The following Management's Discussion and Analysis ("MD&A") has been prepared by management and reviewed and approved by the Board of Directors of Pinecrest Energy Inc. ("Pinecrest" or "the Company"). This MD&A is a review of operations, current financial position and condition for Pinecrest for the years ended December 31, 2014 and 2013 and should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2014. The financial statements have been prepared in Canadian dollars, in accordance with International Financial Reporting Standards ("IFRS") which are generally accepted accounting principles ("GAAP") for publicly reporting entities. Unless otherwise noted, tabular amounts are in thousands of Canadian dollars. Oil and gas volumes, reserves and related performance measures are presented on a working-interest, before-royalties basis. This MD&A is based on information available as of April 14, 2015

DESCRIPTION OF THE COMPANY

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

NON-GAAP MEASUREMENTS

The Company uses certain financial measures referred to in this MD&A to quantify its results that are not prescribed by GAAP. The following terms: "funds flow from operations", "funds flow from operations per share", "field netback", "operating netback", "operating netback per boe", "cash flow netback" and "cash flow netback per boe" are not recognized measures under GAAP and may not be comparable to that reported by other companies. Funds flow from operations is calculated based on cash flow from operating activities before changes in non-cash working capital and decommissioning expenditures. Funds flow from operations per share is calculated using the weighted-average basic and diluted shares outstanding, used in calculating earnings per share (see "Funds Flow from Operations" below). Pinecrest uses funds flow from operations to analyze operating performance, and considers this to be a key measure that demonstrates the Company's ability to generate cash necessary to fund future capital expenditures and repay its debt. Operating netback is a measure of operating margin used in capital allocation decisions. Pinecrest defines field netback as average realized price less: royalties, transportation and production expenses. Operating netback is defined as field netback, plus (or minus) any realized gain (or loss) on derivative commodity contracts. Operating netback per boe is calculated by dividing operating netback by total boe produced for the applicable period. Cash flow netback is a measure of operating netback, plus other operating income less net cash administrative expenses, less cash interest expenses. Cash flow netback per boe is calculated by dividing cash flow netback by the total boe produced during the applicable period.

In addition, this MD&A also contains other industry benchmarks and terms, such as net debt (calculated as current assets, less current liabilities, plus total outstanding debt, excluding derivative financial instruments); total market capitalization (defined as total outstanding common shares, options and warrants multiplied by the period end market price per share). Management believes that, in addition to net income and cash flow from operating activities, these measures are useful supplemental measures as they provide an indication of Pinecrest's operating performance, and leverage. ***Readers are cautioned that these measures should not be construed as an alternative to net income, or cash flow from operating activities as calculated under GAAP, as an indication of the Company's performance.***

51-101 Advisory (BOE Conversion)

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.***

FORWARD LOOKING STATEMENTS

Certain statements in this MD&A constitute forward-looking statements and forward-looking information (collectively "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking information is often, but not always, identified by the use of words such as: "anticipate", "believe", "continuous", "estimate", "expect", "intend", "may", "objective", "ongoing", "plan", "should", or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating, but not limited to:

- *anticipated exit and average production rates and production mix, including performance characteristics of the Company's oil and natural gas properties;*
- *anticipated operating costs and administrative expenses and other financial and operating results;*
- *business strategy, goals and management focus;*
- *drilling and development plans and the timing thereof;*
- *anticipated facility upgrades;*
- *plans to pursue additional land in core areas;*
- *forecast capital expenditures, the allocation of capital expenditures and the results therefrom;*
- *sources of funds for the Company's ongoing operations and capital expenditures;*
- *future liquidity and the Company's access to sufficient debt and equity capital;*
- *asset base and future prospects for development and growth;*
- *expectations regarding the business environment, industry conditions and future commodity prices;*
- *expectations regarding the Company's tax horizon;*
- *the impact of any changes to the Company's credit facility ("Credit Facility") resulting from periodic review;*
- *treatment under governmental and other regulatory regimes and tax, environmental and other laws.*

Such statements are based on assumptions of future events and actual results could vary from these assumptions. Events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Company. These include, but are not limited to, risks associated with petroleum and natural gas exploration, production, marketing and transportation, such as loss of market, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, imprecision of accounting estimates, environmental risk, 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 contained in this MD&A 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 or future events, other than as required by applicable securities laws. However, in the event that subsequent events are reasonably likely to cause actual results to differ materially from forward-looking statements previously disclosed by the Company for a period that is not yet complete, Pinecrest will provide disclosure on such events and the anticipated impact of such events.

Frequently Used Terms:

Term	Description
AECO	A natural gas storage facility located at Suffield, Alberta
bbl	Barrel(s)
bbl/d	Barrel(s) per day
boe	Barrel(s) of oil equivalent
boe/d	Barrel(s) of oil equivalent per day
mcf	Thousand cubic feet
mcf/d	Thousand cubic feet per day
Mmbtu	Million British thermal units
NGL	Natural gas liquids
WTI	West Texas Intermediate, reference price paid in US$ at Cushing Oklahoma for crude oil of standard grade

FINANCIAL AND OPERATIONAL HIGHLIGHTS

December 31	Three months ended 2014	2013	Year ended 2014	2013
FINANCIAL				
Petroleum and natural gas sales	12,269	19,549	63,683	108,872
Funds flow from operations *(1)*	2,060	7,824	19,492	55,160
Per share - basic	$0.01	$0.04	$0.09	$0.26
Per share - diluted	$0.01	$0.04	$0.09	$0.25
Net income (loss)	(176,473)	(178,115)	(175,725)	(171,046)
Per share - basic	$(0.81)	$(0.82)	$(0.81)	$(0.79)
Per share - diluted	$(0.81)	$(0.82)	$(0.81)	$(0.79)
Capital expenditures, net of dispositions	4,115	1,730	8,745	81,491
Net debt and working capital deficit *(2)*	115,502	126,108	115,502	126,108
Common Shares Outstanding				
Weighted average – basic	217,212	217,212	217,212	216,104
Weighted average – diluted	218,799	222,151	218,799	217,773
OPERATING				
Number of days	*92*	*92*	*365*	*365*
Production				
Crude oil (bbls/d)	1,775	2,479	1,852	3,210
Natural gas (mcf/d)	322	478	364	445
NGL (bbls/d)	56	61	63	48
Barrels of oil equivalent (boe/d–6:1)	1,885	2,620	1,976	3,332
Average realized price *(3)*				
Crude oil ($/bbl)	74.75	84.04	93.73	91.79
Natural gas ($/mcf)	0.16	2.21	0.33	2.76
NGL ($/bbl)	11.19	50.95	12.20	49.57
Netback per boe ($) *(1)*				
Petroleum and natural gas sales	70.74	81.12	88.31	89.51
Royalties	(14.07)	(10.36)	(16.41)	(8.29)
Production and transportation expenses	(30.51)	(23.66)	(28.68)	(22.92)
Field netback	26.16	47.10	43.22	58.30
Realized gain (loss) on derivative financial instruments	4.21	(5.94)	(1.17)	(5.89)
Operating netback	30.37	41.16	42.05	52.41
Wells drilled				
Gross	-	-	-	15
Net	-	-	-	14.3
Success rate (%)	-	-	-	100

(1) Non-GAAP measure

(2) Net debt and working capital is defined as current assets minus current liabilities, plus outstanding debt, excluding derivative financial instruments

(3) Before the effects of derivative financial instruments

OPERATIONS UPDATE AND OUTLOOK

Pinecrest continued to focus on optimizing its cost structure and water flood projects during the fourth quarter of 2014. Production during the fourth quarter of 2014 averaged 1,885 boe per day (97% oil and NGL's), an increase of 4% over the prior quarter reflecting inventory deliveries from its Evi battery which accumulated during the third quarter due to a third party pipeline outage. As part of its focus on cost control, the Company shut in its Ogston field in order to redirect resources to its more profitable fields in the Red Earth area. In addition, various operational initiatives were identified and initiated that will continue moving the Company toward optimizing production from the water flood projects and controlling operating costs.

On February 17, 2015, Pinecrest announced it had entered into an agreement with Virginia Hills Oil Corp. ("Virginia Hills"), and a junior dividend paying company ("Purchaser"), whereby Pinecrest would reorganize its business by Plan of Arrangement, which was approved by shareholders on March 19, 2015. The reorganization will result in Pinecrest shareholders exchanging their shares for common shares of Virginia Hills on a basis of 100 Pinecrest common shares to one (1) Virginia Hills' common share, plus eight Arrangement Rights for each one Virginia Hills shares held. The Arrangement Rights are exercisable at a price of $0.25 per common share and will expire 30 days following the effective date of the Arrangement. Virginia Hills will acquire 90% of Pinecrest's existing assets, and continue on as the resulting public company. Pinecrest, which will hold approximately 10% of its existing assets, will be sold to the Purchaser for upfront gross proceeds of $23.5 million, subject to certain adjustments. In addition Virginia Hills is entitled to an additional payment of $5.0 million, if during the period ending on April 26, 2016, a front month hedge is made available to the Purchaser at a price of $US65.00 per barrel (WTI), for a minimum of 12 months. The anticipated effective date of the Plan of Arrangement is April 15, 2015. Upon the effective date, Virginia Hills will be a public company, and will assume the listing of Pinecrest on the TSX Venture Exchange ("TSXV"). As of the effective date, Virginia Hills and Pinecrest are considered under common control for financial reporting purposes, and as such the historical financial results of Pinecrest will be the historical financial results for Virginia Hills.

