



Condensed Interim Financial Statements

(Unaudited)

**For the three months ended March 31, 2011 and
three months ended April 30, 2010**

Pinecrest Energy Inc.

Condensed Balance Sheets

(Unaudited)
(in Canadian dollars)

As at	Note	March 31, 2011	December 31, 2010 (restated to IFRS Note 20)	July 31, 2010 (restated to IFRS Note 20)	August 1, 2009 (restated to IFRS Note 20)
ASSETS					
Current assets					
Cash and cash equivalents		\$ 25,568,436	\$ 57,002,325	17,960,092	\$ 436,839
Trade and other receivables		20,085,844	5,248,324	507,080	239,266
Prepays and deposits		1,662,957	646,458	158,725	-
		47,317,237	62,897,107	18,625,897	676,105
Non-current assets					
Evaluation and exploration assets	5	81,955,785	84,733,613	25,297,075	154,589
Property, plant and equipment	6	81,616,127	34,987,748	6,968,471	2,319,312
Deferred tax	9	1,079,790	2,074,747	234,818	-
		\$ 211,968,939	\$ 184,693,215	\$ 51,086,261	\$ 3,150,006
LIABILITIES					
Current liabilities					
Trade and other payables		\$ 41,422,725	\$ 13,287,076	\$ 1,061,674	\$ 142,221
Income taxes payable		-	-	32,922	226,684
Due to related party	15	-	-	-	347,951
Decommissioning provision	7	181,565	143,750	-	-
		41,604,290	13,430,826	1,094,596	716,856
Non-current liabilities					
Due to related party	15	-	-	-	650,148
Provision for liabilities and other charges	7	1,707,382	2,861,462	2,414,775	134,461
Deferred tax		-	-	-	284,274
		43,311,672	16,292,288	3,509,371	1,785,739
Shareholder's Equity					
Share capital	10	163,960,624	163,699,234	42,495,806	1,650,220
Warrants	11	6,630,666	6,712,871	6,712,871	53,883
Contributed surplus	13	2,796,145	2,392,369	1,121,896	71,928
Accumulated deficit		(4,730,168)	(4,403,547)	(2,753,683)	(411,764)
		168,657,267	168,400,927	47,576,890	1,364,267
		\$ 211,968,939	\$ 184,693,215	\$ 51,086,261	\$ 3,150,006

The notes are an integral part of these interim financial statements

COMMITMENTS (Note 19)

APPROVED ON BEHALF OF THE BOARD

(Signed) "Rob Zakresky", Director

(Signed) "David Fitzpatrick", Director

Pinecrest Energy Inc.

Condensed Statements of Comprehensive Loss

(Unaudited)

(in Canadian dollars, except for per share amounts)

	Note	Three months ended March 31, 2011	Three months ended April 30, 2010
Petroleum and natural gas sales		\$ 6,099,936	\$ 194,464
Royalties		(790,973)	(31,072)
Petroleum and natural gas revenue		5,308,963	163,392
Other operating income		11,656	-
Total revenue and other operating income		5,320,619	163,392
Operating and transportation expense		1,222,589	54,634
Exploration expense	5	1,879,428	-
Depletion and depreciation	6	1,725,189	127,788
General and administrative expense		806,128	58,808
Operating loss		(312,715)	(77,838)
Finance expense	16	17,958	5,170
Loss before income tax		(330,673)	(83,008)
Income tax expense			
Deferred income tax (recovery) expense	9	(4,052)	7,470
Net Loss and Comprehensive Loss		\$ (326,621)	\$ (90,478)
Loss per common share (Note 14)			
Basic	14	\$(0.00)	\$(0.02)
Diluted	14	\$(0.00)	\$(0.02)

The notes are an integral part of these interim financial statements

Pinecrest Energy Inc.

Condensed Statements of Changes in Equity

(Unaudited)
(in Canadian dollars)

Three months ended March 31, 2011						
	Note	Share Capital	Warrants	Contributed Surplus	Deficit	Total Equity
January 1, 2011		\$163,699,234	\$ 6,712,871	\$ 2,392,369	\$ (4,403,547)	\$ 168,400,927
Total comprehensive loss for the period					(326,621)	(326,621)
Share issue costs, net of tax		(2,344)	505	-	-	(1,839)
Exercise of warrants	11	263,734	(82,710)			181,024
Share-based payments	13	-	-	403,776	-	403,776
		261,390	(82,205)	403,776	-	582,961
March 31, 2011		\$ 163,960,624	\$ 6,630,666	\$ 2,796,145	\$ (4,730,168)	\$ 168,657,267

Three months ended April 30, 2010						
	Note	Share Capital	Warrants	Contributed Surplus	Deficit	Total Equity
February 1, 2010		\$ 1,644,422	\$ 53,883	\$ 71,928	\$ (474,290)	\$ 1,295,943
Total comprehensive loss for the period					(90,478)	(90,478)
Exercise of options	12	137,592	-	(39,592)	-	98,000
Exercise of warrants	11	121,508	(10,508)	-	-	111,000
		259,100	(10,508)	(39,592)	-	209,000
April 30, 2010		\$1,903,522	\$43,375	\$ 32,336	\$ (564,768)	\$ 1,414,465

The notes are an integral part of these interim financial statements

Pinecrest Energy Inc.

