

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 two months ended September 30, 2010, with comparatives for the three month period ended October 31, 2009 and should be read in conjunction with the audited annual financial statements for the year ended July 31, 2010. The unaudited 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 November 24, 2010.

#### **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 Saskatchewan and Alberta. Pinecrest completed its recapitalization transaction in May 2010 and trades on the Toronto Stock Venture Exchange ("TSX-V") under the symbol PRY. Additional information related to the Company, including the Company's Annual Information Form ("AIF") may be found on the Canadian Securities Administrators' System for Electronic Distribution and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com).

#### **NON-GAAP MEASURES**

The Company uses the following terms for measurement within the MD&A that do not have a standardized prescribed meaning under Canadian generally accepted accounting principles 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 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 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	bbl
Barrel(s) of oil equivalent	boe
Barrel(s) of oil equivalent per day	boe/d
Thousand cubic feet	mcf
Thousand cubic feet per day	mcf/d
Natural gas liquids	NGL

**FORWARD LOOKING STATEMENTS**

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

**FINANCIAL AND OPERATIONAL HIGHLIGHTS**

	Two months ended September 30	Three months ended October 31	
	2010	2009	%Change
<b>FINANCIAL (\$ except per share amounts)</b>			
Petroleum and natural gas sales	520,308	163,467	218
Funds flow from operations	36,223	37,390	(3)
Per share, basic and diluted	\$0.00	\$0.01	(100)
Net loss	(176,790)	(48,169)	267
Per share, basic and diluted	-	(\$0.01)	100
Capital expenditures	8,992,358	41,024	21,820
Net debt and working capital surplus (deficit)	41,617,140	(44,385)	>100
Common Shares Outstanding			
End of period – basic & diluted	110,315,774	4,000,000	2,658
Weighted average – basic & diluted	91,565,774	4,000,000	2,190
<b>OPERATING</b>			
<b>Number of producing days</b>	61	92	
<b>Production</b>			
Crude oil (bbls/d)	111	24	363
Natural gas (mcf/d)	23	3	667
Natural gas liquids (bbls/d)	4	1	300
Barrels of oil equivalent (boe/d – 6:1)	119	25	376
<b>Average realized price</b>			
Crude oil (\$/bbl)	74.01	72.06	3
Natural gas (\$/mcf)	3.75	4.29	(13)
Natural gas liquids (\$/ bbl)	50.93	47.92	6
Barrels of oil equivalent (\$ - 6:1)	71.57	70.41	2
<b>Netback per boe (\$)</b>			
Petroleum and natural gas sales	71.57	70.41	2
Royalties	(5.88)	(7.56)	(22)
Operating & transportation expenses	(22.86)	(27.07)	(16)
Operating netback	42.83	35.78	20

**RESULTS OF OPERATIONS**
**PRODUCTION**

Daily production for the two months ended September 30, 2010 increased 376% to 119 boe/d, compared to the three months ended October 31, 2009. This increase is primarily due to the acquisition of properties in the Greater Red Earth core area in 2010 which closed in July 2010. In addition, there were two additional wells on production in southeast Saskatchewan in 2010 compared to the three months ended October 31, 2009. Pinecrest's production profile for the two months ended September 30, 2010 was comprised of 97% oil and NGL's and 3% natural gas. The Company's production profile remains consistent with its profile for the year ended July 31, 2010.

	Two months ended September 30 2010	Three months ended October 31 2009	%Change
Number of days in period	61	92	
Crude oil (bbls/d)	111	24	363
Natural gas (mcf/d)	23	3	667
Natural gas liquids (bbls/d)	4	1	300
<b>Total (boe/d - 6:1)</b>	<b>119</b>	<b>25</b>	<b>376</b>
Crude oil (%)	94	95	(1)
Natural gas (%)	3	2	1
Natural gas liquids (%)	3	3	-
<b>Total (%)</b>	<b>100</b>	<b>100</b>	<b>-</b>

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

<b>boe/d</b>	Two months ended September 30 2010	Three months ended October 31 2009	%Change
Southeast Saskatchewan	49	25	96
Greater Red Earth Alberta	70	-	100
<b>Total</b>	<b>119</b>	<b>25</b>	<b>376</b>

Production over the last five quarters is as follows:

	Sep. 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009
	Two months	Three months	Three months	Three months	Three months	Three months
Crude oil (bbls/d)	111	71	26	50	24	39
Natural gas (mcf/d)	23	20	9	4	3	14
Natural gas liquids (bbls/d)	4	4	1	1	1	2
<b>Total (boe/d - 6:1)</b>	<b>119</b>	<b>78</b>	<b>28</b>	<b>52</b>	<b>25</b>	<b>43</b>

**REVENUE**

Petroleum and natural gas revenue increased 218% to \$520,308 for the two months ended September 30, 2010, up from \$163,467 for the three months ended October 31, 2009. This is the result of a 376% increase in production and a 2% increase in average unit price.