Virginia Hills has entered into a commitment letter to establish credit facilities of up to $97.0 million with its lenders, which is conditional upon satisfaction of a number of conditions which include: closing of the Plan of Arrangement, closing of a Private Placement, and the execution of the credit facility on or before April 15, 2015. As part of the consideration for the establishment of the credit facility, Virginia Hills has agreed to issue the lenders, warrants that are exercisable at a price of $0.30 for a period ending on the earlier of five years from the date of issue or 30 days following the date on which the credit facility matures. The Plan of Arrangement and other transactions are subject to a number of conditions and approvals, including, but not limited to the approval of the TSXV.

2014 Reserves

Pinecrest engaged Sproule Associates Ltd. ("Sproule"), an independent qualified reserve evaluator to evaluate 100% of its oil and gas reserves ("Reserves"), in accordance with the guidelines and definitions set out under National Instrument 51-101 ("NI 51-101") and the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook"). The Company has a Reserves Committee which oversees the selections, qualifications and reporting procedures of the independent engineering consultants. Reserves are stated on a working interest basis unless otherwise indicated.

At December 31, 2014, Pinecrest's proved plus probable reserves ("2P") were 6.6 million boe compared to 11.6 million boe at December 31, 2013. The Company's net present value of 2P reserves at December 31, 2014, discounted at 10% before income taxes was $118.0 million, compared to $229.9 million at December 31, 2013. At December 31, 2014 the Company has a reserve life index of 9.6 years for the 2P reserves, based on the 2014 fourth quarter average production of 1,885 boe per day compared to 12.1 years at December 31, 2013. The following tables summarize Pinecrest's reserves at December 31, 2014:

Gross Company Reserves	2014	2013
December 31,	**Oil (Mbbls)(1)**	**Oil (Mbbls)(1)**
Proved developed producing	3,573.1	4,841.6
Proved developed non-producing	-	851.4
Proved undeveloped	169.9	1124.9
Total Proved	**3,743.0**	**6,817.9**
Probable	2,850.9	4,736.2
Total Proved plus Probable	**6,593.9**	**11,554.1**

(1) *In late 2013, Pinecrest entered into a gas sale arrangement to sell its gas at the Evi 11-04 plant gate, which eliminates the cost of transporting and processing the solution gas resulting in a negligible value and no assignable reserves*

Company Gross Reserve Reconciliation for 2014 [1]

	Total Proved	Probable	Total Proved plus Probable
December 31, 2013 – opening balance	6,817.9	4,736.2	11,554.1
Extensions	-	-	-
Infill drilling	-	-	-
Improved recovery	26.8	(5.4)	21.4
Technical revisions	(2,412.0)	(1,878.4)	(4,290.4)
Economic factors	(4.1)	0.8	(3.3)
Acquisitions	-	-	-
Dispositions	(7.6)	(2.3)	(9.9)
Production	(678)	-	(678)
December 31, 2014 – closing balance	**3,743.0**	**2,850.9**	**6,593.9**

(1) *Columns may not add due to rounding*

Decreases in the Company's reserves were attributable to: decreased performance in some of the Company's primary producing and an election by the Company to remove certain undeveloped reserves and corresponding future development capital as they are not in the Company's near term capital plans.

Future Development Costs ("FDC")

Changes in forecast FDC occur annually as a result of development activities, acquisition and disposition activities and capital cost estimates that reflect Sproule's best estimate of what it will cost to bring the proved undeveloped and probable reserves on production using forecast prices and costs.

($000)	2014
Proved developed non-producing	-
Proved undeveloped	6,944
Total Proved	6,944
Probable	38,049
Proved plus probable FDC – December 31, 2014	**44,993**

PRODUCTION

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Production						
Number of days	*92*	*92*		*365*	*365*	
Crude oil (bbls/d)	1,775	2,479	(28)	1,852	3,210	(42)
Natural gas (mcf/d)	322	478	(33)	364	445	(18)
NGL (bbls/d)	56	61	(8)	63	48	31
Total (boe/d - 6:1)	**1,885**	**2,620**	**(28)**	**1,976**	**3,332**	**(41)**
Production by Region						
Greater Red Earth	1,885	2,605	(28)	1,976	3,290	(40)
Southeast Saskatchewan	-	15	(100)	-	42	(100)
Total (boe/d – 6:1)	1,885	2,620	(28)	1,976	3,332	(41)
Commodity mix						
Crude oil & NGL (%)	97	97	-	97	98	(1)
Natural gas (%)	3	3	-	3	2	50
Total (%)	100	100	-	100	100	-

Production for the fourth quarter 2014 was 1,885 boe per day compared to 2,620 boe per day for the fourth quarter of 2013, reflecting normal production declines. Pinecrest's fourth quarter production was 4% higher than the third quarter of 2014 mainly due to sales of oil inventory which was accumulated at the end of the third quarter as a result of a service interruption of the sales oil pipeline in the Red Earth area.

Production was 1,976 boe per day for the year ended December 31, 2014, a 41% decrease compared to 3,332 boe per day for the year ended December 31, 2013. Average daily production decreased in 2014 compared to the prior year mainly due to the absence of any new wells drilled and regular production declines. By comparison, Pinecrest placed 19 (17.8 net) newly drilled wells on production during 2013. In addition, 2013 volumes include production from 11 (11 net) wells that were converted throughout 2013 to water injectors, and did not produce in 2014.

PETROLEUM AND NATURAL GAS REVENUE

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Crude oil sales	12,207	19,165	(36)	63,359	107,560	(41)
Natural gas sales	4	97	(96)	44	448	(90)
NGL sales	58	287	(80)	280	864	(68)
Total Sales	**12,269**	**19,549**	**(37)**	**63,683**	**108,872**	**(42)**
Average Realized Prices [(1)]**:**						
Crude oil ($/bbl)	74.75	84.04	(11)	93.73	91.79	2
Natural gas ($/mcf)	0.16	2.21	(93)	0.33	2.76	(88)
NGL's ($/bbl)	11.19	50.95	(78)	12.20	49.57	(75)
Total ($/boe)	**70.74**	**81.12**	**(13)**	**88.31**	**89.51**	**(1)**

(1) *before the effects of commodity price risk contracts*

Petroleum and natural gas sales were $12.3 million for the fourth quarter of 2014 compared to $19.5 million for the fourth quarter 2013, due to a 28% decrease in production and an 11% decrease in realized commodity prices in 2014. Sales for the year ended December 31, 2014 were $63.7 million, compared to sales of $108.9 million for the year ended December 31, 2013 due to a decrease in average production of 41% which was partially offset by a 2% increase in average realized crude oil prices.

Commodity Prices

Pinecrest sells all of its oil, gas and NGL's on a spot basis. The average realized price that the Company receives depends on a number of factors including: supply and demand fundamentals, the average benchmark prices for crude oil and natural gas, the US/Canadian dollar exchange rate and transportation and product quality differentials. The West Texas Intermediate crude oil grade at Cushing, Oklahoma ("WTI") sets the benchmark reference price for North American crude oil prices. Canadian crude oil prices are based upon postings, primarily at Edmonton, Alberta ("Canadian Light Sweet Crude"), which is WTI adjusted for transportation, quality and the US/Canadian dollar exchange rate. The average WTI benchmark price in the fourth quarter of 2014 was $US 73.15 per barrel, a 25% decrease compared to $US 97.46 per barrel for the fourth quarter of 2013, a decrease which has negatively impacted Pinecrest's sales. Pinecrest entered into derivative commodity contracts (see Risk Management section) to mitigate the volatility in prices received for its oil production in 2014, which resulted in a net realized gain of $4.21 per barrel in the fourth quarter.

The following table outlines the benchmark prices and Pinecrest's average realized prices:

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Oil						
Corporate price ($/bbl)	74.75	84.04	(11)	93.73	91.79	2
Realized commodity contracts[2] ($/bbl)	4.21	(7.34)	>100	(1.17)	(6.32)	(82)
Corporate price, after commodity contracts ($/bbl)	79.22	76.70	3	92.48	85.47	8
WTI ($US/bbl)	73.15	97.46	(25)	93.00	97.98	(5)
Canadian Light Sweet Crude ($/bbl)	75.33	86.26	(13)	94.23	93.24	1
Exchange rate ($US/$CDN)	0.880	0.953	(8)	0.905	0.971	(7)

(1) *Pinecrest has entered into various derivative commodity contracts that are considered economic hedges. The Company does not apply hedge accounting; consequently, the contracts are revalued to fair value at the end of each reporting date. This results in unrealized gains or losses over the term of the contracts which is reflected each period in the statements of comprehensive income until the contracts are settled, at which time realized gains or losses are recorded. Per unit metrics which include risk management contracts include only the realized gains or losses and exclude unrealized gains or losses on the commodity price contracts.*

Crude Oil Prices

Pinecrest's realized light oil prices were 99% of Canadian Light Sweet Crude for the quarter and year ended December 31, 2014, compared to 97% and 98% for the quarter and year ended December 31, 2013, respectively. Pinecrest realized an average oil price was $74.75 per barrel during the fourth quarter of 2014, an 11% decrease compared to $84.04 per barrel realized during the fourth quarter 2013. The average realized oil price for the year ended December 31, 2014 was $93.73 per barrel, a 2% increase compared to $91.79 per barrel for the year ended December 31, 2013. Average realized prices in the fourth quarter and year ended December 31, 2014 were consistent with the decrease in the Canadian Light Sweet Crude benchmark price.