Condensed Statements of Cash Flows

(Unaudited)
(in Canadian dollars)

	Note	Three months ended March 31, 2011	Three months ended April 30, 2010
Cash flows from operating activities			
Net loss and comprehensive loss		\$ (326,621)	\$ (90,478)
Adjustments for:			
Decommissioning provision		17,958	1,787
Exploration and evaluation expenditures	5	1,879,428	
Depletion and depreciation	6	1,725,189	127,788
Share-based payments		301,073	-
Deferred income tax expense		(4,052)	7,470
Change in non-cash working capital	18	(1,245,625)	8,680
Net cash from (used in) operating activities		2,347,350	55,247
Cash flows from investing activities			
Expenditure on exploration and evaluation assets		(742,521)	-
Acquisition of exploration and evaluation assets		(20,000)	-
Expenditure on property, plant and equipment		(46,263,627)	(296,639)
Acquisition of property, plant and equipment		(461,530)	-
Change in non-cash working capital	18	13,527,255	-
Net cash from (used in) investing activities		(33,960,423)	(296,639)
Cash flow from financing activities			
Proceeds from issue of common shares		181,024	98,000
Proceeds from Issuance of warrants		-	111,000
Share and warrant issue costs		(1,840)	-
Net cash from (used in) financing activities		179,184	209,000
Net increase (decrease) in cash and cash equivalents		(31,433,889)	(32,392)
Cash and cash equivalents, beginning of period		57,002,325	45,666
Cash and cash equivalents, end of period		\$ 25,568,436	\$ 13,274

Supplementary cash flow information (Note 18)

The notes are an integral part of these interim financial statements

Pinecrest Energy Inc.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

1. REPORTING ENTITY

Pinecrest Energy Inc. ("Pinecrest or the Company") was incorporated under the Business Corporations Act (*Alberta*) on March 24, 2006 under the name of Antler Creek Energy Corp. ("ACEC") as a capital pool corporation and is listed on the TSX Venture Exchange under the symbol "PRY". Pinecrest's head office is located at 500, 255 5th Avenue S.W., Calgary, Alberta.

On May 25, 2009, ACEC completed its qualifying transaction by acquiring all the issued and outstanding common shares of Batoche Energy Corp. ("BEC") pursuant to a share purchase agreement dated April 30, 2009. On May 31, 2009, ACEC and BEC amalgamated. On April 25, 2010 the Company entered into a reorganization and investment agreement which resulted in a non-brokered private placement of approximately \$20 million, and the appointment of a new board of directors and management team. On July 21, 2010 ACEC changed its name to Pinecrest Energy Inc. Pinecrest's business includes the exploitation, exploration, development and acquisition of petroleum and natural gas-related assets primarily in the Western Sedimentary Basin.

On October 16, 2010, Pinecrest received approval from the Canada Revenue Agency to change its year end from July 31 to December 31. Consequently, these interim financial statements reflect a three month period for the quarter ended March 31, 2011 with comparative information for the three months ended April 30, 2010. Due to the different periods, the information may not be fully comparable.

The Board of Directors has approved and authorized the issuance of these interim financial statements on May 16, 2011.

2. BASIS OF PREPARATION

a) Statement of Compliance

These unaudited interim financial statements for the three months ended March 31, 2011 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and are in accordance with International Financial Reporting Standard ("IFRS") 1 *First-time Adoption of International Financial Reporting Standards*. These unaudited interim financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its December 31, 2011 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. These financial statements do not include all of the information required for full annual financial statements and are presented in Canadian dollars, which is the Company's functional currency.

The March 31, 2011 unaudited interim financial statements are the Company's first financial statements prepared under IFRS, with a transition date of August 1, 2009. Consequently, the comparative figures for 2010 and the Company's balance sheet as at August 1, 2009 have been restated from accounting principles generally accepted in Canada ("GAAP") to comply with IFRS issued and outstanding as of March 31, 2011. IFRS 1 allows certain exemptions from retrospective application of IFRS in the opening balance sheet. The exemptions used by the Company and the reconciliations to IFRS from the previously published GAAP financial statements are summarized in Note 20.

b) Basis of Measurement

The unaudited interim financial statements have been prepared on the historical cost basis, except the financial assets and financial liabilities which are revalued to fair value through profit and loss when applicable.

Pinecrest Energy Inc.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

2. BASIS OF PREPARATION, continued

c) Accounting Standards and Interpretations Issued but not yet adopted

The following accounting standards, amendments and interpretations have been issued but are not effective until annual periods beginning after January 1, 2011, unless otherwise indicated, earlier application is permitted. As at the date of these financial statements, the following standards, amendments and interpretations have not been applied in these financial statements.

