and interest costs incurred during the three months ended December 31, 2010.

\$ Per boe	Three months ended	Two months ended	%Change	Five months ended	Year ended	%Change
	December 31	September 30		December 31	July 31	
	2010	2010		2010	2010	
Average realized price	78.54	71.57	10	76.50	72.67	5
Royalty expenses	(13.64)	(5.88)	132	(11.37)	(9.20)	24
Operating expenses	(16.32)	(22.86)	(29)	(18.24)	(18.58)	(2)
Operating netback	48.58	42.83	13	46.89	44.89	4
Other income	0.04	-	100	0.03	-	100
Net general and administrative expenses	(43.49)	(37.84)	150	(41.84)	(49.17)	(15)
Interest expense	(19.73)	-	100	(13.96)	(1.80)	675
Corporate netback	(14.60)	4.99	(393)	(8.88)	(6.08)	46

STOCK-BASED COMPENSATION EXPENSE

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. There were a total of 4,975,000 options issued in the three months ended December 31, 2010. One third of the options vested immediately, with one third vesting in 12 months and the remainder vesting in 24 months from date of grant. The fair value of the options was estimated using the Black Scholes option pricing model. The Company recognizes the expense over the vesting period of the options, using a graded vesting method. The following assumptions were used in determining the stock based compensation:

	Three months ended December 31 2010	Two months ended September 30 2010	%Change	Five months ended December 31 2010	Year ended July 31 2010	%Change
Total stock-based compensation (\$)	1,655,501	-	100	1,655,501	1,103,424	50
Stock-based compensation capitalized (\$)	(422,391)	-	100	(422,391)	(298,128)	42
Stock-based compensation expense (\$)	1,233,110	-	100	1,233,110	805,296	53
\$ per boe	70.18	-	100	49.64	47.98	9
Number of warrants/ stock options granted	4,975,000	-	100	4,975,000	4,830,000	30
<i>Weighted average assumptions</i>						
Dividend yield (%)	0	-		0	0	
Expected volatility (%)	55	-		55	50	
Risk-free rate (%)	2.0	-		2.0	2.29	
Expected life (years)	5	-		5	5	
Vesting period (years)	2	-		2	2	

Stock-based compensation expense per boe increased to \$49.64 for the five months ended December 31, 2010, compared to \$47.98/boe for the year ended July 31, 2010. The increase in total stock-based compensation expense is due to the stock options which were granted in the fourth quarter of 2010.

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

The Company follows the full-cost method of accounting whereby all costs relating to the exploration and development of oil and gas reserves are capitalized. These costs, along with estimated future development capital expenditures to be incurred in order to develop proved reserves, and estimated costs relating to asset retirement obligations, are depleted on a unit of production basis, using estimated proved oil and gas reserves. Corporate assets are depreciated using the declining balance method, at rates ranging from 20% - 30%. Depletion and depreciation increased to \$600,267 (\$34.16/boe) for the three months ended December 31, 2010 compared to \$221,998 (\$30.54/boe) for the two months ended September 30, 2010. Depletion and depreciation increased for the five months ended December 31, 2010 to \$33.10/boe compared to \$28.15/boe for the year ended July 31, 2010.

Pinecrest records its asset retirement obligation as the present value of the estimated abandonment and reclamation costs for its well sites, pipelines and facilities. The liability is increased when properties are acquired and due to the passage of time. Accretion expense increased to \$17,071 for the three months ending December 31, 2010 compared to the two months ending September 30, 2010, and increased to \$26,186 for the five months ended December 31, 2010 compared to \$4,242 for the year ended July 31, 2010.

The increase in depletion and depreciation, and accretion of the asset retirement obligation, are primarily due to the acquisition of properties in the Greater Red Earth area, which added both proved and probable reserves to Pinecrest's asset base. However, only proved reserves are utilized to calculate depletion.

(\$)	Three months ended December 31 2010	Two months ended September 30 2010	%Change	Five months ended December 31 2010	Year ended July 31 2010	%Change
Depletion and depreciation expense	600,276	221,998	170	822,265	472,455	74
\$ Per boe	34.16	30.54	12	33.10	28.15	18
Accretion expense	17,071	9,115	97	26,186	4,242	517
\$ Per boe	0.97	1.25	(22)	1.05	0.26	304

INCOME AND OTHER TAXES

Pinecrest recorded a future income tax recovery of \$255,100 for the five months ended December 31, 2010 compared to \$170,849 for the year ended July 31, 2010. The recoveries result primarily from current year losses offset by non-deductible charges for stock-based compensation and changes in future corporate income tax rates.

