



**(formerly Antler Creek Energy Corp.)**

## **Financial Statements**

**For the two month period ended September 30, 2010, and  
three month period ended October 31, 2009**

**Pinecrest Energy Inc.**  
**(Formerly Antler Creek Energy Corp.)**

**Interim Balance Sheets**  
(Unaudited)

<b>As at</b>	<b>September 30, 2010</b>	<b>July 31, 2010</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 44,065,546	\$ 17,960,092
Accounts receivable	1,176,910	265,367
Goods and services tax recoverable	337,874	241,713
Prepays and deposits	149,933	158,725
	<u>45,730,263</u>	<u>18,625,897</u>
Petroleum and natural gas properties and equipment (Note 2 & 3)	40,952,697	32,182,337
Future income tax	762,190	246,052
	<u>\$ 87,445,150</u>	<u>\$ 51,054,286</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 4,113,123	\$ 1,061,674
Income taxes payable	-	32,922
	<u>4,113,123</u>	<u>1,094,596</u>
Asset retirement obligations (Note 4)	1,305,311	1,262,073
	<u>5,418,434</u>	<u>2,356,669</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 5)	76,001,695	42,495,806
Warrants (Note 6)	6,712,871	6,712,871
Contributed surplus (Note 8)	1,121,896	1,121,896
Deficit	(1,809,746)	(1,632,956)
	<u>82,026,716</u>	<u>48,697,617</u>
	<u>\$ 87,445,150</u>	<u>\$ 51,054,286</u>

See accompanying notes to the financial statements

**COMMITMENTS** (Notes 13)  
**SUBSEQUENT EVENTS** (Note 14)

**APPROVED ON BEHALF OF THE BOARD**

*(Signed) "Rob Zakresky", Director*

*(Signed) "David Fitzpatrick", Director*

**Pinecrest Energy Inc.**  
**(Formerly Antler Creek Energy Corp.)**

**Interim Statements of Loss, Comprehensive Loss and Deficit**  
(Unaudited)

	<b>Two months ended September 30, 2010</b>	<b>Three months ended October 31, 2009 Restated (Note 2b)</b>
<b>REVENUE</b>		
Petroleum and natural gas sales	\$ 520,308	\$ 163,467
Royalties	(42,760)	(17,543)
Interest income	10	1,533
	<u>477,558</u>	<u>147,457</u>
<b>EXPENSES</b>		
Operating and transportation	166,221	62,860
Accretion (Note 4)	9,115	801
Depletion and depreciation (Note 2b & 3)	221,998	89,368
General and administrative	275,114	39,241
Interest on related party debt	-	7,966
	<u>672,448</u>	<u>200,236</u>
<b>LOSS BEFORE TAXES</b>	<b>(194,890)</b>	<b>(52,779)</b>
<b>TAXES</b>		
Future income tax recovery	(18,100)	(4,610)
	<u>(18,100)</u>	<u>(4,610)</u>
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>(176,790)</b>	<b>(48,169)</b>
<b>DEFICIT – Beginning of period as reported</b>	<b>\$ (1,632,956)</b>	<b>\$ (381,964)</b>
Prior period adjustment (Note 2)	-	(29,800)
<b>DEFICIT - End of period</b>	<b>\$ (1,809,746)</b>	<b>\$ (459,933)</b>
<b>Loss per common share – basic and diluted</b>	<b>\$(0.00)</b>	<b>\$ (0.01)</b>
<b>Weighted average common shares outstanding (Note 9)</b>	<b>91,565,774</b>	<b>4,000,000</b>