	Two months ended September 30 2010	Three months ended October 31 2009	%Change
Crude oil sales	502,925	159,463	215
Natural gas sales	5,361	1,395	284
Natural gas liquids sales	12,022	2,609	361
Total	520,308	163,467	218

**REALIZED PRICES**

Pinecrest realized a 2% increase in the overall price per boe to \$71.57 in the two months ended September 30, 2010, up from \$70.41 in the three months ended October 31, 2009. The increase is due mainly to the increase in light crude oil prices.

	Two months ended September 30 2010	Three months ended October 31 2009	%Change
<b>Average Realized Prices</b>			
Crude oil (\$/bbl)	74.01	72.06	3
Natural gas (\$/mcf)	3.75	4.29	(13)
Natural gas liquids (\$/bbl)	50.93	47.92	6
Total (\$/boe – 6:1)	71.57	70.41	2

**Commodity Prices**

	Two months ended September 30 2010	Three months ended October 31 2009	%Change
<b>Oil</b>			
Corporate Price (\$/bbl)	74.01	72.06	3
Edmonton light crude (\$/bbl)	74.32	74.61	-
<b>Gas</b>			
Corporate Price (\$/mcf)	3.75	4.29	(13)
AECO Price (\$Cdn/MBTU)	3.55	3.08	15

**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 3% to \$74.01/bbl for the two months ended September 30, 2010 compared to \$72.06/bbl for the three months ended October 31, 2009. The Company realizes only a small pricing differential from the benchmark price due to the overall high quality of the Company's Bakken light oil production in southeast Saskatchewan and its Slave Point and Granite Wash light oil production in Red Earth.

### 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 realized a 13% decrease in natural gas price of \$3.75/mcf in the two months ended September 30, 2010 compared to \$4.29/mcf realized in the three months ended October 31, 2010.

### Liquids Prices

The Company's natural gas liquids prices are based on market prices and vary depending on the specific proportion of liquids products in the Company's production mix. Pinecrest recorded an increase of 6% in natural gas liquids price to \$50.93/bbl in the two months ended September 30, 2010, up from \$47.92/bbl in the three months ended October 31, 2009. The increase is consistent with other commodity price increases as reported for the two months ended September 30, 2010.

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 two months ended September 30, 2010.

### ROYALTY EXPENSES

Royalties were \$42,760 for the two months ended September 30, 2010, a 144% increase from \$17,543 over the three months ended October 31, 2009. As a percentage of petroleum and natural gas sales, royalties decreased to approximately 8% in the two months ended September 30, 2010, compared to 10% for the three months ended October 31, 2010. Royalties were 11% of revenues for the year ended July 31, 2010.

	Two months ended September 30 2010	Three months ended October 31 2009	%Change
<b>Royalties (\$)</b>			
Crown	14,484	-	100
Freehold and freehold production tax	22,391	15,453	45
Gross overriding and other	5,885	2,090	182
<b>Total royalties</b>	<b>42,760</b>	<b>17,543</b>	<b>144</b>
<b>Average Royalty Rate (% of sales)</b>			
Crown	2	-	100
Freehold and freehold production tax	5	9	(44)
Gross overriding and other	1	1	-
<b>Total</b>	<b>8</b>	<b>10</b>	<b>(20)</b>
<b>\$ Per boe</b>	<b>5.88</b>	<b>7.56</b>	<b>(22)</b>

Pinecrest's production in Saskatchewan is from horizontal Bakken wells which are on freehold lands and attract a royalty rate of approximately 10% of revenues. Corporate freehold royalty rates as a percentage of sales are lower for the two months ended September 30, 2010 primarily due to the increase in revenues from Alberta properties as compared to the prior three months ended October 31, 2009. Production in Alberta is primarily from Crown lands and, as it originates from previously drilled wells, does not qualify for the Alberta Governments' new drilling incentives and/or credits under the existing Alberta Royalty Framework. However, a number of the wells producing in the Red Earth area have low production rates which are subject to lower Crown royalties. As a result the overall royalty rate percentage for the Company is lower for the two months ended September 30, 2010 as compared to the three months ended October 31, 2009.