At December 31, 2010, the Company has recorded a future tax asset of \$2,093,010 which is based on the estimated future tax value of its tax pools which are approximately \$126 million.

Income Tax Pool Type	At December 31, 2010	Annual Deductibility
Canadian Oil and Gas Property Expense	\$ 88,049,21	10% declining balance
Canadian Development Expense	11,101,806	30% declining balance
Canadian Exploration Expense	145,391	100%
Undepreciated Capital Cost	7,328,923	Primarily 25% declining balance
Non-Capital Losses	11,745,447	100%
Share issue costs	7,814,011	20% per year, straight line
Total Federal Tax Pools	\$ 126,184,799	

NET EARNINGS AND CASH FLOW

Pinecrest recorded a net loss of \$1,863,858 (\$0.01 per basic and diluted share) in the three months ended December 31, 2010, as compared to a net loss of \$176,790 (\$0.00 per basic and diluted share) in the two months ended September 30, 2010, representing a 100% increase in losses on a per share basis. The net loss for the three months ended December 30, 2010 reflects an increase in net revenues, offset by increased general and administrative, finance and interest charges and non-cash charges for stock-based compensation, accretion, depletion and depreciation.

Net loss of the five months ended December 31, 2010 was \$2,040,648 (\$0.02 per basic and diluted share) compared to net loss of \$1,221,192 (\$0.07 per basic and diluted share). The increase in net loss is primarily due to a net increase in operating netbacks, more than offset by increases in general and administrative and interest costs and non-cash charges for depletion, depreciation and accretion and stock-based compensation.

The Company recorded a cash flow deficit from operations of \$865,826 for the year ended December 31, 2010 compared to cash flow deficit from operations of \$298,404 for the year ended July 31, 2010. The decrease was primarily the result of a decrease in operating working capital, and increases in general and administrative and finance and interest costs for the year ended December 31, 2010.

The Company recorded funds flow deficiency from operations of \$214,187 (\$0.00 per basic and diluted share) for the five months ended December 31, 2010, as compared to funds flow deficiency of \$110,008 (\$0.01 per basic and diluted share for the year ended July 31, 2010). Funds flow deficiency for the three months ending December 31, 2010 was \$250,411 compared to funds flow of \$36,223 for the two months ended September 30, 2010.

Calculation of Funds Flow from Operations

\$	Three months ended	Two months ended	%Change	Five months ended	Year ended	%Change
	December 31	September 30		December 31	July 31	
	2010	2010		2010	2010	
Cash flow (used) in operations (GAAP)	(570,280)	(294,733)	(94)	(865,013)	(298,404)	(190)
Add back:						
Change in non-cash working capital	(319,870)	(330,956)	3	(650,826)	(188,396)	(245)
Funds flow (used) in operations (Non-GAAP)	(250,411)	36,223	(791)	(214,187)	(110,008)	(94)
Basic and diluted per share	\$0.00	\$0.00	-	\$0.00	\$(0.01)	100

CAPITAL EXPENDITURES AND CAPITAL RESOURCES

During the three months ended December 31, 2010, Pinecrest spent a total of \$78.2 million compared to approximately \$9 million in the two months ended September 30, 2010. The majority of the expenditures were on Alberta Crown lands and property acquisitions in the Greater Red Earth area of Alberta

Pinecrest invested a total of \$87,177,854 (a 203% increase) on its capital program for the five months ended December 31, 2010 compared to \$28,741,511 in the year ended July 31, 2010. Capital spending was incurred primarily on undeveloped land, drilling operations and property acquisitions in the Red Earth area of Alberta.

Capital Expenditures

\$	Three months ended	Two months ended	%Change	Five months ended	Year ended	%Change
	December 31	September 30		December 31	July 31	
	2010	2010		2010	2010	
Petroleum and natural gas property and equipment expenditures						
Land acquisition	50,463,228	6,003,253	740	56,466,481	9,379,323	502
Geological and geophysical	142,841	2,550	5,502	145,391	-	100
Drilling and completions	9,182,542	2,819,427	226	12,001,969	801,337	1,298
Equipment and facilities	1,029,349	(7,202)	14,393	1,022,147	171,929	385
Capitalized administrative	130,622	85,318	53	215,940	113,842	90
Corporate assets	34,055	11,450	197	45,505	145,239	(69)
	60,982,637	8,914,796	584	69,897,433	10,611,670	557
Property acquisitions	17,236,982	43,439	39,581	17,280,421	18,079,841	(97)
Total capital expenditures	78,219,619	8,958,235	773	87,177,854	28,691,511	203

Drilling Results

Pinecrest drilled a total of 11 (5.1 net) horizontal oil wells in the five months ended December 31, 2010, and achieved a 100% success rate. A total of four (2.3 net) oil wells were drilled in the Bakken formation in south east Saskatchewan, with the remaining seven (2.8 net) wells drilled into the Slave Point formation in the Greater Red Earth area of Alberta. Pinecrest had spud two additional horizontal oil wells in Alberta in late December 2010, with operations ongoing over the year end period.