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make certain judgments, accounting estimates and assumptions concerning the future. The nature of estimation means that actual outcomes could differ from those estimates. Management reviews estimates and assumptions on a continual basis and makes changes to such estimates based on historical experience, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accordingly, the impact of these estimates, assumptions and judgments are subject to management uncertainty, and the effect on the financial statements in future periods could be material. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Estimation of Petroleum and Natural Gas Reserves

Proved and probable petroleum and natural gas reserves are the estimated quantities of petroleum and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being revised. Estimates of petroleum and natural gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Proved and probable reserves are used in the unit-of-production calculation for depletion as well as the determination of the timing of decommissioning costs, and impairment analysis and therefore the measures are subject to change.

b) Capitalized Exploration and Evaluation Expenditures

In making decisions regarding whether to continue to capitalize exploration and evaluation expenditures, it is necessary to make judgments about the probable commercial reserves and the level of activities that constitute on-going evaluation determination. If there is a change in any judgment in a subsequent period, then the related capitalized exploration and evaluation expenditures would be charged as an expense in that period.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS, continued

c) Recoverability of Asset Carrying Values

The Company assesses its property, plant and equipment, including intangible exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, at each reporting date. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage and, for petroleum and natural gas properties, significant downward revisions of estimated recoverable volumes, price forecasts or increases in estimated future development expenditure. If there are low oil prices or natural gas prices during an extended period the Company may need to recognize significant impairment charges. Determination as to whether and how much an asset is impaired involves management estimates and assumptions on uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil, natural gas and refined products.

d) Decommissioning Provisions

Provisions for environmental clean-up and remediation costs associated with the Company's drilling operations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates due to changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology. The carrying amount of provisions are regularly reviewed and adjusted to take account of such changes.

e) Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Recognition of deferred tax assets is based on estimates made in determining whether sufficient future taxable profit will be available to utilize the deferred tax assets.

f) Other Significant Areas of Judgment

The estimates, assumptions and judgments made in relation to the fair value of share-based payments and warrants and the associated expense recognition is subject to measurement uncertainty. The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

4. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

The unaudited interim financial statements include the accounts of Pinecrest Energy Inc. There are no subsidiary companies.

b) Joint Venture Activities

Substantially all of the Company's exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

Pinecrest Energy Inc.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

4. SIGNIFICANT ACCOUNTING POLICIES, continued

c) Exploration and Evaluation Expenditures

Pre-license costs are recognized in the statement of operations and comprehensive loss as incurred. Exploration and evaluation expenditures directly attributable to the exploration for petroleum and natural gas reserves are capitalized as exploration and evaluation assets on a field-by-field basis. These costs include, but are not limited to: lease acquisition either directly or by business combination, lease rentals on undeveloped properties, acquisition of rights to explore, geological, and geophysical costs, exploratory drilling of both productive and unproductive wells and overhead charges. No depletion or amortization is charged during the exploration and evaluation phase.

Exploration and evaluation expenditures are capitalized until reserves are evaluated and determined to be commercially viable and technically feasible. If reserves are not identified, these costs are expensed. The balance of exploration and evaluation expenditures is carried forward as an exploration and evaluation asset in the balance sheet where the mineral rights are current and it is considered probable that costs will be recovered through the future development or sale of the property.

If it is determined that a commercial discovery of reserves will not be achieved, the capitalized exploration and evaluation assets are written down to their recoverable amounts. Where commercial discovery of reserves has been made, the exploration and evaluation assets are tested for impairment and transferred to property, plant and equipment as petroleum and natural gas properties. The methodology for measuring impairments and reversals of impairments is described under Note 4(f).

d) Petroleum and Natural Gas Properties

Petroleum and natural gas properties are stated at historical cost, less any accumulated depletion and accumulated impairment losses. The initial cost of an asset comprises its purchase price (the acquisition of petroleum and natural gas assets directly, or by means of a business combination) or construction cost which includes: costs directly attributable to bringing the asset into operation and the initial estimate of the decommissioning obligation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Where commercial production in an area has commenced, petroleum and natural gas properties are depreciated on a unit-of-production basis over the proved and probable reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. The unit-of-production rate for the amortization of field development costs takes into account expenditures incurred to date, plus future development expenditures to develop the proved and probable reserves. Changes in factors such as estimates of proved and probable reserves that affect unit-of-production calculations do not give rise to prior year financial period adjustments and are accounted for on a prospective basis.

e) Office Furniture and Equipment

Office furniture and equipment are carried at cost less accumulated depreciation. Depreciation is charged to the statement of operations and comprehensive loss based on cost less residual value, over the assets estimated useful life, for the following asset classes:

Furniture and equipment	declining balance	20%
Computer hardware and software	declining balance	30%
Vehicles	declining balance	30%
Leasehold improvements	straight line	1 year

The estimated useful lives of office furniture and equipment and their respective residual values are reviewed on an annual basis, and if necessary, any changes are accounted for on a prospective basis.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