The Company expects its 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 for up to 24 month or on the first 60,000 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 to \$166,221 for the two months ended September 30, 2010, a 164% increase from \$62,860 for the three months ended October 31, 2009. Per unit operating and transportation expenses decreased to \$22.86/boe for the two months ended September 30, 2010 compared to \$27.07/boe for the three months ended October 31, 2009, primarily due to an increase of 213% in total production. 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.

	<b>Two months ended September 30 2010</b>	<b>Three months ended October 31 2009</b>	<b>%Change</b>
<b>\$</b>			
Operating and transportation expenses	166,221	62,860	164
\$ Per boe	22.86	27.07	(16)

#### **GENERAL AND ADMINISTRATIVE EXPENSES**

Net general and administrative expenses were \$275,114 (\$37.84/boe) for the two months ended September 30, 2010, compared to \$39,241 (\$16.90 per boe), an increase of 601% over the three months ended October 31, 2009. Net general and administrative expenses have decreased for the two months ended September 30, 2010 from \$85.03/boe for the three months ended July 31, 2010 due to increased production.

	<b>Two months ended September 31 2010</b>	<b>Three months ended October 31 2009</b>	<b>%Change</b>
<b>\$</b>			
Gross general and administrative expenses	388,003	39,241	889
Recoveries	(27,571)	-	(100)
Capitalized	(85,318)	-	(100)
Net general and administrative expenses	275,114	39,241	601
\$ Per boe	37.84	16.90	124

Management believes that it is now prepared for significant future growth and anticipates general and administrative expenses will become more in line with industry benchmarks. As the Company's production base grows from its planned 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.

### INTEREST EXPENSE

There was no interest expense for the two months ended September 30, 2010 as compared to \$7,966 for the three months ended October 31, 2009. Pinecrest paid its related party debt balances in May 2010, and currently has no debt.

	Three months ended September 30 2010	Three months ended October 31 2009	%Change
Interest	-	7,966	(100)
\$ Per boe	-	3.43	(100)

### NETBACKS

Pinecrest realized a 20% increase in operating netback of \$42.83/boe in the two months ended September 30, 2010, compared to an operating netback of \$35.78/boe for the three months ended October 31, 2009. Increased netbacks resulted primarily from increased commodity prices and production for the periods reported.

Pinecrest realized a corporate netback of \$4.99/boe for the two months ended September 30, 2010 compared to \$16.11/boe for the three months ended October 31, 2009. Pinecrest's corporate netback improved by 114%, from a loss of \$35.41/boe for the quarter ended July 31, 2010. This improvement primarily reflects increased production.

	Two months ended September 30 2010	Three months ended October 31 2009	%Change
Average realized price	71.57	70.41	2
Royalty expenses	(5.88)	(7.56)	(22)
Operating expenses	(22.86)	(27.07)	(16)
Operating netback	42.83	35.78	20
Other income	-	.66	(100)
Net general and administrative expenses	(37.84)	(16.90)	124
Interest expense	-	(3.43)	(100)
Corporate netback	4.99	16.11	(69)

### STOCK-BASED COMPENSATION EXPENSE

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. No such options were granted in the two months ended September 30, 2010 or the comparative three months ended October 31, 2009 therefore there was no stock-based compensation expense recorded.

### DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

Depletion and depreciation, and accretion ("DD&A") of the asset retirement obligation increased to \$231,113 for the two months ended September 30, 2010 compared to \$90,169 for the three months ended October 31, 2009. The increase in DD&A for the current period is the result of an increase in production. On a unit basis, DD&A decreased to \$31.79/boe for the two months ended September 30, 2010 from \$38.84/boe for the three months ended October 31, 2009 resulting from increased production.

	Two months ended September 30 2010	Three months ended October 31 2009	%Change
Depletion and depreciation expense	221,998	89,368	148
\$ Per boe	30.54	38.49	(21)
Accretion expense	9,115	801	1,038
\$ Per boe	1.25	0.35	257
Total depletion, depreciation and accretion expense	231,113	90,169	156
\$ Per boe	31.79	38.84	(18)

### INCOME AND OTHER TAXES

Pinecrest recorded a future income tax recovery of \$18,100 in the two months ended September 30, 2010 compared to a future income tax recovery of \$4,610 for the three months ended October 31, 2009. At September 30, 2010, the Company has recorded a future tax asset of \$762,190 which is based on the estimated future tax value of its tax pools which are approximately \$43 million.