	Three months ended December 31		Two months ended September 30		Five months ended December 31, 2010		Year ended July 31, 2010	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Crude Oil	8	3.6	3	1.5	11	5.1	2	0.4
Natural gas	-	-	-	-	-	-	-	-
Dry and abandoned	-	-	-	-	-	-	-	-
Total	8	3.6	3	1.5	11	5.1	2	0.4
Success rate (%)	100	100	100	100	100	100	100	100

Major Property Acquisitions

During the three months ended December 31, 2010, Pinecrest acquired certain petroleum and natural gas assets, which included undeveloped land, facilities interests and producing oil and gas properties in the Greater Red Earth area of Alberta. These properties expand Pinecrest's interest in its core Greater Red Earth area. A total of 24,080 gross acres (17,842 net acres) were acquired, including approximately 140 bbl/day of light oil production and strategic infrastructure.

The acquisitions were accounted for by the acquisition method of accounting, whereby the purchase price was allocated to the fair values of the underlying net assets acquired. The results of operations from the assets acquired have been included in Pinecrest's financial statements effective from the closing dates of the agreements. Total purchase price, including adjustments was \$17,280,421.

The following outlines the allocation of the purchase price:

(\$)	Total
Fair value of assets acquired ⁽¹⁾	
Petroleum and natural gas properties and equipment	\$ 17,968,073
Asset retirement obligation	(687,652)
Total net assets acquired	\$ 17,280,421
Consideration:	
Cash	\$ 17,280,421

(1) The above amounts include estimates of the final purchase price adjustments which were made by management at the time of preparation of these financial statements based on information then available. Amendments may be made to these amounts as values subject to estimates are finalized over time.

Land Holdings

At December 31, 2010, Pinecrest owned a total of 40,309 net acres of undeveloped land, representing a 149% increase compared to the year ended July 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 76% at December 31, 2010, compared to 65% at July 31, 2010. 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 December 31, 2010		As At July 31, 2010		% Change	
	Gross	Net	Gross	Net	Gross	Net
Developed	12,189	5,681	7,440	3,689	64	54
Undeveloped	48,451	40,309	23,116	16,005	110	149
Total	60,640	45,990	30,556	19,694	99	131
Average working interest		76%		64%		

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 \$49,466,281 at December 31, 2010 as compared to a working capital of \$17,531,301 at July 31, 2010. The 182% improvement in working capital is the result of the Company closing two equity financings for the year ended December 31, 2010.

On September 15, 2010, the Company issued 25.0 million common shares at a price of \$1.40 per share for total gross proceeds of \$35.0 million. On October 12, 2010, the over-allotment option was exercised and an additional 3,663,143 common shares were issued at a price of \$1.40 per share for gross proceeds of \$5.1 million. On November 16, 2010, Pinecrest issued 55.7 million common shares at a price of \$1.55 per share for gross proceeds of \$86.3 million, which included the exercise of the over-allotment option of 7.26 million common shares.

In addition, Pinecrest secured a demand revolving credit facility in the amount of \$30.0 million to provide supplement funding for the Company's general operations and capital program. At December 31, 2010, 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 December 31 2010	Two months ended September 30 2010	Five months ended December 31 2010	Year ended July 31 2010
Weighted Average Outstanding Common Shares				
Basic	141,490,383	91,565,774	121,544,951	17,071,207
Diluted	141,490,383	91,565,774	121,544,951	17,071,207
Outstanding securities:				
Common Shares	169,638,917	110,315,774	169,638,917	85,315,774
Common Share Purchase Warrants ⁽¹⁾	34,758,930	34,758,930	34,758,930	34,758,930
Stock Options	4,975,000	-	4,975,000	-

⁽¹⁾ Includes a total of 4,830,000 performance warrants

During the five months ended December 31, 2010, the Company issued 4,975,000 stock options to staff, officers, directors and consultants of the Company. The options vest and become exercisable on a one-third, one-third, one-third basis over a two year period and have an average exercise price of \$1.52 per share.