4. SIGNIFICANT ACCOUNTING POLICIES, continued

f) Impairment

Non-financial assets

The Company reviews the carrying amounts of its non-financial assets, other than exploration and evaluation assets and deferred tax assets, at each reporting date to determine whether there is any indication of impairment. If such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use, an impairment test is completed annually. Exploration and evaluation assets are tested for impairment when reclassified to property, plant and equipment as petroleum and natural gas properties, and also if facts and circumstances suggest that the carrying value exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the lowest level at which there is identifiable cash flows that are largely independent of the cash flows of other groups of assets, known as a cash-generating unit ("CGU"). Exploration and evaluation assets are grouped on an area basis for impairment assessment purposes. The goodwill acquired in a business combination, for the purposes of impairment testing, is allocated to the CGU's that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the asset or CGU's carrying amount exceeds its recoverable amount determined as the higher of: its fair value less costs to sell, and its value in use. In assessing value in use, the estimated future after-tax cash flows are adjusted for the risks specific to the asset group and are discounted to present value using a discount rate that reflects current market assessments of the time value of money. Fair value less costs to sell is based on discounted cash flow forecasts using market assumptions, including market assessment of reserves, future prices and a risk-adjusted discount rate appropriate to the asset by reference to general market conditions, market expectations of current and future development, and the costs of future development. Impairment losses are recognized in the statement of operations and comprehensive loss.

For other assets, impairment losses recognized in prior years are assessed at each reporting date for indications that previously recognized impairment losses may no longer exist or may have decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The impairment loss is reversed only to the extent that the asset's or CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, had no impairment loss been recognized in prior years. An impairment loss in respect of goodwill is not reversed.

Financial assets

Financial assets are assessed for impairment at each reporting date to determine whether there is any objective evidence that they are impaired. Objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset and will not be realized. For loans and receivables, the amount of impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

If there is impairment, the carrying amount of the financial asset is reduced by the impairment loss, except for trade receivables where the carrying amount is reduced through the use of an allowance account, and the loss is recognized in the statement of operations and comprehensive loss. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the statement of operations and comprehensive loss.

Pinecrest Energy Inc.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

4. SIGNIFICANT ACCOUNTING POLICIES, continued

g) Decommissioning Liabilities

Liabilities for decommissioning costs are recognized when the Company has an obligation to dismantle or remove a facility and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Cost is estimated upon current regulation and technology. Normally an obligation arises for a new facility or well during the construction or installation phase. Obligations may also be created through a change in legislation. The amount recognized is the fair value of the estimated future cost determined in accordance with local conditions and requirements.

Fair value is determined using the present value of the estimated future cash outflows to abandon the asset and restore the site, discounted using a credit adjusted risk-free rate. Costs and the discount rate are updated at each reporting date to reflect current market assessments of the time value of money and the risks specific to the obligation. The provision is reviewed regularly by the Company's management based on current regulations, costs, technologies and industry standards.

The corresponding amount is capitalized to petroleum and natural gas assets and is amortized on a unit-of-production basis as part of depletion and depreciation. Any adjustments arising from the reassessment of estimated costs or the current estimate of the discount rate used are reflected as an adjustment to the cost of petroleum and natural gas assets. The unwinding of the discount is recognized as a finance cost in income. Actual restoration expenditures are charged as reductions to the accumulated provision when incurred.

h) Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provisions are measured at Management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect of time is material.

i) Financial Instruments

Financial assets and financial liabilities are recognized in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument. Financial assets are de-recognized when the contractual rights to the cash flow from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognized when the obligation specified in the contract is discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Management determines the classification of financial assets at initial recognition depending on the purpose for which they were acquired. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Pinecrest Energy Inc.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

4. SIGNIFICANT ACCOUNTING POLICIES, continued

i) Financial Instruments, continued

- (i) *Cash and cash equivalents:* Cash and cash equivalents comprise cash on hand, current balances and deposits with banks with maturities of less than 90 days and are readily convertible to cash and are subject to insignificant risk of change in value.
- (ii) *Trade and other receivables:* Trade receivables and other receivables which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market are classified as receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Company's receivables comprise trade and other receivables in the balance sheet. Receivables are measured initially at fair value and subsequently measured at amortized cost using the effective interest rate method, net of any impairment, directly in the statement of operations and comprehensive loss.
- (iii) *Trade and other payables:* Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade and other payables are recognized on an accrual basis and are measured initially at fair value and subsequently measured at amortized cost using the effective interest method.
- (iv) *Interest bearing loans and borrowings:* All loans and borrowings are initially recognized at the fair value of the consideration received, less directly attributable transaction costs. Subsequently, interest bearing loans and borrowings are measured at amortized cost using the effective-interest method. Gains and losses are recognized in the statement of operations and comprehensive loss when the liabilities are derecognized in addition to the amortization process.
- (v) *Equity instruments:* Equity instruments issued by the Company are recorded at the proceeds received, net of incremental costs directly attributable to the issue of new shares, warrants or options which are recorded in equity as a deduction, net of tax from the proceeds. Ordinary shares are classified as equity.

j) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of operations and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is based on the taxable profits for the year, and any adjustments to tax payable in respect of the previous years. Taxable profit differs from net profit as reported in the statement of operations and comprehensive loss because it excludes items of income or expense that are taxable or deductible in other years and it also excludes items that are never taxable or deductible. Current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognized, using the liability method which determines the amount payable or recoverable on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that is probable that sufficient future taxable profit will be available against which the temporary differences can be utilized and the carry forward of unused tax credits and unused tax losses can be utilized.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