See accompanying notes to the financial statements

**Pinecrest Energy Inc.**  
**(Formerly Antler Creek Energy Corp.)**

**Interim Statements of Cash Flows**  
(Unaudited)

	<b>Two months ended September 30, 2010</b>	<b>Three months ended October 31, 2009 Restated (Note 2b)</b>
<b>OPERATING ACTIVITIES</b>		
Net loss and comprehensive loss	\$ (176,790)	\$ (48,169)
Items not affecting cash:		
Accretion	9,115	801
Depletion and depreciation (Note 2b & 3)	221,998	89,368
Future income tax recovery	(18,100)	(4,610)
	<u>36,223</u>	<u>37,390</u>
Changes to non-cash working capital (Note 11)	(330,956)	72,015
	<u>(294,733)</u>	<u>109,405</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of petroleum and natural gas properties and equipment	(8,958,235)	(41,024)
Changes to non-cash working capital (Note 11)	2,350,573	-
	<u>(6,607,662)</u>	<u>(41,024)</u>
<b>FINANCING ACTIVITIES</b>		
Issue of common shares	35,000,000	-
Share issue costs	(1,992,151)	-
Decrease in advance from related party	-	(158,506)
	<u>33,007,849</u>	<u>(158,506)</u>
<b>INCREASE (DECREASE) IN CASH</b>	<b>26,105,454</b>	<b>(90,123)</b>
<b>CASH- Beginning of year</b>	<b>17,960,092</b>	<b>436,839</b>
<b>CASH- End of year</b>	<b>\$ 44,065,546</b>	<b>\$ 346,716</b>

**Supplementary cash flow information (Note 11)**

See accompanying notes to the financial statements

**Pinecrest Energy Inc.**  
**(formerly Antler Creek Energy Corp.)**

**Notes to the Financial Statements**  
**Two Months Ended September 30, 2010, and Three Months Ended October 31, 2009**  
**(Unaudited)**

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**1. NATURE OF BUSINESS AND BASIS OF PRESENTATION**

Pinecrest Energy Inc., formerly Antler Creek Energy Corp. changed its name on July 21, 2010 to Pinecrest Energy Inc. ("Pinecrest or the Company"). Pinecrest's business includes the acquisition, exploitation and development of petroleum and natural gas-related assets primarily in the Western Sedimentary Basin. On May 25, 2009, Pinecrest commenced active oil and natural gas operations with the acquisition of all the outstanding shares of a privately held oil and gas company. Pinecrest trades on the Toronto Stock Exchange – Venture (TSXV) under the symbol "PRY"

The interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") within an acceptable level of materiality, utilizing the framework of the accounting policies below. The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited annual financial statements for the year ended July 31, 2010. The disclosures provided below are incremental to those included with the audited annual financial statements. These interim financial statements should be read in conjunction with the audited annual financial statements and the notes thereto for the year ended July 31, 2010. The financial statements are expressed in Canadian dollars.

**2. CHANGES IN ACCOUNTING POLICIES & RECENT PRONOUNCEMENTS**

**a) Change in Year End**

On October 16, 2010, Pinecrest received approval from the Canada Revenue Agency to change its year end from July 31 to December 31. Consequently, these interim financial statements reflect a two month period for the quarter ended September 30, 2010, with comparative information for the three months ended October 31, 2009.

**b) Petroleum and Natural Gas Properties and Depletion**

On May 1, 2010, the Company changed its accounting policy for petroleum and natural gas properties and equipment from the successful efforts method to the full cost method. In addition the Company changed its accounting policy for depletion of its petroleum and natural gas properties from the declining balance method of depletion to the unit-of-production method. There is no impact to the financial statements resulting from the change to full cost accounting because the Company did not have any dry holes, or any direct general and administrative costs which could be directly attributable, and thus capitalized under the full-cost method, to its petroleum and natural gas properties and equipment prior to May 2009. The only impact that these accounting policy changes have on the financial statements is the amount of depletion and related future income taxes associated with the change in net book values of the Company's petroleum and natural gas assets.