Total Market Capitalization

The Company's market capitalization at December 31, 2010 was as follows:

	At December 31, 2010	At July 31, 2010	% Change
Common shares – fully diluted	209,372,847	120,074,704	74
Share price ⁽¹⁾	\$2.80	\$1.43	96
Market Capitalization	\$586,243,972	\$171,706,827	241

⁽¹⁾ Represent the close price on the TSX Venture Exchange December 31, 2010

At March 23, 2011 Pinecrest had the following equity instruments outstanding: 170,000,964 common shares, 34,396,883 common share purchase warrants, and 4,975,000 stock options.

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 oil and natural gas reserves at economic costs;
- Production of oil and natural gas in commercial quantities; and
- Marketability of oil 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

Oil and 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 December 31, 2010 and July 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 December 31, 2010, Pinecrest had no debt outstanding, and therefore is not exposed to interest rate risk.

CRITICAL ACCOUNTING ESTIMATES

Pinecrest's audited annual financial statements have been prepared in accordance with Canadian GAAP. 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 significant accounting policies can be found in Note 3 to the audited annual financial statements.

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 the ceiling test (test 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;
- Asset retirement obligations including estimates of future costs and the timing of the costs;
- Future income taxes and the recoverability of future 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 the convergence of GAAP with International Financial Reporting Standards ("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 GAAP to IFRS. For Pinecrest, the date of transition will be 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. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences for recognition, measurement and disclosure principles which are outlined below under "*Potential Impacts of IFRS Adoption*".

IFRS Transition Project

Pinecrest is executing its conversion plan to complete the transition to IFRS for 2011 financial reporting. Pinecrest expects that the conversion will not have a major impact on the Company's strategic decisions, operations, strategic decisions, or cash flow. Key milestones of the conversion plan are summarized below:

IFRS Conversion Project Phase	Progress
<p>Phase 1 Scoping and Diagnostic Identification of key differences between Canadian GAAP and IFRS, and high-level changes required in accounting policies, systems and processes.</p>	<p>Completed:</p> <ul style="list-style-type: none"> • The IFRS Team has identified and performed a preliminary review of high impact standards.
<p>Phase 2 Design and Evaluation Comprehensive documentation and analysis of changes in accounting standards, policies, processes and procedures, which expands on scoping from Phase 1</p>	<p>Completed:</p> <ul style="list-style-type: none"> • The IFRS Team has set up monthly processes which take into consideration the differences in policy as identified in Phase 1; • IFRS accounting policies have been drafted; • Project and draft accounting policies have been reviewed with the Audit Committee;
<p>Phase 3 – Implementation Implementation and execution of changes identified and prioritized from Phase 2.</p>	<p>Underway:</p> <ul style="list-style-type: none"> • Process and system changes have been implemented for significant area of impact; • Process has been implemented to capture the required 2010 comparative information; • Pinecrest has completed its opening August 1, 2009 IFRS balance sheet, based on its draft accounting policies; • Pinecrest's external auditors have carried out certain preliminary audit procedures on the IFRS opening balance sheet and have reviewed the IFRS impacts up to July 31, 2010

Expected Accounting Policy Impacts of IFRS Adoption

The following have been identified as differences between Canadian GAAP (“GAAP”) and IFRS that are currently issued and expected to be issued on the date of transition that will impact Pinecrest’s financial statements. Certain IFRS standards may be modified, and as a result, the impact may be different than the Company’s current expectations. The following is a summary of the identified IFRS standards that will have an impact on the Company’s financial statements:

- a) **Property Plant and Equipment (“PP&E”):** Under GAAP, Pinecrest follows 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 will be 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 expenses under IFRS. Currently, these costs are capitalized under GAAP and are 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 will capitalize and report 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 will use 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 will be capitalized under IFRS within property, plant and equipment on the balance sheet. Pinecrest expects to deplete 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 will be 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 is currently evaluating its policy options and applicable impact of these policies under IFRS.

Pinecrest will adopt the IFRS 1 exemption, which allows the Company to deem its August 1, 2009 IFRS oil and gas properties costs to be equal to its GAAP historical net book value. On August 1, 2009 the IFRS exploration and evaluation assets will be approximately \$155,000, which is equal to the GAAP unproved properties balance. The IFRS development costs will be equal to the full cost pool balances. These costs will be allocated over the proved plus probable reserves to establish the area level depletion units of account.

- 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 GAAP are not reversed.