4. SIGNIFICANT ACCOUNTING POLICIES, continued

j) Taxation, continued

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is measured at the tax rates and tax laws that have been enacted or substantively enacted by the reporting date and are expected to be applied when the deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity. Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

k) Share-Based Payments

The Company operates an equity-settled share-based compensation plan. The Company uses the fair value method to account for stock options and performance warrants ("stock awards") granted to officers, directors, employees and consultants. Under this method, stock awards granted are measured at fair value at the grant date and expensed or capitalized over the vesting period, based on the Company's estimate of stock awards that will vest. When stock awards vest in instalments each instalment is accounted for as a separate arrangement. At each reporting date, the Company revises its estimates of the number of stock awards that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the statement of operations and comprehensive loss, with a corresponding adjustment to contributed surplus. In the event that the vested options expire without being exercised, previously recognized compensation costs associated with such stock awards are not reversed.

When stock awards are exercised, the proceeds received, net of any directly attributable transaction costs, together with the amount previously recognized in contributed surplus is credited to share capital. In determining the fair values of the stock awards, the Black-Scholes option-pricing model is used and assumptions regarding interest rates, underlying volatility of the shares, forfeiture rates and expected life of the stock awards are made.

l) Flow-Through Shares

The Company, from time to time, finances a portion of its exploration activities through the issuance of flow-through shares. The related resource expenditure deductions normally available for income tax purposes are renounced to investors in accordance with income tax legislation. Proceeds from a flow-through share offering are allocated between the sale of the shares and the sale of the tax benefit. The allocation is made based on the difference between the quoted market price of the existing shares and the amount the investor pays for the flow through shares. A liability is established for the difference that is reversed upon renunciation of the tax benefit. The difference between the liability and the deferred tax liability is recorded as an income tax expense or recovery, if applicable.

m) Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is recognized when the amount can be reliably measured; it is probable that future economic benefits will flow to the Company, and when the following recognition criteria have been met for each of the Company's activities.

Pinecrest Energy Inc.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

4. SIGNIFICANT ACCOUNTING POLICIES, continued

m) Revenue Recognition, continued

- (i) Revenue from the sale of petroleum and natural gas is recognized when the significant risks and rewards of ownership of the products is transferred to the buyer, which is usually when legal title passes and the volumes have been delivered to the third-party purchaser. The Company uses the entitlement method to account for its revenue from sales of petroleum and natural gas production, whereby the Company recognizes revenue based on its direct ownership interest in its underlying petroleum and natural gas properties. Revenue is measured net of discounts, customs duties and royalties.
- (ii) Royalty income and other income are recognized as it accrues in accordance with the terms of the governing agreements. Interest income is recognized as it is earned on a time proportion basis using the effective interest method.

n) Finance Expense

Finance expense includes interest expense on borrowings and accretion of the discount on decommissioning provisions.

o) Per Share Calculations

Basic loss per share is calculated by dividing net loss attributable to common shareholders of Pinecrest by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive potential common shares.

5. EXPLORATION AND EVALUATION ASSETS

	Cost
At August 1, 2009	\$ 154,589
Capital expenditures	25,142,486
Acquisitions	-
At July 31, 2010	\$ 25,297,075
Capital expenditures	56,487,557
Acquisitions	4,690,016
Transfers to property, plant and equipment (Note 6)	(1,741,035)
At December 31, 2010	\$ 84,733,613
Capital expenditures	742,521
Acquisitions	20,000
Transfers to property, plant and equipment (Note 6)	(1,660,921)
Expired undeveloped land	(1,879,428)
At March 31, 2011	\$ 81,955,785

Exploration and evaluation assets are tested for impairment when reclassified to property, plant and equipment within petroleum and natural gas assets, and also if facts and circumstances suggest that the carrying value exceeds the recoverable amount. As at March 31, 2011, there were no indicators of impairment noted. For the three months ended March 31, 2011, \$1.9 million in costs related to expired land was charged directly to the statement of comprehensive loss.

Pinecrest Energy Inc.

**Notes to Interim Financial Statements
(Unaudited)**

For the three months ended March 31, 2011 and three months ended April 30, 2010

6. PROPERTY, PLANT AND EQUIPMENT

Cost:	Petroleum and natural gas properties	Office furniture and equipment	Total
At August 1, 2009	\$ 2,483,905	\$ -	\$ 2,483,905
Additions	4,893,166	145,239	5,038,405
At July 31, 2010	\$ 7,377,071	\$ 145,239	\$ 7,522,310
Additions	14,252,893	45,505	14,298,398
Acquisitions	12,590,404	-	12,590,404
Transfer from exploration and evaluation assets (Note 5)	1,741,035	-	1,741,035
At December 31, 2010	\$ 35,961,403	\$ 190,744	\$ 36,152,147
Additions	46,209,310	21,807	46,231,117
Acquisitions	461,530	-	461,530
Transfer from exploration and evaluation assets (Note 5)	1,660,921	-	1,660,921
At March 31, 2011	\$ 84,293,164	\$ 212,551	\$ 84,505,715