### NET EARNINGS AND CASH FLOW

Pinecrest recorded a net loss of \$176,790 (\$0.00 per basic and diluted share) in the two months ended September 30, 2010, as compared to a net loss of \$48,169 (\$0.01 per basic and diluted share) in the three months ended October 31, 2009, representing a 100% decrease in losses on a per share basis. The net loss for the two months ended September 30, 2010 reflects an increase in net revenues, offset by increased expenses primarily relating to a full complement of technical and professional staff required to execute the Company's current business plan, and non-cash charges for depletion, depreciation and accretion.

The Company recorded a cash flow deficit from operations of \$294,733 for the two months ended September 30, 2010 compared to cash flow from operations of \$109,405 for the three months ended October 31, 2009. The decrease was primarily the result of changes in non-cash working capital for the current two month period.

The Company recorded funds flow from operations of \$36,223 (\$0.00 per basic and diluted share) for the two months ended September 30, 2010, as compared to funds flow of \$37,390 (\$0.01 per basic and diluted share for the three months ended October 31, 2009), representing a 3% decrease in funds flow per basic and diluted share.

### Calculation of Funds Flow from Operations

\$	Two months ended September 30 2010	Three months ended October 31 2009
Cash flow from operations (GAAP)	(294,733)	109,405
Add back:		
Change in non-cash working capital	330,956	(72,015)
Asset retirement expenditures	-	-
Funds flow from operations (Non-GAAP)	36,223	37,390
Basic and diluted per share	\$0.00	\$0.01

### CAPITAL EXPENDITURES AND CAPITAL RESOURCES

Pinecrest invested a total of \$8,992,358 on its capital program for the two months ended September 30, 2010 compared to \$41,024 in the three months ended October 31, 2009. Capital spending was incurred primarily on undeveloped land in the Red Earth area of Alberta and drilling operations in southeast Saskatchewan.

\$	Two months ended September 30 2010	Three months ended October 31 2009	%Change
Land acquisition	6,003,253	-	100
Geologic and geophysical	2,550	-	100
Drilling and completions	2,819,427	-	100
Equipment and facilities	(7,202)	22,923	(131)
Property acquisitions	43,439	18,101	140
Capitalized administration	85,318	-	100
Office and other	11,450	-	100
Total cash capital expenditures	8,958,235	41,024	21,737
Non-cash capital expenditures			
Asset retirement obligations	34,123	-	100
Stock-based compensation	-	-	-
Total capital expenditures	8,992,358	41,024	21,820

At September 30, 2010, Pinecrest owned a total of 23,335 net acres of land (85% undeveloped) in Saskatchewan and Alberta, an increase of 17% from July 31, 2010. Pinecrest's undeveloped land rights are concentrated in the emerging Slave Point formation tight oil play in the greater Red Earth area of Alberta.

Pinecrest drilled three (1.5 net) horizontal oil wells in the southeast Saskatchewan Bakken formation in the two months ended September 30, 2010. Due to wet weather, the completion of these wells has been delayed until December 2010. In July 2010, Pinecrest's Board of Directors approved a \$25.0 million budget for the remainder of 2010. The capital program will focus on Bakken and Red Earth light oil development drilling and completions, and includes the drilling of 8.25 net oil wells, 2.25 of which are in southeast Saskatchewan and 6 in Red Earth, Alberta.

### LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of \$41,617,140 at September 30, 2010 as compared to a working capital of \$17,531,301 at July 31, 2010. The 137% improvement in working capital is the result of the Company closing an equity financing on September 15, 2010, which resulted in the issuance of 25.0 million common shares at a price of \$1.40 per share for total gross proceeds of \$35.0 million.

On October 8, 2010, the Company closed an over-allotment option relating to the September 15, 2010 financing and issued an additional 3,663,143 common shares at a price of \$1.40 per share for gross proceeds of \$5,128,400. On October 22, 2010, Pinecrest announced that it had entered into an agreement with a syndicate of underwriters to issue an additional 48,400,000 common shares at a price of \$1.55 per share for gross proceeds of \$75,020,000, with an over-allotment option to issue an additional 7,260,000 common shares at \$1.55 per share for gross proceeds of \$11,253,000. 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 present, working capital surplus is in approximately \$70 million.