NGL and Natural Gas Prices

Pinecrest entered into a marketing arrangement to sell its gas and NGL's at the Evi plant gate, which will attract lower prices than the benchmark prices, but result in eliminating third party gas transportation and processing expenses. As a result, Pinecrest's realized average NGL prices were $11.19 per barrel and $12.20 per barrel for the fourth quarter and year ended December 31, 2014, compared to $50.95 per barrel and $49.57 per barrel realized in the comparative periods.

Realized gas prices were $0.16 per mcf and $0.33 per mcf for the fourth quarter and year ended December 31, 2014 compared to $2.21 per mcf and $2.76 per mcf for the comparative periods in 2013.

Risk Management

Pinecrest's management and its board of directors have established a risk management policy with the objective to reduce volatility in financial results, protect the Company's investment in its capital expenditure program and stabilize cash flow against the unpredictable commodity price environment. Exposures inherent in fluctuations in the price of crude oil and natural gas, the US/Cdn dollar exchange rate and interest rates are monitored by management and the board of directors on a regular basis. Pinecrest's risk management policy limits the term of any price risk contract to a maximum term of 18 months and a maximum of 50% of base production after royalties. The following oil price risk contracts were outstanding and in effect during the year ended December 31, 2014:

Type of Contract[1]	Term	Volume (bbl/d)	Price [2] ($Cdn/bbl)	Index
Swap	Jan 2014 – Dec 2014	500	98.79	WTI
Collar	Jan 2014 – Jun 2014	500	95.00 – 109.50	WTI

(1) *Swap is a fixed price payable to Pinecrest in exchange for floating price payable to the counterparty. Collar indicates Pinecrest receives the floating price between the floor and ceiling price. If the index price is greater than the ceiling or lower than the floor price, Pinecrest pays the floating rate and receives minimum floor price, or maximum ceiling price. Prices are weighted average for the term.*

(2) *Prices are weighted average for the term*

Pinecrest accounts for the commodity price risk contracts on a mark-to-market basis, and all fluctuations in value, realized or unrealized, are reported directly in the Statements of Comprehensive Loss. During the fourth quarter ended December 31, 2014, Pinecrest realized a $0.7 million gain on the price risk contracts compared to a realized loss of $1.4 million in the fourth quarter ended December 31, 2013. For the year ended December 31, 2014, Pinecrest recorded a realized loss of $0.8 million compared to a loss of $7.2 million for the year ended December 31, 2013. The following table shows the realized and unrealized components of the gain (loss) on commodity price risk contracts outstanding during the periods:

December 31	Three months ended		Year ended	
	2014	2013	2014	2013
Realized gain (loss)	730	(1,431)	(846)	(7,163)
Unrealized gain	109	1,672	615	183
Total gain (loss)	**839**	**241**	**(231)**	**(6,980)**
$ Per boe				
Realized gain (loss)	4.21	(5.94)	(1.17)	(5.89)
Unrealized gain (loss)	0.63	6.94	0.85	0.15
$ Per boe	4.84	1.00	(0.32)	(5.74)

ROYALTY EXPENSE

Royalty expense includes royalties paid to provincial governments, freehold land owners and overriding royalty ("GORR") owners.

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Royalty						
Crown	2,378	2,376	-	11,476	9,305	23
Freehold and GORR	63	122	(48)	354	782	(55)
Total royalties	**2,441**	**2,498**	**(2)**	**11,830**	**10,087**	**17**
Average Royalty Rate (% of sales)						
Crown	19	12	58	18	9	100
Freehold and GORR	1	1	-	1	-	100
Total	**20**	**13**	**54**	**19**	**9**	**>100**
$ Per boe	14.07	10.36	36	16.41	8.29	98

Royalty expense was $2.4 million ($14.07 per boe) for the fourth quarter of 2014 compared to $2.5 million ($10.36 per boe) for the fourth quarter of 2013. Pinecrest disposed of its Saskatchewan assets early in the fourth quarter of 2013; as a result all of Pinecrest's production in 2014 came from Alberta which benefits the Company with lower Crown royalty rates. Alberta has a favourable royalty environment for newly drilled horizontal oil wells called the Horizontal Oil New Well Royalty Rate ("HONWRR").

The HONWRR provides 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, and is a function of the total measured depth of each horizontal well. As new horizontal oil wells come off the HONWRR, royalties as a percentage of revenues will increase.

Fourth quarter crown royalties were 19% of revenues, and on a per boe basis, are higher in the fourth quarter of 2014 compared to 2013, reflecting an increase in royalty rates on horizontal oil wells that have exhausted the HONWRR and a decrease in the average quarterly production.

Royalty expense was $11.8 million ($16.41 per boe) for the year ended December 31, 2014 compared to $10.1 million ($8.29 per boe) for the year ended December 31, 2013 reflecting royalty rate increases in 2014 as a total of 57 oil wells no longer qualify for the 5% HONWRR rate compared to 25 oil wells that were off royalty holiday in 2013.

PRODUCTION AND TRANSPORTATION EXPENSE

Production expenses are comprised of costs to operate the wells, including emulsion and water trucking, chemicals and minor work over costs. Transportation expenses are incurred for services related to moving production to sales points, and include clean oil trucking and pipeline tariffs.

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Production expense	4,730	5,043	(6)	18,610	24,446	(24)
Transportation expense	562	660	(15)	2,070	3,429	(40)
Total production and transportation	**5,292**	**5,703**	**(7)**	**20,680**	**27,875**	**(26)**
$ Per boe, Production	27.27	20.92	30	25.81	20.10	28
$ Per boe, Transportation	3.24	2.74	18	2.87	2.82	2
$ Per boe	30.51	23.66	29	28.68	22.92	25

Production Expenses

Production expenses were $4.7 million ($27.27 per boe) for the fourth quarter 2014 compared to $5.0 million ($20.92 per boe) for the fourth quarter 2013. Increased production expenses per boe are the result of costs related to remediation on a lease pipeline and the decrease in average production in the fourth quarter of 2014.

Production expenses were $18.6 million ($25.81 per boe) for the year ended December 31, 2014 compared to $24.4 million ($20.10 per boe) for the year ended December 31, 2013. Production costs have decreased on a total basis during 2014, primarily due to a decrease in production, reduction in emulsion and water hauling costs, a decrease in propane costs due to nine well sites that were electrified in the fourth quarter of 2013, and the elimination of gas gathering and processing costs. Production expenses in 2013 included costs relating to the scheduled Evi 11-04 battery maintenance program, which were not incurred in 2014. Production expenditures in the Red Earth area are largely fixed in nature, and will result in a higher per boe cost when production declines.

Transportation Expenses

Transportation expenses in the fourth quarter of 2014 were $0.6 million ($3.24 per boe) compared to $0.7 million ($2.74 per boe). Transportation expenses for the year ended December 31, 2014 were $2.1 million ($2.87 per boe) compared to $3.4 million ($2.82 per boe) for the year ended December 31, 2013. Transportation expenses on a per boe basis have increased for the quarter and year ended December 31, 2014 reflecting an increase in costs associated with trucking clean oil due to a pipeline outage at the end of the third quarter.

OTHER OPERATING INCOME

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Other operating income	153	103	49	639	350	83
Interest income	1	1	-	3	3	-
Total other operating income	**154**	**104**	**48**	**642**	**353**	**82**
$ Per boe	0.75	0.41	83	0.89	0.27	>100

Other operating income is comprised primarily of road use fee income, third party-processing fees, emulsion gathering fees and interest income received on positive bank balances.

EXPLORATION EXPENSE AND IMPAIRMENT

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Exploration expense	17,738	14,017	27	17,738	14,180	25
Exploration impairment	61,427	2,088	>100	61,427	2,088	>100
Total Exploration expense	**79,165**	**16,105**	**>100**	**79,165**	**16,268**	**>100**
$ Per boe	456.43	66.83	>100	109.78	13.38	>100

Exploration expense includes costs associated with undeveloped lands that expire in the period, and geological, geophysical and exploratory drilling costs that were incurred but determined to not provide future commercial viability to the Company and are therefore expensed. During the fourth quarter of 2014, Pinecrest assessed 2015 expiring leases and determined that 49,261[not sure if this changed] net acres with cost of $25.0[ditto] million will not be developed, which was recorded as exploration expense. In addition, an impairment loss of $61.4 million was recognized to adjust undeveloped land cost to approximate the expected net realizable value of the remaining 100,095[ditto] net acres of undeveloped land.