**c) International Financial Reporting Standards**

The Accounting Standards Board ("AcSB") confirmed that accounting standards in Canada will converge with IFRS for all publicly accountable profit-oriented enterprises for annual and interim reporting periods commencing on or after January 1, 2011 with appropriate comparative financial data for 2010. IFRS uses a conceptual framework similar to Canadian GAAP; however, there are significant differences in accounting policies and increased disclosures required under IFRS. The Company has a plan established to ensure successful implementation within the required timeframe. The impact on the Company's financial statements has not yet been determined.

**Pinecrest Energy Inc.**  
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**Notes to the Financial Statements**  
**Two Months Ended September 30, 2010, and Three Months Ended October 31, 2009**  
(Unaudited)

**3. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT**

September 30, 2010	Cost (\$)	Accumulated Depletion and Depreciation (\$)	Net Book Value (\$)
Petroleum and natural gas properties and equipment	41,655,054	832,846	40,822,208
Office furniture and equipment	156,689	26,200	130,489
	41,811,743	859,046	40,952,697

July 31, 2010	Cost (\$)	Accumulated Depletion and Depreciation (\$)	Net Book Value (\$)
Petroleum and natural gas properties and equipment	32,674,145	617,022	32,057,123
Office furniture and equipment	145,239	20,025	125,214
	32,819,384	637,047	32,182,337

At September 30, 2010, the cost of petroleum and natural gas properties and equipment includes approximately \$34,366,720 (July 31, 2010 - \$25,297,073) relating to unproved properties which have been excluded from costs subject to depletion. Future development costs of \$1,628,000 (July 31, 2010 - \$1,628,000) related to proved non-producing reserves have been included in the depletion calculation. For the two months ended September 30, 2010, Pinecrest capitalized general and administrative costs of \$85,318 (October 30, 2009 – \$nil) directly related to exploration and development activities. No stock-based compensation was capitalized for the two months ended September 30, 2010 or the three months ended October 31, 2009 related to exploration and development activities.

**4. ASSET RETIREMENT OBLIGATIONS**

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas properties and equipment including well sites, gathering systems and facilities. Pinecrest estimated the total undiscounted amount of cash flows required to settle its asset obligations at September 30, 2010 to be approximately \$1,886,650 (July 31, 2010 - \$1,796,652). Settlement of the obligation is expected to be funded from general corporate funds at the time of retirement which is expected to occur between 2011 and 2030. A credit adjusted risk-free rate of 7% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligation.

	For the two months ended September 30, 2010	For the twelve months ended July 31, 2010
Balance, beginning of period	\$ 1,262,073	\$ 66,549
Obligations assumed	34,123	1,195,088
Change in estimates	-	(3,846)
Accretion expense	9,115	4,282
<b>Balance, end of period</b>	<b>\$ 1,305,311</b>	<b>\$ 1,262,073</b>

**Pinecrest Energy Inc.**  
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**Notes to the Financial Statements**  
**Two Months Ended September 30, 2010, and Three Months Ended October 31, 2009**  
(Unaudited)

**5. SHARE CAPITAL**

**Authorized:**

Unlimited number of common shares without nominal or par value  
Unlimited number of preferred shares, issuable in series, with rights and privileges to be determined at time of issue

<b>Issued:</b>	<b>Number</b>	<b>\$</b>
<b>Balance, July 31, 2008 (i)</b>	<b>5,150,000</b>	<b>733,844</b>
Share consolidation (3.125:1) (i)	(3,502,000)	-
Issued in private placement (ii)	748,334	294,251
Issued in private placement flow-through shares (ii)	603,666	271,650
Issued on business combination (iii)	1,000,000	450,000
Share issue costs, non-cash consideration	-	(11,384)
Share issue costs, net of tax	-	(20,229)
<b>Balance, July 31, 2009</b>	<b>4,000,000</b>	<b>1,718,132</b>
Issued in private placement (iv)	39,677,674	14,879,128
Fair value of common share purchase warrants (iv)	-	(3,669,789)
Issued in private placement flow through shares (iv)	13,364,666	5,011,750
Fair value of common share purchase warrants (iv)	-	(3,053,158)
Issued in brokered private placement (v)	27,657,500	28,763,800
Issued on exercise of options (Note 7)	259,200	187,456
Issued on exercise of warrants (Note 6)	356,734	236,904
Tax effect of flow through shares (ii)	-	(67,912)
Share issue costs, net of tax	-	(1,510,505)
<b>Balance, July 31, 2010</b>	<b>85,315,774</b>	<b>42,495,806</b>
Issued in private placement (vi)	25,000,000	35,000,000
Share issue costs, net of tax	-	(1,494,111)
<b>Balance, September 30, 2010</b>	<b>110,315,774</b>	<b>76,001,695</b>