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. The Company's capital program scheduled for 2010 calls for capital expenditures of approximately \$25.0 million which will be financed from cash flow from operations and cash on hand.

### Share Capital

The Company had the following outstanding common shares and equity instruments for the two months ended September 30, 2010 and three months ended October 31, 2009:

	Two months ended September 30, 2010	Three months ended October 31, 2009
<b>Weighted Average Outstanding Common Shares</b>		
Basic	91,565,774	4,000,000
Diluted	91,565,774	4,000,000
<b>Outstanding securities:</b>		
Common Shares	110,315,774	4,000,000
Common Share Purchase Warrants	29,928,930	-
Performance Warrants	4,830,000	-

On October 8, 2010 the Company issued 4,900,000 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 \$1.53 per share.

**Total Market Capitalization**

The Company's market capitalization at September 30, 2010 was approximately \$203,104,586.

	<b>September 30, 2010</b>
Common shares – fully diluted	145,074,704
Share price (1)	\$1.40
(1) Represent the close price on the Toronto Stock Exchange (Venture) September 30, 2010	

At November 24, 2010 Pinecrest had the following equity instruments outstanding: 169,638,917 common shares, 29,928,930 common share purchase warrants, 4,830,000 performance warrants, and 4,900,000 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.

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**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 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 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 September 30, 2010, Pinecrest had no debt outstanding, and therefore is not exposed to interest rate risk.

### **CRITICAL ACCOUNTING ESTIMATES**

Pinecrest's 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.

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 Canadian 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 Canadian GAAP to IFRS. For Pinecrest, the date of transition will be August 1, 2010. 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 has recently commenced its IFRS Conversion Plan, which will include training and development through-out the organization. The three phases of the plan are:

<b>IFRS Conversion Project Phase</b>	<b>Progress</b>
<b>Phase 1 Scoping and Diagnostic</b> Identification of key differences between Canadian GAAP and IFRS, and high-level changes required in accounting policies, systems and processes.	Completed; the IFRS Team has identified and performed a preliminary review of high impact standards.
<b>Phase 2 Design and Evaluation</b> Comprehensive documentation and analysis of changes in accounting standards, policies, processes and procedures, which expands on scoping from Phase 1	Initiated; the IFRS Team has set up monthly processes which take into consideration the differences in policy as identified in Phase 1. Detailed discussion and review with the Audit Committee has not been done yet.
<b>Phase 3 – Implementation</b> Implementation and execution of changes identified and prioritized from Phase 2.	Not started.

### **Potential Impacts of IFRS Adoption**

The following have been identified as differences between Canadian GAAP and IFRS, that are currently issued and expected to be issued on the date of transition, that will impact Pinecrest; accounting for capital assets, including exploration costs, depletion and depreciation and impairment testing; asset retirement obligations; share-based payments and an increased level of disclosure requirements.

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) **First Time Adoption of IFRS ("IFRS 1"):** The transition to IFRS requires the Company to apply IFRS 1, which prescribes requirements for preparing IFRS-compliant financial statements in the first reporting period after the changeover date (August 1, 2010). IFRS 1 includes a requirement for retrospective application of each IFRS as if they were always in effect. IFRS 1 also mandates certain exemptions for retrospective application and provides optional exemptions from retrospective application to ease the transition to IFRS in the transition year.

In July 2009, the International Accounting Standards Board approved amendments and released additional exemptions to IFRS 1 "Additional Exemptions for First-time Adopters" which prescribes transitional exemptions for oil and gas companies following full cost accounting. The amendment allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and natural gas assets in the development or production phases by allocating the amount determined under the entity's previous GAAP for those assets, to the underlying assets pro rata using reserve volumes or reserve values as of the date of transition, subject to an impairment test as prescribed under IFRS. This exemption will allow Pinecrest to apply IFRS to its full cost pools on a prospective basis, from date of transition to IFRS.

- b) **Impairment of Assets ("IAS 36"):** IAS 36 uses the concept of cash generating units to accumulate asset carrying costs to test and measure impairment. Under IFRS, Pinecrest will no longer be permitted to test for asset impairment at the cost center level (country level) as permitted under the Canadian 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.

In addition, IAS 36 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 Canadian 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 Canadian GAAP were based on undiscounted cash flows. However, under IAS 36, impairment losses that were previously recognized may be reversed where circumstances change such that the impairment is reduced. This differs from Canadian GAAP, which prohibits the reversal of previously recognized impairment losses.