DEPLETION AND DEPRECIATION EXPENSE

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Depletion and depreciation ("D&D")	**6,897**	**12,022**	**(43)**	**22,985**	**43,372**	**(47)**
$ Per boe	39.77	49.89	(20)	31.87	35.66	(11)

Pinecrest calculates depletion and depreciation ("D&D") expense on proved plus probable reserves ("2P reserves"). D&D expense was $6.9 million ($39.77 per boe) for the quarter ended December 31, 2014 compared to $12.0 million ($49.89 per boe) for the quarter ended December 31, 2013. D&D expense decreased on an aggregate basis for the fourth quarter 2014 due to a decrease in the depletion base, and lower production. Total net book values in 2014 were lower than 2013 due to an asset impairment recorded in the fourth quarter of 2014, and future development cost additions were $45.0 million in 2014 compared to $110.1 million in 2013.

D&D expense was $23.0 million ($31.87 per boe) for the year ended December 31, 2014, compared to $43.4 million ($35.66 per boe) for the year ended December 31, 2013. The decrease in D&D expense is due to the 41% decrease in average daily production and a decrease in the depletion base for 2014.

ASSET IMPAIRMENT

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Impairment expense	**92,993**	**175,019**	**(47)**	**92,993**	**176,654**	**(47)**
$ Per boe	536.16	726.22	(26)	128.96	145.24	(11)

At December 31, 2014, Pinecrest assessed property, plant and equipment for impairment. The carrying cost was compared to the estimated future value less cost of disposal, using a discount rate of 10% resulting in an impairment loss of $93.0 million on its Red Earth assets in Alberta. Determination of the impairment loss was based on the estimated fair value less cost of disposal (FVLCD) of the Alberta properties compared to the book values at year end. The FVLCD is calculated by discounting the future after-tax net cash flow from the properties (proved plus probable reserves) discounted at 10% at December 31, 2014. The impairment is the result of a decrease in proved plus probable reserves, due to technical revisions and adjustments to future prices assigned at December 31, 2014 by the independent reserve engineers. A one percent increase in the discount rate would have increased the impairment loss by approximately $9.0 million. The impairment loss in 2013 was determined based on a discount rate of 8%.

GENERAL AND ADMINISTRATIVE EXPENSE

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Gross G&A	1,968	1,552	27	6,580	7,929	(17)
Overhead recoveries	(250)	(399)	(37)	(856)	(2,474)	(65)
Capitalized G&A	(96)	(186)	(48)	(462)	(842)	(45)
Net cash G&A	1,622	967	68	5,262	4,613	14
Share based payments *(1)*	(579)	254	>(100)	(12)	2,315	>(100)
Total G&A	**1,044**	**1,221**	**(14)**	**5,250**	**6,928**	**(24)**
$ Per boe, net cash G&A	9.36	4.01	>100	7.30	3.79	93
$ Per boe, share based payments	(3.34)	1.05	>(100)	(0.02)	1.90	>(100)
$ Per boe	6.02	5.06	19	7.28	5.69	28

(1) Share based payments is a non-cash charge to the statements of comprehensive income and is net of capitalized share based payments.

Net cash general and administrative ("G&A") expense, before share-based payments, for the fourth quarter of 2014 was $1.6 million ($9.36 per boe) compared to $1.0 million ($4.01 per boe) incurred in the fourth quarter of 2013. The increase is due to costs relating primarily to legal and advisory services, and a reduction in overhead recoveries and capitalized G&A as a result of a decrease in capital activity.

Net cash G&A expense for the year ended December 31, 2014 was $5.3 million ($7.30 per boe) compared to $4.6 million ($3.79 per boe) incurred for the year ended December 31, 2013. Gross G&A expenses for the year ended December 31, 2014 were lower than the previous year, mainly due savings in staff and consultant costs, offset by a decrease in overhead recoveries and capitalized G&A which directly related to decreased capital activity. Per boe measures reflect the decrease in average daily production for the fourth quarter and year ended December 31, 2014 compared to 2013.

Share Based Compensation

Share-based payments are non-cash charges and reflect amortization of the estimated fair value of stock options, performance warrants and incentive awards (collectively "stock awards") granted to employees, directors and key consultants of Pinecrest. The fair value is estimated using the Black-Scholes Option Pricing model, determined at the date of grant, based on estimated volatility, forfeiture rates, risk-free interest rates, and the expected life of the awards. This expense may not represent actual cash compensation realized by the recipients of the awards upon future exercise.

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Share-based payments	(677)	295	>(100)	(12)	2,849	>(100)
Share-based payments, capitalized	98	(41)	>(100)	0	(534)	(100)
Share-based payments, net	(579)	254	>(100)	(12)	2,315	>(100)

Share-based payments in the fourth quarter of 2014 were a credit of $0.6 million and reflect the performance factor of 0 which was applied to the unvested performance incentives at December 31, 2014. This factor resulted in forfeiture and a reversal of the previously accumulated expense. No stock awards were granted during the fourth quarter of 2014 or 2013.

Share-based payments for the year ended December 31, 2014 were a credit of $0.1 million, compared to $2.3 million for the year ended December 31, 2013. During the year ended December 31, 2014 Pinecrest changed its method of accounting for incentive awards from an equity-settled plan to a cash-settled plan, and reclassified the related fair value expense from contributed surplus to accounts payable. At each reporting period, the liability is fair valued, and any changes are recorded in the Statement of Income and Comprehensive Loss. During 2014, a total of 235,000 stock options, 361,667 restricted awards and 540,000 performance awards were forfeited, a total of 40,000 incentive awards were granted; and 234,167 restricted awards were redeemed for cash. A performance factor of 0 was assigned to 2,138,250 performance awards outstanding, which resulted in a reversal of the share-based expense related to the unvested awards at December 31, 2014. A fair value per incentive of $0.015 per share was used to determine the fair value of the liability, which is included in accounts payable at December 31, 2014. The following table outlines issued and outstanding security instruments which are accounted for as share-based compensation:

As at December 31	2014			2013		
(000's)	Outstanding	Exercisable / Vested	Exercise price[(1)]	Outstanding	Exercisable /Vested	Exercise price[(1)]
Equity Settled Plans:						
Stock Options	-	-	-	235	157	$2.04
Performance Warrants	3,920	3,920	$0.50	3,920	3,920	$0.50
Cash-Settled Plans						
Restricted incentives	1,577	382	n/a	2,143	-	n/a
Performance incentives	2,148	713	n/a	2,678	-	n/a

(1) *Weighted average price*

FINANCE EXPENSE

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Cash						
Interest	1,738	1,231	41	6,209	4,327	43
Non-cash						
Interest, amortization	-	97	(100)	72	386	(81)
Accretion	166	84	98	635	294	>100
Total finance expense	**1,904**	**1,412**	**35**	**6,916**	**5,007**	**38**
$ Per boe, Interest	10.02	5.11	96	8.61	3.56	>100
$ Per boe, Interest – non-cash	-	0.40	(100)	0.10	0.32	(69)
$ Per boe, Accretion	0.96	0.35	>100	0.88	0.24	>100
$ Per boe	10.98	5.86	87	9.59	4.12	>100

Interest expense

Interest expense includes cash interest paid on the credit facility, standby fees, which are based on unused available credit, plus amortization of costs incurred to establish Pinecrest's credit line. Total interest expense for the fourth quarter of 2014 was $1.7 million ($10.02 per boe) compared to $1.2 million ($5.11 per boe) for the fourth quarter of 2013. Interest expense was $6.2 million ($8.61 per boe) for the year ended December 31, 2014 compared to $4.3 million ($3.56 per boe) for the year ended December 31, 2013. Increased interest expense in the fourth quarter and year ended December 31, 2014 reflects a higher average outstanding debt balance and interest rate margins compared to the same period in 2013.

Pinecrest's applicable borrowing margin is a sliding scale pricing grid, tied to the Company's trailing debt to annualized quarterly funds from operations ratio and ranges from a low of 1.00% to a maximum of 2.5% over prime rate. At December 31, 2014 debt to annualized cash flow was 16.5 to 1, which will qualify Pinecrest for a margin of 2.5% above prime borrowing rate. At December 31, 2014, a total of $110.6 million was drawn on the credit facility with $3.4 million available for general corporate use (see Liquidity and Capital Resources).

Accretion expense

Accretion expense was $0.2 million ($0.96 per boe) for the fourth quarter of 2014 compared to $0.01 million ($0.35 per boe) for the fourth quarter of 2013. Accretion expense was $0.6 million ($0.88 per boe) for the year ended December 31, 2014 compared to $0.3 million ($0.24 per boe) for the year ended December 31, 2013. Increased accretion expense is due to an increase in the fair value of decommissioning obligations at the end of 2013. At December 31, 2014 the credit-adjusted risk free rate was 7.8% and the inflation rate was 2.0% (December 31, 2013 –8.2% and 2.0% respectively).

INCOME TAXES

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Deferred income tax (recovery)	**-**	**(15,971)**	**100**	**-**	**(12,900)**	**100**
$ Per boe	-	(66.27)	100	-	(10.61)	100

Pinecrest has not recorded a deferred tax expense or recovery for the fourth quarter and year ended December 31, 2014 because the tax basis of the assets exceeded the carrying values, resulting in an unrecorded deferred income tax asset of approximately $71.8 million.