- (i) On May 22, 2009, the Company consolidated its common shares on the basis of one new common share for 3.125 old common shares. A total of 1,400,000 common shares (448,000 post share consolidation), were placed into escrow under a Capital Pool Corporation Seed Escrow Agreement, whereby the shares will be released in five equal instalments every six months commencing May 28, 2009 to May 29, 2012. At September 30, 2010 a total of 268,800 shares (July 2010- 268,800) were held in escrow.
- (ii) On May 22, 2009 the Company issued 748,334 common shares and 603,666 flow-through shares at a price of \$0.45 per share for gross proceeds of \$294,251 and \$271,650 respectively. During 2010, In accordance with the terms of the flow-through share agreements and pursuant to certain provisions of the Income Tax Act (Canada), the Company renounced to the holders of the flow-through shares a total of \$271,650 effective December 31, 2009 and has incurred eligible expenditures.

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**Notes to the Financial Statements**  
**Two Months Ended September 30, 2010, and Three Months Ended October 31, 2009**  
**(Unaudited)**

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**5. SHARE CAPITAL, continued**

- (iii) On May 25, 2009 the Company issued 1,000,000 common shares at a price of \$0.45 per common share as part of the consideration for the acquisition of all of the outstanding common shares of Batoche Energy Corp. All the shares were placed into escrow under the Qualifying Transaction Escrow Agreement, with 100,000 being released immediately. The balance of the shares will be released in five equal instalments every six months commencing May 25, 2009 to May 25, 2012. At September 30, 2010 there were a total of 600,000 shares (July 31, 2010-600,000) in escrow.
  
- (iv) During May 2010 the Company issued 23,613,810 common shares at a price of \$0.375 per common share for gross proceeds of \$8,855,179; 16,063,864 units at a price of \$0.375 per share for gross proceeds of \$6,023,949 and 13,364,666 Flow-Through Units ("FT Units") at a price of \$0.375 per unit for gross proceeds of \$ 5,011,750. Each unit is comprised of one Class A common share and one Class A common share purchase warrant. Each FT Unit is comprised of one flow-through common share and one flow-through common share purchase warrant. Both the common share purchase warrants, and the flow-through common share purchase warrants are exercisable at a price of \$0.50 subject to certain share performance criteria being satisfied. At July 31, 2010, all share performance criteria had been met. The private placement closed in two separate tranches on May 7, 2010 and May 25, 2010.

In accordance with terms of the FT Unit agreement and pursuant to certain provisions of the Income Tax Act (Canada), proceeds from the sale of the FT Units will be used to incur expenditures that will be renounced to subscribers as Canadian development expenses.

All of the units and FT Units were acquired by officers, directors and employees of the Company ("service providers"). At closing, the service providers entered into an escrow agreement whereby all of the Units, FT Units and any common shares acquired upon exercise of the warrants have been placed into escrow for a period of 24 months. One quarter of the securities will be released on each of the six, twelve, 18 and 24 month anniversaries of the closing date of the private placement.

- (v) On July 7, 2010 the Company issued 24,050,000 common shares at a price of \$1.04 per common share on a bought deal private placement for gross proceeds of \$25,012,000. On July 9, 2010 the Company issued an additional 3,607,500 common shares at a price of \$1.04 for gross proceeds of \$3,751,800.
  