Accumulated Depletion and Depreciation:	Petroleum and natural gas properties	Office furniture and equipment	Total
At August 1, 2009	\$ 164,593	\$ -	\$ 164,593
Depletion and depreciation for the year	409,220	20,026	429,246
At July 31, 2010	\$ 573,813	\$ 20,026	\$ 593,839
Depletion and depreciation for the period	553,029	17,531	570,560
At December, 2010	\$ 1,126,842	\$ 37,557	\$ 1,164,399
Depletion and depreciation for the period	1,713,801	11,388	1,725,189
At March 31, 2011	\$ 2,840,645	\$ 48,945	\$ 2,889,588

Carrying Value:	Petroleum and natural gas properties	Office furniture and equipment	Total
At August 1, 2009	\$ 2,319,312	\$ -	\$ 2,319,312
At July 31, 2010	\$ 6,803,258	\$ 125,213	\$ 6,928,471
At December, 2010	\$ 34,834,561	\$ 153,187	\$ 34,987,748
At March 31, 2011	\$ 81,452,521	\$ 163,606	\$ 81,616,127

Pinecrest Energy Inc.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

6. PROPERTY, PLANT AND EQUIPMENT, continued

At March 31, 2011, future development costs of \$4,241,000 (December 31, 2010 - \$6,287,000) were included in the depletion calculation and costs of \$12,015,020 (December 31, 2010 - \$2,729,270) relating to projects under construction were excluded from the depletion calculation. During the three month period ended March 31, 2011 Pinecrest capitalized personnel costs of \$244,432, which includes \$102,704 of share-based payments and \$141,728 of general and administrative expenses (five months ended December 31, 2010 - \$540,211, \$324,271 share-based payments and \$215,940 of general and administrative expenses) related to development activities.

The Company reviewed the carrying amount of capitalized petroleum and natural gas properties to determine whether there was any indication of impairments. At March 31, 2011, there were no indicators of impairment noted.

7. PROVISION FOR LIABILITIES AND OTHER CHARGES

Balance:	Decommissioning Provision (i)	Flow-through shares (ii)	Total
At August 1, 2009	\$ 66,549	\$ 67,912	\$ 134,461
Obligations incurred	15,143	-	15,143
Obligations acquired	1,179,945	-	1,179,945
Revision of estimates	(3,846)	-	(3,846)
Accretion expense	4,282	-	4,282
Provision	-	1,152,702	1,152,702
Reversal of provision	-	(67,912)	(67,912)
At July 31, 2010	\$ 1,262,073	\$ 1,152,702	\$ 2,414,775
Obligations incurred	217,978	-	217,978
Obligations acquired	687,652	-	687,652
Revision of estimates	(341,379)	-	(341,379)
Accretion expense	26,186	-	26,186
At December 31, 2010	\$ 1,852,510	\$ 1,152,702	\$ 3,005,212
Obligations incurred	116,444	-	116,444
Revision of estimates	(251,656)	-	(251,656)
Accretion expense	17,958	-	17,958
Reversal of provision	-	(999,011)	(999,011)
At March 31, 2011	\$ 1,735,526	\$ 153,691	\$ 1,888,947

Decommissioning Provision	March 31, 2011	December 31, 2010	August 1, 2009
Current	\$ 181,565	\$ 143,750	\$ -
Non-current	1,553,961	1,708,760	66,549
Balance, end of period	\$ 1,735,526	\$ 1,852,510	\$ 66,549

Pinecrest Energy Inc.

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(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

7. PROVISION FOR LIABILITIES AND OTHER CHARGES, continued

- (i) The Company's decommissioning liability results from net ownership interests in petroleum and natural gas properties and equipment including well sites, gathering systems and facilities. Pinecrest estimated the total undiscounted amount of cash flows required to settle its asset obligations of approximately \$3,411,323 at March 31, 2011 (December 31, 2010 - \$3,156,342; August 1, 2009 - \$118,773). Settlement of the obligation is expected to be funded from general corporate funds at the time of retirement which is expected to occur between 2011 and 2030. A credit adjusted risk-free rate of 8.5% (December 31, 2010 - 7%; August 1, 2009 - 7%) and an inflation rate of 2% were used to calculate the fair value of the decommissioning.
- (ii) During the year ended July 31, 2010, the Company issued flow-through shares (Note 10(iv)). Pursuant to the terms of the Flow-through Unit Agreement and pursuant to certain provisions of the Income Tax Act (*Canada*), proceeds from the sale of the flow-through units will be used to incur expenditures that will be renounced to subscribers as Canadian development expenses. A provision for the future tax liability that will be incurred when the expenditures are renounced to investors is established at the date of the sale of the shares. At the five months ended December 31, 2010, the Company had incurred all eligible expenditures under the agreement. The eligible expenditures were renounced to investors during the three months ended March 31, 2011 and the provision which related to the flow-through shares was reversed with an offset to deferred tax asset.

8. LINE OF CREDIT

The Company has 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, bearing interest at prime plus 2%. At March 31, 2011 the Company had no balance outstanding (December 31, 2010 - nil; August 31, 2009 - nil). The credit facility expired on April 26, 2011 and the Company is currently negotiating renewal of the facility.