Tax pools available for use as a deduction against future taxable income are as follows:

As at December 31	2014	2013	Annual deductibility
Canadian Oil and Gas Property Expense	$ 82,161	$ 91,178	10% declining balance
Canadian Development Expense	113,325	155,501	30% declining balance
Canadian Exploration Expense	728	728	100%
Undepreciated Capital Cost	52,708	67,545	Primarily 25% declining balance
Share issue and financing costs	3,140	6,296	20% per year, straight line
Cumulative eligible capital	883	-	7% declining balance
Non-Capital Losses (1)	153,645	96,516	100% against future taxable income
Total Federal Tax Pools	**$ 406,590**	**$ 417,764**	

(1) *Non-capital loss balances expire as follows ($000): 2027- $76, 2028 - $167; 2029-$254; 2030-$10,933; 2031-$23,805; 2032-$17,488; 2033, and beyond-$100,922*

NET INCOME AND CASH FLOW

Net Income

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Net loss	**(176,473)**	**(178,115)**	**1**	**(175,725)**	**(171,046)**	**(3)**
$ Per share, basic	$(0.81)	$(0.82)	1	$(0.81)	$(0.79)	(3)
$ Per share, diluted	$(0.81)	$(0.82)	1	$(0.81)	$(0.79)	(3)

Pinecrest recorded a net loss of $176.5 million ($0.81 per share, basic and diluted) in the fourth quarter of 2014 compared to a net loss of $178.1 million ($0.82 per share, basic and diluted) recorded in the fourth quarter of 2013. Net loss in the fourth quarter of 2014 was due to an asset impairment charge of $93.0 million and exploration expense and impairment of $79.2 million, which was offset in part by decreases in transportation, production and general and administrative costs. Net loss for the fourth quarter of 2013 included an impairment loss of $175.0 million relating to the Company's property, plant and equipment, and exploration expense and impairment charge of $16.1 million.

Net loss was $175.7 million ($0.81 per share, basic and diluted) for the year ended December 31, 2014, compared to a net loss of $171.0 million ($0.79 per share, basic and diluted) for the prior year. The net loss in 2014 was the result of lower average production, higher royalty rates, exploration expense and impairment charges of $79.2 million, an asset impairment of $93.0 million and increased financing costs. The net loss in 2013 included an asset impairment of $175.7 million.

Cash Flow from Operations

Cash flow from operations for the fourth quarter of 2014 was $3.6 million ($0.02 per share, basic and diluted) a decrease of 46% compared to $6.7 million ($0.03 per share, basic and diluted) for the fourth quarter of 2013. The decrease in cash flow from operations in the fourth quarter of 2014 was the result of the 28% decrease in average daily production and an 11% decrease in average realized prices, compounded by an increase in effective royalty rates and interest charges.

Cash flow from operations for the year ended December 31, 2014 was $22.4 million ($0.09 per share basic and diluted) compared to $55.7 million ($0.26 per basic and $0.25 per diluted share) for the year ended December 31, 2013. Cash flow for the year ended December 31, 2014 was lower than the prior year mainly due to a decrease in production by 41% and increased royalty rates and interest charges. During 2014, the Company realized losses on commodity price risk contracts of $0.8 million compared to $7.4 million in 2013.

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Cash flow from operations	**3,600**	**6,714**	**(46)**	**22,371**	**55,704**	**(60)**
Deduct:						
Change in non-cash working capital	1,595	(810)	98	2,934	955	>100
Decommissioning expenditures	(55)	(300)	(82)	(55)	(411)	87
Funds flow from operations	**2,060**	**7,824**	**(74)**	**19,492**	**55,160**	**(65)**
Cash flow:						
$ Per share, basic	$0.02	$0.03	(33)	$0.10	$0.26	>(100)
$ Per share, diluted	$0.02	$0.03	(33)	$0.10	$0.26	>(100)
Funds flow:						
$ Per share, basic	$0.01	$0.04	(75)	$0.09	$0.26	(65)
$ Per share, diluted	$0.01	$0.04	(75)	$0.09	$0.25	(64)

Funds Flow from Operations

Funds flow from operations is a non-GAAP measure used by Pinecrest to determine the Company's ability to fund its capital expenditures and repay its debt. Funds flow from operations is defined by Pinecrest as cash flow from operations, less the change in non-cash working capital and decommissioning expenditures. Funds flow from operations was $2.0 million for the fourth quarter of 2014 compared to $7.8 million for the quarter ended December 31, 2013. Funds flow from operations for the year ended December 31, 2014 was $19.5 million compared to $55.2 million for the year ended December 31, 2013.

Decreased funds flow from operations for the quarter and year to date 2014 was due mainly to decreased production, increased effective royalty rates and higher interest expense.

***Netbacks** (1)*

Pinecrest's field netback in the fourth quarter of 2014 was $26.16 per boe, compared to $47.10 per boe for the fourth quarter of 2013, and was lower due to a decrease in average production, realized average commodity prices and an increase in effective royalty rates and operating costs. Field netback for the year ended December 31, 2014 was $43.22 per boe and lower than 2013 due to decreased production, and increased royalty rates and operating expenses.

The following table summarizes the net income on a barrel of oil equivalent for the three month and year's ended as indicated:

December 31	Three months ended			Year ended		
$ Per boe	**2014**	**2013**	**% Change**	**2014**	**2013**	**% Change**
Average realized price	70.74	81.12	(13)	88.31	89.51	(1)
Royalty expense	(14.07)	(10.36)	36	(16.41)	(8.29)	98
Production & transportation expense	(30.51)	(23.66)	29	(28.68)	(22.92)	25
Field netback(1)	**26.16**	**47.10**	**(44)**	**43.22**	**58.30**	**(26)**
Realized gain (loss), derivative financial instruments	4.21	(5.94)	>100	(1.17)	(5.89)	80
Operating netback(1)	**30.37**	**41.16**	**(26)**	**42.05**	**52.41**	**(20)**
Other operating income	0.75	0.41	83	0.89	0.21	>100
G&A expense	(9.36)	(4.01)	>100	(7.30)	(3.79)	>100
Interest expense	(10.02)	(5.11)	96	(8.61)	(3.56)	>100
Cash flow netback(1)	**11.74**	**32.45**	**(64)**	**27.03**	**45.27**	**(40)**
Less non-cash items:						
Unrealized (gain) derivative financial instruments	(0.63)	(6.94)	91	(0.85)	(0.15)	>100
Exploration	456.43	66.83	>100	109.78	13.38	>100
Depletion & depreciation	39.77	49.89	(20)	31.87	35.66	(11)
Impairment	536.16	726.22	(26)	128.96	145.25	(11)
Interest	-	0.40	(100)	0.10	0.32	
Accretion	0.96	0.35	>100	0.88	0.24	>100
Share-based payments	(3.34)	1.05	>(100)	(0.02)	1.90	>(100)
Deferred income tax expense	-	(66.27)	(100)	-	(10.61)	(100)
Net income (loss)	**(1,071.61)**	**(739.08)**	**45**	**(243.69)**	**(140.63)**	**73**

(1) *Non-GAAP measure*

CAPITAL EXPENDITURES, ACQUISITIONS AND CAPITAL RESOURCES

December 31	Three months ended			Year ended		
	2014	2013	% Change	2014	2013	% Change
Evaluation & exploration						
Undeveloped land, net of proceeds	38	59	(36)	204	308	(34)
Geological & geophysical	-	-	-	-	16	(100)
Drilling	1	3	(67)	3	14	(79)
	39	**62**	**(37)**	**207**	**338**	**(39)**
Property, plant & equipment						
Drilling & completions	1,706	2,054	(17)	6,479	51,284	(87)
Equipment & facilities	2,274	2,577	(12)	1,559	31,975	(95)
Property acquisitions	-	5	(100)	-	38	(100)
Capitalized administrative	95	186	(49)	461	842	(45)
Corporate assets	-	32	(100)	39	200	(81)
Property dispositions	-	(3,186)	(100)	-	(3,186)	(100)
	4,075	**1,668**	**>100**	**8,538**	**81,153**	**(89)**
Total capital expenditures	**4,114**	**1,730**	**>100**	**8,745**	**81,491**	**(89)**

Capital Expenditures

Pinecrest spent $4.1 million on capital activities during the fourth quarter of 2014, compared to $1.7 million for the fourth quarter of 2013, which included proceeds of $3.2 million from the sale of the Company's Saskatchewan properties in that period. Fourth quarter 2014 expenditures included $1.7 million spent on well recompletions and lease reclamation and $2.3 million spent on equipment and facilities which are primarily comprised of costs to acquire an interest in a gas transportation pipeline from the Evi 11-04 plant gate, and equipping costs associated with battery improvements. A total of $0.7 million was spent on completion activities related to on-going well work overs and water injection pump repairs.