- c) **Exploration and Evaluation Expenditures ("IFRS 6"):** Oil and gas companies are required to account for exploration and evaluation expenditures in accordance with IFRS 6, which permits a number of accounting policy choices. For example, this standard addresses the recognition, measurement, presentation and disclosure requirements for costs incurred in the exploration phase. Unlike Canadian GAAP, IFRS requires the identification and presentation of exploration and evaluation expenditures to be separated from developed and producing assets. 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.
- d) **Property Plant and Equipment ("IAS 16"):** IFRS and Canadian GAAP contain the same basic principles of accounting for property, plant and equipment; however, differences in application do exist, specifically for oil and gas companies. IAS 16 requires costs recognized as property plant and equipment to be allocated to the significant parts of the asset and to amortize each significant component separately. This is a departure from Canadian GAAP for full cost oil and gas companies, and may increase the number of components that will be amortized separately, and could impact the amount of amortization expense. In addition, the full cost guideline under Canadian GAAP prescribes that the unit-of-production method of depletion is to be calculated using remaining proved reserves. IFRS does not prescribe the depletion base to be used for depletion purposes. Pinecrest is currently assessing the number of components that will be identified and the appropriate depletion base to be used for depletion and depreciation purposes. Under IAS 16, companies have the choice to account for property, plant and equipment under the cost model, or the revaluation model. It is expected that Pinecrest will choose and apply the cost model to account for its property, plant and equipment after transition to IFRS.

- e) **Decommissioning Costs ("IAS 37"):** 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 calculated at each reporting period using estimates of risk-adjusted future cash outflows, discounted using the risk free rate whereas under Canadian GAAP the estimated liability is estimated using a credit-adjusted rate, rather than a risk free rate.

Changes in the estimated timing of cash flows necessary to discharge the obligation are added to or deducted from the cost of the related asset and the adjusted amounts are amortized prospectively over the estimated useful life of the asset. The measurement of the present value of the estimate (arising due to different discount rates used) is likely to be higher under IFRS as compared to Canadian GAAP. However the difference, if any, is not known at this time. In addition, the unwinding of the discount arising from the passage of time is recognized as a financing cost and not a part of depletion expense as is currently presented in the Company's financial statements under Canadian GAAP.

- f) **Share based Payments (IFRS 2):** Similar to Canadian 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. Each tranche of options or warrants is to be treated as a separate grant which will accelerate the expense recognition as compared to Canadian GAAP, which permits the recognition of the expense on a straight-in basis over the period that the options/warrants vest. Under IFRS the expense recognition will be accelerated, but the cumulative expense over the life of the instruments under both methods will be the same.

During the two months ended September 30, 2010, our work continued to focus on identifying and analyzing alternative accounting policies, particularly for property, plant and equipment. We also attended an IFRS Workshop which focussed on specific issues for oil and gas companies. We are currently in the process of evaluating the impact of the above accounting policy choices and the impact they will have on Pinecrest's financial statements.

#### **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 September 30, 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 two months ended September 30, 2010, the Company incurred \$11,259 on services (October 31, 2009 - \$ nil). The related party transactions were conducted in the normal course of business and have been measured at the exchange amount.

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**PINECREST OUTLOOK**

Pinecrest management has been active executing the previously announced capital plan for the calendar year ended 2010. Pinecrest has completed drilling (4 gross) 2.25 net horizontal Bakken oil wells in southeast Saskatchewan, with completion operations scheduled to start in early December 2010. In addition, the Red Earth Area drilling program, which includes a total of 6 net horizontal oil wells targeting the Slave Point tight oil formation, has also commenced.

Management and the Board of Directors are currently reviewing the Company's 2011 capital and operating plans, which will focus on the emerging Slave Point light oil resource play in Alberta.

**SUBSEQUENT EVENTS****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. The options vest and become exercisable on a one-third basis over a two year period, and will expire on October 8, 2015.

**Bought Deal Financing Over-Allotment**

In conjunction with the Bought Deal Financing which closed on September 15, 2010, 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.

**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 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. The financing and the Over-Allotment Option closed on November 16, 2010 resulting in a total of 55,660,000 Common Shares issued at a price of \$1.55 per share for gross proceeds of \$86,273,000.

**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 adjustments, of \$65,800,000. All of the acquired assets are located in the Company's greater Red Earth core 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.

**ADDITIONAL INFORMATION**

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