- (vi) On September 15, 2010, the Company issued 25,000,000 common shares at a price of \$1.40 per common share on a bought deal private placement for gross proceeds of \$35,000,000. See Note 14 Subsequent Events.

**Pinecrest Energy Inc.**  
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**Notes to the Financial Statements**

**Two Months Ended September 30, 2010, and Three Months Ended October 31, 2009**

(Unaudited)

**6. WARRANTS**

	<b>Number</b>	<b>Stated Value (\$)</b>
<b>Balance, July 31, 2008</b>		
Private placement common share purchase warrants	748,334	42,499
Agents' warrants	108,800	11,384
<b>Balance, July 31, 2009</b>	<b>857,134</b>	<b>53,883</b>
Private placement common share Units (i)	16,063,864	3,669,789
Private placement Flow-Through Units (i)	13,364,666	3,053,158
Exercise of warrants	(356,734)	(22,859)
Share issue costs, net of tax	-	(41,100)
<b>Balance, July 31, 2010 and September 30, 2010</b>	<b>29,928,930</b>	<b>6,712,871</b>

The fair value of the warrants issued was estimated using the Black-Scholes option pricing model under the following assumptions:

	<b>Number of Warrants</b>	<b>Expected Life (years)</b>	<b>Risk-free Interest Rate (%)</b>	<b>Expected Volatility (%)</b>	<b>Dividend Yield (%)</b>
2009 Private placement	748,334	2	1.25	60	0
2009 Agent warrants	108,800	2	1.25	60	0
2010 Common share Units (i)	16,063,864	5	2.29	50	0
2010 Flow-through share Units (i)	13,364,666	5	2.29	50	0

At September 30, 2010 and July 31, 2010 the Company had the following warrants issued and outstanding:

	<b>Number of Warrants</b>	<b>Exercise Price</b>
2009 Private placement	500,400	\$0.60
2010 Common Share Units	16,063,864	\$0.50
2010 Flow-Through Units	13,364,666	\$0.50
<b>Total</b>	<b>29,928,930</b>	

(i) Each share purchase warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.50 per share. The share purchase warrants vest subject to certain share performance criteria being satisfied and are held in escrow and will be released equally over a 24 month period starting six months from the first anniversary date of the issuance. As at September 30, 2010 and July 31, 2010, all share performance criteria had been met and there were a total of 29,928,930 share purchase warrants outstanding, all of which have vested, but none of which have been released from escrow.

**Pinecrest Energy Inc.**  
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**Notes to the Financial Statements**

**Two Months Ended September 30, 2010, and Three Months Ended October 31, 2009**  
(Unaudited)

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**7. STOCK- BASED COMPENSATION**

**a) Stock-Option Plan**

The Company has adopted 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 no options issued or outstanding at September 30, 2010 and July 31, 2010. See Note 14(a) Subsequent Events.

**b) Performance Warrants**

On May 21, 2010, the Company granted 4,830,000 of performance warrants to various directors, officers and employees, all of which have vested. The warrants are exercisable at \$0.50 per common share and will be exercisable subject to certain share performance criteria being satisfied. As at July 31, 2010 all share performance criteria have been met, and all vested warrants are exercisable. No performance warrants have been exercised to date. The warrants will expire on May 21, 2015.

**8. CONTRIBUTED SURPLUS**

	<b>For the two months ended September 30, 2010</b>	<b>For the twelve months ended July 31, 2010</b>
Balance, beginning of period	\$ 1,121,896	\$ 71,928
Stock-based compensation related to:		
Options granted	-	-
Options exercised	-	(53,456)
Performance warrants granted	-	1,103,424
<b>Balance, end of period</b>	<b>\$ 1,121,896</b>	<b>\$ 1,121,896</b>

For the two months ended September 30, 2010, no (twelve months ended July 31, 2010 - \$805,296) stock based compensation was recognized and expensed and no stock-based compensation (twelve months ended July 31, 2010 - \$298,128) has been capitalized to petroleum and natural gas properties and equipment.