Total capital expenditures were $8.7 million for the year ended December 31, 2014 compared to $81.5 million, net of proceeds from disposition, for the year ended December 31, 2013. Evaluation and exploration expenditures for the year ended December 31, 2014 were related to Alberta crown lease rentals. Property, plant and equipment expenditures were $8.5 million, and included $6.4 million spent on recompletion activity and lease reclamation work. There were no new wells drilled in 2014. Drilling and completion expenditures for the year ended 2013 included costs to drill 15 (14.3 net) wells. Equipment and facilities costs were $1.6 million for the year. Pinecrest acquired an interest in a gas transportation pipeline and received proceeds from a joint venture partner that acquired a 50% interest in the water flood facilities in the Evi field. Equipment and facility expenditures in 2013 included $17.7 million on implementing seven operated waterflood schemes, all of which were commissioned by the end of 2013, $12.2 million on equipping 14.3 net wells and $2.1 million on battery and pipeline infrastructure upgrading.

Drilling Results

Pinecrest did not drill any wells in 2014, compared to a total of 15 (14.3 net) horizontal oil wells drilled during the year ended December 31, 2013.

Land Holdings

As at December 31	**2014**		**2013**		**% Change**	
Acres	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Developed	20,320	13,527	20,640	13,677	(2)	(1)
Undeveloped	152,913	149,356	163,798	160,312	(7)	(7)
Total	**173,233**	**162,833**	**184,438**	**173,989**	**(6)**	**(6)**
Average working interest		**94%**		**94%**		

Pinecrest held a total of 162,833 net acres of land at December 31, 2014, representing a 6% decrease compared to December 31, 2013. At December 31, 2014, Pinecrest had 149,356 net undeveloped acres of land, compared to 160,312 net acres held at December 31, 2013. Included in the 2014 year end acreage is 49,261 net acres of land that will expire in 2015 and has been recorded as exploration expense for the year ended December 31, 2014. The Company's average working interest in its land holdings remains at 94%.

LIQUIDITY AND CAPITAL RESOURCES

Pinecrest's capital management strategy is to maintain a capital structure which will optimize the cost of capital at an acceptable level, provide optimal returns to shareholders, and manage the financial flexibility to preserve its ability to fund ongoing operations, future capital programs and property and corporate acquisitions. Pinecrest monitors its capital structure and liquidity based on the ratio of total debt (which includes working capital and outstanding bank debt) to funds flow from operations (non-GAAP measure). This ratio is calculated by dividing the total debt at the end of the period by the annualized current monthly funds flow from operations. In order to monitor this ratio, management prepares production and capital expenditure budgets and forecasts, which are updated as necessary, depending on such factors as current and forecast commodity prices, capital deployment and general industry and market conditions. The budgets are monitored by management and the board of directors throughout the year.

These financial statements have been prepared in accordance with IFRS on a going concern basis which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. At December 31, 2014, Pinecrest had an accumulated deficit of $310.7 million, and a working capital deficit (current assets minus current liabilities) of $115.5 million, which included outstanding bank debt of $110.6 million. Pinecrest incurred a net loss of $175.8 million and generated cash from operating activities of $22.4 million for the year ended December 31, 2014.Current year revenues and operating cash flows were lower than the prior year mainly due to depressed commodity prices, which are expected to remain low subsequent to December 31, 2014. At December 31, 2014, the bank had not completed its annual review and borrowing base redetermination Subsequent to December 31, 2014 Pinecrest and its lenders amended the credit facility, to limit the borrowing amount to $114.0 million, subject to the completion of a plan of arrangement which was announced subsequent to year end (See Note 20). In addition, the credit facility borrowing base shortfall remedy was removed from the credit facility, which, if the bank determines that there is insufficient borrowing base, the outstanding bank line would due and payable immediately. Should the plan of arrangement not be completed, or if the lenders do not extend the revolving period on the credit facility, the undrawn portion of the facility will be cancelled and the amounts outstanding will convert to a non-revolving term facility which will be required to be repaid immediately.

Pinecrest's reduction in revenues and operating cash flow, recent history of losses, and the pending finalization of the plan of arrangement and the bank's review during the first quarter of 2015 indicates the existence of a material uncertainty that may cast significant doubt about Pinecrest's ability to continue as a going concern. Management is currently limiting expenditures to maintenance capital and ongoing operating activities to ensure that cash flow from operations remains positive. There can be no assurance that these initiatives will be successful, the plan of arrangement will close in the first quarter of 2015, or that additional debt financing or equity will be available or sufficient to meet the Company's commitments, or if equity or debt financing is available, that it will be on terms acceptable to Pinecrest. The inability of the Company to access sufficient capital for its operations could have a material adverse impact on the Company's financial condition and results of operation.

Pinecrest's ability to continue as a going concern is dependent upon its ability to fund the repayment of existing borrowings, secure additional financing and continue to generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and reported revenues, expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Subsequent to December 31, 2014, Pinecrest announced it had entered into an agreement to reorganize its business with Virginia Hills Oil Corp, and a public dividend paying company, which would result in the receipt of $23.5 million in cash proceeds, subject to certain adjustments, and a potential future payment of $5.0 million, based on the forward WTI (USD) price curve. The proposed plan of arrangement was approved March 19, 2015 by Pinecrest shareholders, and if completed, will result in a pay down of the current Pinecrest debt balance by the amount of cash proceeds received. See Subsequent Events.

Net Debt and Working Capital

At December 31, 2014, Pinecrest had net debt of $115.5 million, which comprised of outstanding bank debt of $110.6 million, and accounts payable in excess of accounts receivable and prepaid expenses of $4.9 million.

As at	December 31, 2014	December 31, 2013
Total current assets	$ 5,358	$ 9,650
Total current liabilities	(120,860)	(14,843)
Working capital deficit	(115,502)	(5,193)
Add back (deduct): derivative financial instruments	-	613
Adjusted working capital deficit	(115,502)	(4,580)
Bank debt, including deferred financing charges	-	(121,528)
Net debt	**$ (115,502)**	**$ (126,108)**

Net debt decreased by $10.6 million at December 31, 2014 compared to December 31, 2013 due to a decrease in capital spending and a focus on operating cost controls. Pinecrest's capital expenditures program was funded during the period ended December 31, 2014 with a combination of cash flow from operations and bank debt. Working capital is managed using cash flow from operations, advances under the credit facility (see below) and the issuance of equity, if required, and/ or available. At year end, the major components of working capital included:

As at	December 31, 2014	December 31, 2013
Prepaids and deposits	553	1,316
Accounts receivable – marketers	3,129	5,805
Accounts receivable – joint interest partners, net	920	983
Accounts receivable – other parties	499	293
Accounts payable – trade	(10,033)	(12,977)
Fair value of derivative financial instruments	-	(613)
Bank debt	(110,570)	-
Working capital deficit	(115,502)	(5,193)
Add back: Fair value of derivative financial instruments	-	613
Adjusted working capital deficit	**(115,502)**	**(4,580)**

Credit Facility

At December 31, 2014 Pinecrest had an extendible, revolving syndicated credit facility that includes a $150.0 million revolving credit facility and a $15.0 million development loan, secured by a $300.0 million general debenture and a general security interest on all of the present and future acquired assets of the Company. The development loan may only be accessed by permission from the banks.

Advances under the credit facility may be made by way of Canadian prime rate loans, US Base Rate loans, bankers' acceptances, LIBOR Based loans and letters of credit. Interest payable on the facility depends on the form of borrowing, with the applicable margins and stamping fees based on a sliding scale pricing grid tied to the Company's trailing debt to annualized quarterly funds from operations ratio. The development facility interest margin ranges from a minimum of 1.00% to a maximum of 3.5% over prime rate. The revolving credit facility interest margin ranges from a minimum of 1.0% to a maximum of 2.5% over prime rate. In addition, the bank charged an additional 1% on debt balances outstanding greater than $80.0 million from the period May 30, 2014 to December 31, 2014. Debt to annualized cash flow was 13.6 to 1 for the period ended December 31, 2014, which will qualify Pinecrest for a margin of 2.5% above prime borrowing rate on its outstanding revolving credit facility. During the year ended December 31, 2014, the Company incurred interest expense of $6.1 million (December 31, 2013 - $4.7 million). Pinecrest incurred costs of $0.2 million associated with the financing (December 31, 2013 - $0.4 million).

The credit facility is a 364 day committed facility, available on a revolving basis until September 29, 2014, at which time it may be extended for a further 364 day period if requested by the Company and accepted by the lender. At December 31, 2014, the lenders had not completed their semi-annual valuation of Pinecrest petroleum and natural gas reserves, and limited the Company's maximum available borrowings to $114.0 million and extended the annual borrowing base review to the first quarter of 2015, subject to a proposed plan of arrangement between the Company and a third party to reorganize Pinecrest's business (See Subsequent Events). Should the proposed plan of arrangement not close, the undrawn portion of the facility will be cancelled and the amount outstanding will be due immediately. At December 31, 2014, a total of $110.6 million was outstanding under the credit facility (December 31, 2013 - $121.6 million).