9. TAXATION

The Company used an effective tax rate of 28.29% to determine its current period tax recovery. As at March 31, 2011 the Company has approximately \$165 million in tax pools available to offset future taxable income.

Pinecrest Energy Inc.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

10. SHARE CAPITAL

Authorized:

Unlimited number of common shares without nominal or par value

Unlimited number of preferred shares, issuable in series, with rights and privileges to be determined at time of issue.

The holders of common shares are entitled to receive dividends as declared by the Board of Directors and are entitled to one vote per share.

Issued:	Number	Stated Value
Balance, August 1, 2009 (i) (ii) (iii)	4,000,000	\$ 1,650,220
Issued in private placement (iv)	39,677,674	14,879,128
Fair value of common share purchase warrants (iv) & Note 11	-	(3,669,789)
Issued in private placement flow through shares (iv)	13,364,666	5,011,750
Fair value of common share purchase warrants (iv) & Note 11	-	(3,053,158)
Issued in bought deal financing (v)	27,657,500	28,763,800
Issued on exercise of options (Note 12)	259,200	187,456
Issued on exercise of warrants (Note 11)	356,734	236,904
Share issue costs, net of tax	-	(1,510,505)
Balance, July 31, 2010	85,315,774	\$ 42,495,806
Issued in bought deal financing (vi)	28,663,143	40,128,400
Issued in bought deal financing (vii)	55,660,000	86,273,000
Share issue costs, net of tax	-	(5,197,972)
Balance, December 31, 2010	169,638,917	\$ 163,699,234
Issued on exercise of warrants (Note 11)	362,047	263,734
Share issue costs, net of tax	-	(2,344)
Balance, March 31, 2011	170,000,964	\$ 163,960,624

- (i) On May 22, 2009, the Company consolidated its common shares on the basis of one new common share for 3.125 old common shares.
- (ii) On May 22, 2009 the Company issued 748,334 common share units and 603,666 flow-through shares at a price of \$0.45 per share for gross proceeds of \$336,750 and \$271,650 respectively. Each common share unit comprised of one common share and one common share purchase warrant entitling the holder to purchase one common share of the Company at \$0.60 per share at any time until May 22, 2011. In connection with the private placement a total of \$42,499 was paid plus 108,800 warrants were issued as commission (Note 12). In accordance with the terms of the flow-through share agreements and pursuant to certain provisions of the Income Tax Act (*Canada*), the Company renounced a total of \$271,650 in tax pools effective December 31, 2009. As at July 31, 2010 the Company had incurred all eligible expenditures.

Pinecrest Energy Inc.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

10. SHARE CAPITAL, continued

- (iii) On May 25, 2009 the Company issued 1,000,000 common shares at a price of \$0.45 per common share as part of the consideration for the acquisition of all of the outstanding common shares of a private company.
- (iv) During May 2010 the Company issued 23,613,810 common shares at a price of \$0.375 per common share for gross proceeds of \$8,855,179; 16,063,864 common share units ("Units") at a price of \$0.375 per share for gross proceeds of \$6,023,949 and 13,364,666 flow-through units ("FT Units") at a price of \$0.375 per unit for gross proceeds of \$5,011,750. The private placement closed in two separate tranches on May 7, 2010 and May 25, 2010. Each Unit is comprised of one Class A common share and one Class A common share purchase warrant. Each FT Unit is comprised of one flow-through common share and one flow-through common share purchase warrant. Both the common share purchase warrants, and the flow-through common share purchase warrants are exercisable at a price of \$0.50 subject to certain share performance criteria being satisfied. At July 31, 2010, all share performance criteria had been met.

All of the Units and FT Units were acquired by officers, directors and employees of the Company ("service providers"). At closing, the service providers entered into an escrow agreement whereby all of the Units, FT Units and any common shares acquired upon exercise of the warrants have been placed into escrow for a period of 24 months. One quarter of the securities will be released on each of the six, 12, 18 and 24 month anniversaries of the closing date of the private placement. As at March 31, 2011 a total of 22,071,403 (December 31, 2010 – 22,071,403; August 1, 2009 – nil) Units and FT Units were in escrow.

- (v) On July 7, 2010 the Company issued 24,050,000 common shares at a price of \$1.04 per common share on a bought deal private placement for gross proceeds of \$25,012,000. On July 9, 2010 the Company issued an additional 3,607,500 common shares at a price of \$1.04 for gross proceeds of \$3,751,800.
- (vi) On September 15, 2010 the Company issued 25,000,000 common shares at a price of \$1.40 per common share on a bought deal placement for gross proceeds of \$35,000,000. On October 12, 2010 the Company issued an additional 3,663,143 common shares at a price of \$1.40 per share for aggregate proceeds of \$5,128,400.
- (vii) On November 16, 2010 a total of 55,660,000 common shares were issued at \$1.55 per share for gross proceeds of \$86,273,000.