**9. PER SHARE AMOUNTS**

The weighted average number of basic common shares outstanding for the two months ended September 30, 2010 and the three months ended October 31, 2010 were: 91,565,774 and 4,000,000. The effect of all stock options and warrants has been excluded from the calculation as they are anti-dilutive.

**Pinecrest Energy Inc.**  
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**Notes to the Financial Statements**

**Two Months Ended September 30, 2010, and Three Months Ended October 31, 2009**

(Unaudited)

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**10. CAPITAL MANAGEMENT**

The Company defines capital as working capital (current assets less current liabilities) and shareholders' equity. The Company's overall objective in managing its capital structure has not changed during the year. The Company's objectives are to: maintain a flexible capital structure which will optimize the cost of capital at an acceptable level to provide optimal returns to shareholders, and to manage its financial flexibility to preserve its ability to fund ongoing operations, fund acquisitions and future projects. The Company is not subject to any externally imposed capital requirements. There was no change in the Company's approach to capital management from the prior year.

For the two month period ended September 30, 2010 working capital was \$41,617,140 (July 31, 2010 – \$17,531,301) and total shareholders' equity was \$82,026,716 (July 31, 2010 - \$48,697,617). The capital position of the Company increased primarily due to the issuance of common shares (Note 5), offset by an increase in reported net loss for the year. See Subsequent Events Note 14.

**11. SUPPLEMENTARY CASH FLOW INFORMATION**

	<b>Two months ended September 30, 2010</b>	<b>Three months ended October 31, 2009</b>
Accounts receivable	\$ (911,543)	\$ 57,551
Goods and services tax receivable	(96,161)	(1,614)
Prepays and deposits	8,792	-
Accounts payable and accrued liabilities	3,051,451	16,080
Income taxes payable	(32,922)	-
Change in non-cash working capital	<u>\$ 2,019,617</u>	<u>\$ 72,017</u>

The net change in non-cash working capital has been allocated to the following activities:

Operating	\$ (330,956)	\$ 72,017
Investing	2,350,573	-
	<u>\$ 2,019,617</u>	<u>\$ 72,017</u>

Cash income taxes paid	\$ 32,922	\$ -
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**12. FINANCIAL INSTRUMENTS**

The Company is exposed to market risks related to the volatility of commodity prices, foreign exchange rates and interest rates, as well as credit risk exposure. Pinecrest employs risk management strategies and policies to limit the exposure to these risks in compliance with the Company's business objectives and risk tolerance levels as set out by the Board of Directors.

**a) Credit risk**

The Company is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The maximum exposure of the Company to credit risk at September 30, 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 exposure to cash credit risk is very low.

**Notes to the Financial Statements**  
**Two Months Ended September 30, 2010, and Three Months Ended October 31, 2009**  
(Unaudited)

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**12. FINANCIAL INSTRUMENTS, continued**

**a) Credit risk, continued**

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. As at September 30, 2010, the Company's accounts receivable balance was \$1,176,910 (July 31, 2010 - \$265,367), of which \$33,069 are greater than 90 days (July 31, 2010 - \$3,033). Receivables from petroleum and natural gas marketers are normally collected on the 25<sup>th</sup> day of the month following production. Pinecrest has not experienced any collection issues with its petroleum and natural gas marketers and does not have any allowance for doubtful accounts at September 30, 2010 or July 31, 2010.

**b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet a demand for cash or fund 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. At September 30, 2010, the Company has cash of \$44,065,546 (July 31, 2010 - \$17,960,092) to settle its financial liabilities of \$4,113,123 (July 31, 2010 - \$1,094,596).