The following table shows the amount of maximum credit available under the Company's credit facility at the following dates:

As at	**December 31, 2014**	**December 31, 2013**
Maximum borrowing base limit	$ 165,000	$ 165,000
Bank imposed maximum limit	$ 114,000	$ 165,000
Bankers' acceptances	(95,000)	(100,000)
Operating line, before deferred financing charges	(15,570)	(21,600)
Total available credit	**$ 3,430**	**$ 43,400**

Share Capital

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

December 31	**Three months ended**		**Year ended**	
(000's)	**2014**	**2013**	**2014**	**2013**
Weighted Average Outstanding Common Shares				
Basic	217,212	217,212	217,212	216,104
Diluted	218,799	222,151	218,799	217,773
Outstanding securities				
Common Shares	217,212	217,212	217,212	217,212
Common Share Purchase Warrants [(1)]	27,190	27,190	27,190	27,190
Stock Options	-	235	-	235
Incentive Awards [(2)]	1,577	4,821	1,577	4,821
Total outstanding securities	**245,989**	**249,458**	**245,989**	**249,458**

[(1)] *Includes a total of 3.9 million performance warrants (2013- 4.8 million)*

[(2)] *Incentive awards do not include a total of 2,148 Performance Awards which are outstanding at year end, but have a performance factor of 0.*

Total Market Capitalization

The Company's market capitalization was approximately $3.3 million, based on total outstanding common shares, at the closing price of $0.015 per share (TSX Venture Exchange). At April 14, 2015, Pinecrest had 217,212,365 common shares, 27,189,583 common share purchase warrants (which include 3,920,000 performance warrants) and 1,552,416 restricted incentive awards outstanding.

BUSINESS RISKS

Pinecrest's business, financial condition, results of operations and cash flows are impacted by a number of risks facing participants in the oil and gas industry. These risks cannot be eliminated, however, Pinecrest management is committed to monitoring, and where possible, mitigating the following risks: operational; safety, environmental and regulatory; and financial.

1) Operational Risk

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 small junior producers to large integrated petroleum companies. Pinecrest is exposed to the following development and production risk factors:

- finding and developing petroleum and natural gas reserves at economic costs ("exploration risk");
- production of petroleum and natural gas in commercial quantities; and
- marketability of petroleum and natural gas produced.

The Company's future success is dependent upon its ability to develop or acquire additional oil and natural gas reserves that are economically recoverable at economic costs. Except to the extent that Pinecrest conducts successful activities or acquires properties containing proved reserves, or both, the proved reserves and production will generally decline as reserves are produced. If prevailing oil and natural gas prices were to increase significantly, the Company's costs to add reserves could be expected to increase. The horizontal drilling of oil and natural gas wells involves a high degree of risk, especially the risk of a well that is not sufficiently productive to provide an economic return on the capital expended to drill the well or of its ongoing operational costs.

In order to reduce exploration risk, Pinecrest 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 and mitigate reserve replacement risk, the Company has focused its exploration in areas that afford multi-zone prospect potential, targeting a range of low to moderate exploration and development risk prospects.

Pinecrest mitigates its risk related to producing hydrocarbons through the utilization of the most appropriate and up-to-date technology to enhance drilling and completions operations; control costs to maximize returns and has focused exploration in areas where the Company's management and employees have significant drilling and completions experience. In addition, Pinecrest seeks operational control of its projects, where feasible. Advanced oil and gas related technologies such as three dimensional seismography and reservoir simulation studies might be utilized by Pinecrest to improve its ability to find, develop and produce economical oil and gas reserves. Regardless of whether Pinecrest combines technology and expertise, these risks may not be eliminated.

Other Operational risks: Oil and natural gas exploration operations are subject to risks such as explosions, blow-outs, fire and oil spills, each of which could result in substantial damage to oil and gas wells and facilities, other property, the environment or personal injury. In accordance with industry practice, Pinecrest carries 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.

Pinecrest's oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in our core areas. Demand for such limited equipment or access restriction may affect the availability of such equipment and may delay exploration and development activities. Pinecrest's operations require license and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development projects.

2) Safety, Environmental and Regulatory Risk

The oil and gas industry is subject to extensive government (municipal, provincial and national) regulation. Environmental legislation provides for restrictions and prohibitions on spills, releases and/or emissions of various substances produced in association with oil and gas production. Petroleum and natural gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. In order to mitigate such risks, Pinecrest conducts its operations at high standards and follows safety procedures intended to reduce the potential for personal injury to employees, contractors and the public at large. The Company maintains adequate insurance commensurate with industry standards to cover reasonable risk and potential liabilities associated with its activities.

The nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have an adverse effect upon its financial condition. Pinecrest has in place an environmental and safety policy that is designed at minimum to comply with current government regulations for the oil and gas industry. Changes to governmental regulations are monitored to ensure compliance. Environmental reviews are completed and part of the due diligence process when evaluating corporate and property acquisitions.

3) Financial Risk

Pinecrest defines financial risk as the risk of loss or lost opportunity resulting from financial management and market conditions that could have a positive or negative impact on the Company's cash flows.

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). During the year ended December 31, 2014, Pinecrest entered into commodity price swaps and one costless collar (See Risk Management Section). If oil and natural gas liquids prices had been $1.00Cdn per barrel higher or lower the impact on net income would have been $2.0 million higher or lower for the year ended December 31, 2014.

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, 2014 and December 31, 2013 is limited to trade and other receivable and the fair value of financial instrument balances as reported on the balance sheets.

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. The majority of Company's trade and other receivables are from joint interest partners and crude oil and natural gas marketers. Receivables from oil and gas marketers are typically collected on the 25th day of the month following production. Pinecrest attempts to mitigate this risk by assessing the financial strength of its counterparty to determine that they have a well-established credit history, and entering into relationships with more than one marketer. Receivables from joint interest partners are typically collected within one to three months from the joint venture billing date. The Company attempts to mitigate collection risk from joint interest partners by obtaining partner pre-approval of significant capital expenditures prior to initiation of the capital project. However, joint interest partners are exposed to various oil and gas industry risks that could impact the Company's ability to collect these amounts. The carrying amount of trade and other receivables represents the maximum credit exposure to the Company.

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 monitors 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.

At December 31, 2014, Pinecrest had the following liabilities outstanding: trade and other payables of $10.3 million, and $110.6 million outstanding on its revolving credit facility of $114.0 million.

Foreign Currency Risk: World oil prices are quoted in United States dollars (USD) and the price received is therefore affected by the Canadian/USD exchange rate, which will fluctuate over time. Recently, the Canadian dollar has weakened in value against the USD which positively impacts commodity prices valued in Canadian dollars, thereby indirectly increasing Pinecrest's oil revenues and future value of reserves, as determined by independent evaluators. The Company has not entered into any foreign currency risk arrangements.

Interest Rate Risk: Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on Pinecrest's credit facility fluctuates with the interest rates posted by lenders, plus a margin. The Company has not entered into any mitigating interest rate swaps as at December 31, 2014. Had the market interest rate been 1% (100 basis points) higher (or lower) and assuming all other variables remained constant for the period ended December 31, 2014, net income would have been lower or higher by $0.9 million based on the average bank debt balance outstanding for the period.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make certain judgments, accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. A summary of Pinecrest's critical accounting estimates and judgments can be found in Note 3 and a summary of significant accounting policies can be found in Note 4 to the audited financial statements for the year ended December 31, 2014.

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. Significant judgments, estimates and assumptions made by management in preparing the financial statements are described below:

Estimates

- The fair value of financial assets and liabilities is estimated, whenever possible, based on published market prices and if not available, on estimates from third party brokers as at the balance sheet date and may differ from what will eventually be realized;
- Depletion, depreciation and accretion and the assessment of asset recoverability (tests for impairment) are based on assumptions of grouping of assets into cash generating units and 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;
- Decommissioning liability including estimates of future costs and the timing of the costs and
- Share-based payments requires estimates about the share price volatility, forfeiture rates, option life, dividend yield, risk-free rate and forfeitures of options at the initial grant date.

Judgments

- Estimates of proven and probable petroleum and natural gas reserves include assumptions regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, production, transportation and marketing costs for future cash flows. Estimated quantities of petroleum and natural gas reserves also include the interpretation of geological and engineering data;
- Identification of Cash Generating Units for purposes of impairment testing;
- Decisions regarding capital expenditures on projects that are in progress require judgments about the probable commercial reserves and the level of activities that constitute on-going evaluation determination;
- Deferred income taxes and the recoverability of deferred income tax assets have been recorded based on temporary differences between the carrying value and tax basis of the Company's assets and liabilities. These provisions require estimating the timing of these temporary differences and estimating whether tax assets will be realized before expiry; and
- Judgment is required when determining if Pinecrest has joint control over an arrangement. This will impact whether the investment is accounted for on a proportionate basis, or by equity accounting.

ACCOUNTING CHANGES AND PRONOUNCEMENTS

During the year ended December 31, 2014, Pinecrest adopted the following new and revised accounting standards, including any consequential amendments thereto. Changes in accounting policies adopted by the Company were made in accordance with the applicable transitional provisions as provided in those standards and amendments.

- ***IAS 32, "Financial Instruments: Presentation" ("IAS 32"):*** On January 1, 2014, the Company implemented certain amendments to IAS 32 which require the Company to provide clarification on the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The implementation of amendments to IAS 32 had no impact to the Company's financial statements.