Under IFRS, Pinecrest will no longer be permitted to test for asset impairment at the cost center level (country level) as permitted under the GAAP full cost guideline. IFRS will require 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 does not expect to recognize asset impairment on the IFRS opening balance sheet.

- 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 oil and 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 expects to continue using 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 does not expect any change to the liability on transition date.

- 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, and requires that forfeitures are estimated at time of grant. Because Pinecrest recognizes the expense associated with stock-based compensation using the graded-vesting method, it is expected that the adjustments from GAAP to IFRS will not be material. Pinecrest will take the IFRS 1 exemption for share-based payments, and consequently does not expect any impact to its opening balance sheet on August 1, 2009.

INTERNAL CONTROLS

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

OFF BALANCE SHEET ARRANGEMENTS

No off balance sheet arrangements existed at December 31, 2010.

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 five months ended December 31, 2010, the Company incurred \$275,363 on services and disbursements (July 31, 2010 - \$298,344). The related party transactions were conducted in the normal course of business and have been measured at the exchange amount.

SUBSEQUENT EVENTS

On March 3, 2010 the Company renounced a total of \$4,343,516 in Canadian development expenditures to the holders of the flow-through units that were issued in May 2010. A total of \$668,234 will be renounced to holders of the flow-through units when and if, the flow-through common share purchase warrants are exercised. The Company has met its obligation to incur such expenditures as of this date.

SUPPLEMENTAL QUARTERLY INFORMATION

The following summarizes key financial and operating information by quarter:

	Q4 Dec. 31 2010 Three months	Q3 Sep. 30 2010 Two months	Q4 Jul. 31 2010 Three months	Q3 Apr. 30 2010 ⁽¹⁾ Three months	Q2 Jan. 31 2010 ⁽¹⁾ Three months	Q1 Oct. 31 2009 ⁽¹⁾ Three months
FINANCIAL (\$ except per share amounts)						
Petroleum and natural gas sales ⁽²⁾	1,386,045	520,308	561,351	194,464	300,381	163,467
Cash flow from (used in) operations	(570,280)	(294,733)	(942,474)	55,248	479,415	109,407
Per share, basic and diluted	(\$0.00)	(\$0.00)	(\$0.01)	\$0.01	\$0.12	\$0.03
Net loss	(1,863,858)	(176,790)	(919,414)	(145,677)	(107,932)	(48,169)
Per share, basic and diluted	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.04)	(\$0.03)	(\$0.01)
Capital expenditures	60,982,637	8,914,796	9,676,528	181,583	712,535	41,024
Asset acquisitions	17,236,982	43,439	17,964,841	115,000	-	-
Total assets	184,655,484	87,445,150	51,054,286	3,123,745	3,030,871	2,951,755
Working capital (deficit)	49,466,279	41,617,140	17,531,301	(729,287)	(688,216)	(44,385)
OPERATING						
Number of producing days	92	61	91	90	92	92
Average Daily Production ⁽²⁾						
Crude oil (bbls/d)	183	111	71	26	50	24
Natural gas (mcf/d)	32	23	20	9	4	4
Natural gas liquids (bbls/d)	2	4	4	1	1	1
Total (boe/d – 6:1)	190	119	78	27	52	25
Average Price Received						
Crude oil (bbls/d)	80.88	74.01	82.12	79.73	63.87	72.06
Natural gas (mcf/d)	4.19	3.75	4.62	4.93	5.32	4.29
Natural gas liquids (bbls/d)	46.21	50.93	49.59	54.98	58.19	47.92
Combined (\$/boe)	78.54	71.57	78.24	76.37	63.36	70.41
Royalties (\$/boe)	13.64	5.88	8.56	12.20	9.38	7.56
Operating and transportation expenses (\$/boe)	16.32	22.86	18.54	21.46	12.92	27.07
Operating netback (\$/boe)	48.58	42.83	51.14	42.71	41.06	35.78

⁽¹⁾ Quarters are restated for change in accounting policy for petroleum and natural gas assets from successful efforts method to full cost, and for depletion from the straight-line method to the unit-of-production method. See the notes to the audited financial statements for the year ending July 31, 2010 for a full description.

⁽²⁾ Amounts are before royalties

ADDITIONAL INFORMATION

Additional information about Pinecrest is available on at www.sedar.com; at the Company's website at www.pinecrestenergy.com; or by contacting the Company at Pinecrest Energy Inc. Suite 500, 255 5th Avenue SW, Calgary, Alberta, T2P 3G6.