**c) Market risk**

Market risk is the risk that changes in market prices, such as currencies, interest rate risk and commodity prices will negatively impact the Company's net earnings, future cash flows or the value of the Company's financial assets and financial liabilities. The valuation of the financial assets and liabilities on the balance sheet at September 30, 2010 and July 31, 2010 would not be directly impacted by changes in currency rates. The Company does not sell or transact in any foreign currency, however, the United States dollar ("USD") influences the price of petroleum and natural gas sold in Canada. Therefore, the Company's financial assets and financial liabilities are not directly affected by change in currency rates.

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the USD. Significant changes in commodity prices can materially impact the Company's ability to raise capital. The Company is not exposed to significant market risk. The Company does not have any financial risk management contracts in place at September 30, 2010 or July 31, 2010.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has no debt at September 30, 2010 or July 31, 2010, and therefore is not exposed to interest rate risk. See Subsequent Events Note 14 (d).

**d) Fair values**

The fair value of a financial instrument is the estimated amount that the Company would receive or pay to settle a financial asset or liability as at the reporting date. At September 30, 2010 and July 31, 2010, the Company's financial instruments included in the balance sheets are comprised of cash, accounts receivable and accounts payable and accrued liabilities. The fair values of the Company's financial instruments do not differ significantly from their carrying values. In addition, at September 30, 2010 and July 31, 2010 there were no financial instruments that required disclosure according to the three-level hierarchy.

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**Notes to the Financial Statements**  
**Two Months Ended September 30, 2010, and Three Months Ended October 31, 2009**  
**(Unaudited)**

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**13. COMMITMENTS**

The Company is committed to lease payments of \$263,640 plus operating costs for its office premises for the next year.

**14. SUBSEQUENT EVENTS**

**a) Options Granted**

On October 8, 2010, Pinecrest issued 4,900,000 stock options to officers, directors, employees and consultants. The options entitle the holders to purchase one common share of the Company at an exercise price of \$1.52. One-third of the options vest and become exercisable immediately, one-third vest in 12 months, with the balance vesting in 24 months. The options will expire on October 8, 2015.

**b) Bought Deal Financing Over-Allotment**

In conjunction with the Bought Deal Financing which closed on September 15, 2010 (see Note 5(vi)), the Company had granted the underwriters an option (the "Over-Allotment Option") to purchase up to an additional 3,750,000 Common Shares to cover over allotments, if any, at a price of \$1.40 per Common Share for additional gross proceeds of approximately \$5,250,000. On October 12, 2010 the Company issued a total of 3,663,143 common shares at a price of \$1.40 per share for aggregate proceeds of \$5,128,400.

**c) Bought Deal Financing \$75,000,000**

On October 22, 2010 the Company announced that it had entered into an agreement with a syndicate of underwriters to issue on a bought deal basis 48,400,000 Common Shares at an issue price of \$1.55 per share for gross proceeds of approximately \$75,020,000. In addition, the Company has granted the underwriters an option (the "Over-Allotment Option") to purchase up to an additional 7,260,000 Common Shares at an issue price of \$1.55 per Common Share for additional gross proceeds of \$11,253,000. The Over-Allotment Option is exercisable in whole or in part for a period of 30 days following the closing of the offering. Both the financing and the Over-Allotment Option closed on November 16, 2010 resulting in a total of 55,660,000 common shares issued at \$1.55 per share for gross proceeds of \$86,273,000.

**d) Asset Acquisitions and Revolving Credit Facility**

On October 28, 2010 the Company announced that it had entered into a number of asset acquisitions for an aggregate purchase price, before purchase price adjustments, of \$65,800,000. All of the acquired assets are located in the Company's greater Red Earth area of Alberta and are expected to close on or about November 30, 2010.

The Company has entered into a demand revolving operating credit facility in the amount of \$30,000,000 with a Canadian chartered bank. The facility is secured by a floating charge debenture of \$50,000,000 and a general security interest in all of the present and future acquired property of the Company and bears an interest rate of prime plus 2%. The credit facility will be used for general corporate purposes.