- ***IFRIC 21, "Levies" ("IFRIC 21"):*** On January 1, 2014, the Company implemented IFRIC 21 which provides an interpretation on IAS 37, *"Provisions, Contingent Liabilities and Contingent Assets"* ("IAS 37"), with respect to the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The interpretation clarifies that the obligating event is the activity described in the relevant legislation that triggers the payment of the levy. The implementation of IFRIC 21 had no impact to these financial statements.

Recent Accounting Pronouncements Issued

The following are new and amended accounting pronouncements that have been issued but are not yet effective. Management is currently assessing the impact of these new and amended standards on the Company's accounting policies and financial statement presentation or whether to early adopt any of the standards. These standards are not expected to have a material impact on the Company's financial statements.

- ***IAS 1 Presentation of Financial Statements ("IAS 1")***: In December 2014, the IASB issued amendments to clarify guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statement of operations and comprehensive income or loss and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to IAS 1 may be applied immediately, and become mandatory for annual periods beginning on or after January 1, 2016. Pinecrest has yet to assess the impact of the amendments to its financial statements.

- ***IFRS 9 Financial Instruments ("IFRS 9"):*** this is a three-phase project undertaken by the IASB to replace *IAS 39 "Financial Instruments: Recognition and Measurement".* The first phase was issued in November 2009, which details the classification and measurement requirements for financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets was amended in October 2010 to provide guidance on financial liabilities and derecognition of financial instruments. In November 2013, the third phase detailed new general hedge accounting model, which remains optional. The new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. Pinecrest does not utilize hedge accounting for its risk management contracts currently in place. In July 2014, the IASB issued final amendments to IFRS 9, replacing earlier versions of IFRS 9. These amendments introduce a single, forward-looking "expected loss" impairment model for financial assets which will require more timely recognition of expected credit losses, and a fair value through other comprehensive income category for financial assets that are debt instruments. These amendments are effective for annual periods beginning on or after January 1, 2018 and are available for early adoption. The Company is in the process of evaluating the impact of this new standard on its financial statements.

- ***IFRS 11 Joint Arrangements ("IFRS 11"):*** In May 2014, the IASB issued amendments to IFRS 11 to address the accounting for acquisitions of interest in joint operations. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended requires that such transactions be account for using the principles related to business combinations accounting as outlined in IFRS 3, Business Combinations". The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company does not expect this to have any impact on its financial statements.

- ***IFRS 15 Revenue From Contracts With Customers***: provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. The new standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

DISCLOSURE AND INTERNAL CONTROLS

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls, and to ensure that information used internally and disclosed externally, including the financial statements and MD&A, is complete and reliable. Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under the Canadian securities law. Pinecrest's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation, that the disclosure controls and procedures as of the end of December 31, 2014, are effective and provide reasonable assurance that material information related to the Company is made known to them by others within Pinecrest.

It should be noted that a control system, including Pinecrest's disclosure and internal controls and procedures, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. There have been no changes to the Company's internal controls since year end December 31, 2013.

In connection with Exemption Orders issued in November 2007 by each of the securities commissions across Canada, Pinecrest's certifying officers will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying MD&A.

The Venture Issuer Basic Certification includes a 'Notice to Reader' stating that the certifying officers do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.

OFF BALANCE SHEET ARRANGEMENTS

No off balance sheet arrangements existed at December 31, 2014.

RELATED PARTY TRANSACTIONS

The Company has retained the law firm of Burnet, Duckworth and Palmer LLP to provide legal services. The current Chairman of the Board and Corporate Secretary are partners at the law firm. During the year ended December 31, 2014, the Company incurred legal fees and disbursements of $0.5 million (December 31, 2013 - $0.2 million) related to general corporate matters, of which $0.3 million was outstanding at December 31, 2014 (December 31, 2013 - $0.01 million). These transactions were in the normal course of business and have been measured at fair value.

COMMITMENTS AND CONTINGENCIES

The Company has the following commitments as at December 31, 2014:

a) The Company has a lease agreement for its office space, effective October 1, 2014, which expires September 30, 2015 and is committed to make lease payments over the next nine months of $0.3 million plus operating costs.

b) The Company has commitments to purchase or rent well equipment and supplies, which will be delivered over the next year totalling $0.5 million. The equipment purchase agreements all have cancellation clauses, which require the Company to give 30 to 90 days' notice should the Company wish to cancel the agreements.

SUBSEQUENT EVENTS

On February 17, 2015, Pinecrest announced it had entered into an agreement with Virginia Hills Oil Corp. ("Virginia Hills"), and a junior dividend paying company ("Purchaser"), whereby Pinecrest would reorganize its business by Plan of Arrangement, which was approved by shareholders on March 19, 2015. The resulting reorganization will result in Pinecrest shareholders exchanging their shares for common shares of Virginia Hills on a basis of 100 Pinecrest common shares to one (1) Virginia Hills' common share, plus eight Arrangement Rights for each one Virginia Hills shares held. The Arrangement Rights are exercisable at a price of $0.25 per common share and will expire 30 days following the effective date of the Arrangement. Virginia Hills will acquire 90% of Pinecrest's existing assets, and continue on as the resulting public company. Pinecrest, which would then hold approximately 10% of its existing assets, will be sold to the Purchaser for upfront gross proceeds of $23.5 million, subject to certain adjustments. In addition Virgin Hills is entitled to an additional payment of $5.0 million, if during the period ending on April 26, 2016, a front month hedge is made available to the Purchaser at a price of $US65.00 per barrel (WTI), for a minimum of 12 months. The anticipated close date of the Plan of Arrangement is April 15, 2015.

On April 13, 2015, Pinecrest announced that the Plan of Arrangement had been amended and that all of the Company's executive officers ceased to hold executive offices as of that date. Any change of control payments in favour of the executives will be assumed by Virginia Hills.

SUPPLEMENTAL QUARTERLY INFORMATION

	2014				2013			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
FINANCIAL								
Petroleum and natural gas sales	12,269	15,018	18,167	18,229	19,549	25,921	29,573	33,829
Funds flow from operations (1)	2,060	4,245	5,950	7,237	7,824	9,582	16,374	21,461
Per share – basic	$0.01	$0.02	$0.03	$0.03	$0.04	$0.04	$0.08	$0.10
Per share – diluted	$0.01	$0.02	$0.03	$0.03	$0.04	$0.04	$0.07	$0.09
Cash flow from operations	3,600	4,990	7,351	6,430	6,714	11,514	12,251	25,224
Per share – basic	$0.02	$0.02	$0.03	$0.03	$0.03	$0.05	$0.06	$0.12
Per share – diluted	$0.02	$0.02	$0.03	$0.03	$0.03	$0.05	$0.05	$0.11
Net income (loss) (2)	(176,473)	51	407	290	(178,115)	(843)	4,196	3,716
Per share – basic	$(0.81)	$0.00	$0.00	$0.00	$(0.82)	$0.00	$0.02	$0.02
Per share – diluted	$(0.81)	$0.00	$0.00	$0.00	$(0.82)	$0.00	$0.02	$0.02
Capital expenditures, net of dispositions	4,115	2,846	777	1,008	1,730	23,886	2,331	53,545
Total assets	121,101	296,960	300,889	306,700	311,567	513,798	500,637	510,788
Net debt and working capital deficit(3)	115,502	113,519	114,778	119,947	126,108	128,617	117,070	131,591
OPERATING								
Average daily production								
Crude oil (bbls/d)	1,775	1,688	1,916	2,033	2,479	2,674	3,467	4,246
Natural gas (mcf/d)	322	316	457	366	478	463	561	274
Natural gas liquids (bbls/d)	56	68	78	49	61	53	54	23
Total (boe/d)	1,885	1,808	2,070	2,143	2,620	2,804	3,615	4,315
Average realized prices								
Crude oil (bbls/d)	74.75	96.12	103.69	99.16	84.04	103.90	92.40	88.12
Natural gas (mcf/d)	0.16	0.10	0.55	0.43	2.21	2.52	3.55	2.52
Natural gas liquids (bbls/d)	11.19	13.34	9.19	16.58	50.95	51.54	48.17	44.40
Netbacks ($/boe) (1)								
Sales	70.74	90.24	96.45	94.51	81.12	100.46	89.90	87.12
Royalties	(14.07)	(18.44)	(18.80)	(14.41)	(10.36)	(10.86)	(7.23)	(6.20)
Production & transportation	(30.51)	(32.06)	(24.97)	(27.72)	(23.66)	(29.06)	(22.31)	(18.88)
Field netback	26.16	39.74	52.68	52.38	47.10	60.54	60.31	62.04
Realized gain (loss) on derivative contracts	4.21	(1.95)	(3.94)	(2.64)	(5.94)	(15.46)	(3.59)	(1.44)
Operating netback	30.37	37.79	48.74	49.74	41.16	45.08	56.72	60.60

(1) *Non-GAAP measure*
(2) *Net loss for the quarter ended December 31, 2014 includes an impairment loss of $93.0 million (quarter ended December 31, 2013 - $175.0 million)recorded on property, plant and equipment*
(3) *Excludes fair value of financial instruments*