Pinecrest Energy Inc.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

11. WARRANTS

	Number	Stated Value
Balance, August 1, 2009	857,134	\$ 53,883
Private placement common share Units (Note 10 (iv))	16,063,864	3,669,789
Private placement flow-through Units (Note 10 (iv))	13,364,666	3,053,158
Exercise of warrants	(356,734)	(22,859)
Share issue costs, net of tax	-	(41,100)
Balance, July 31, 2010 and December 31, 2010	29,928,930	\$ 6,712,871
Exercise of warrants	(362,047)	(82,710)
Share issue costs, net of tax	-	505
Balance, March 31, 2011	29,566,883	\$ 6,630,666

The issued and outstanding warrants are as follows:

	March 31, 2011	December 31, 2010	August 1, 2009
2009 Private placement	500,400	500,400	857,134
2010 Common Share Units	15,701,817	16,063,864	-
2010 Flow-Through Units	13,364,666	13,364,666	-
Total	29,566,883	29,928,930	857,134

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

	2009 Private Placement	2010 Common Share Units	2010 Flow- Through Units
Fair value at grant date	\$0.0568	\$0.2285	\$0.2285
Expected volatility (%)	60%	50%	50%
Risk-free interest rate (%)	1.25	2.29	2.29
Dividend yield (%)	0	0	0
Expected life (years)	2	5	5
Exercise price	\$0.60	\$0.50	\$0.50
Expiry date	May 2011	May 2015	May 2015

12. SHARE-BASED PAYMENTS

Stock-Option Plan

The Company has adopted an incentive stock option plan whereby options may be granted from time to time to directors, officers, employees and consultants of the Company with shares to be reserved for issuance as options not to exceed 10% of the issued and outstanding common shares.

A total of 4,975,000 stock options were granted during the five months ended December 31, 2010. The fair value of the options was estimated on the date of grant at a weighted average fair value of \$0.26 per option using the Black-Scholes option pricing model, with graded vesting, and the following assumptions: expected life 5 years, weighted average risk free interest rate 2.0%, forecast volatility 55%, dividend yield of 0% and forfeiture rate of 0%. The options expire between October and November 2015.

Pinecrest Energy Inc.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

12. SHARE-BASED PAYMENTS, continued

Stock Options	Outstanding		Exercisable	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, August 1, 2009	364,800	\$0.53	364,800	\$0.53
Granted	-	-	-	-
Exercised (i)	(259,200)	\$0.20	-	-
Expired	(105,600)	\$0.45	-	-
Outstanding, July 31, 2010	-	\$ -	-	-
Granted	4,975,000	\$1.52	-	-
Outstanding, December 31, 2010	4,975,000	\$1.52	1,685,336	\$1.52
Outstanding, March 31, 2011	4,975,000	\$1.52	1,685,336	\$1.52

(i) The weighted average share price at date of exercise was \$1.07 per common share

Performance Warrants

On May 21, 2010, the Company granted 4,830,000 of performance warrants to various directors, officers and employees, all of which have vested. The warrants are exercisable at \$0.50 per common share subject to certain share performance criteria being satisfied. As at July 31, 2010 all share performance criteria had been met, and all vested warrants are exercisable. No performance warrants were exercised at March 31, 2011 and December 31, 2010. The warrants will expire on May 21, 2015.

The fair value of the warrants granted was estimated at the date of grant at a weighted average fair value of \$0.23 per warrant, using the Black-Scholes option pricing model, with graded vesting, and the following assumptions: expected life of 5 years, risk-free interest rate of 2.29%, forecast volatility of 50%, dividend yield of 0% and forfeiture rate of 0%.

Performance Warrants	Outstanding		Exercisable	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, August 1, 2009	-	\$-	-	\$-
Granted	4,830,000	\$0.50	-	-
Outstanding, July 31, 2010	4,830,000	\$0.50	4,830,000	\$0.50
Granted	-	\$-	-	-
Outstanding, December 31, 2010	4,830,000	\$0.50	4,830,000	\$0.50
Outstanding, March 31, 2011	4,830,000	\$0.50	4,830,000	\$0.50

Flow-Through Units

During the year ended July 31, 2010, the Company issued a total of 13,364,666 Flow-Through Units to various service providers (Note 10(iv)). As such, as deemed fair value benefit of \$1.2 million was determined based on the flow-through share premium multiplied by the proceeds from the sale of Flow-Through Units and charged to the statement of comprehensive loss as share-based payment, with the offset to provisions and other liabilities.

Pinecrest Energy Inc.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

13. CONTRIBUTED SURPLUS

During the three months ended March 31, 2011, share-based compensation of \$301,073 (three month period ended April 30, 2010 – nil) has been expensed and \$102,704 (three month period ended April 30, 2010 – nil) has been capitalized to petroleum and natural gas properties and equipment (Note 6).

	Number		Total
	Stock Options	Performance Warrants	Stated Value
Balance, August 1, 2009	364,800	-	\$ 71,928
Granted	-	4,830,000	1,103,424
Exercised	(259,200)	-	(53,456)
Expired	(105,600)	-	-
Balance, July 31, 2010	-	4,830,000	\$ 1,121,896
Granted	4,975,000	-	1,270,473
Balance, December 31, 2010	4,975,000	4,830,000	\$ 2,392,369
Vested	-	-	403,776
Balance, March 31, 2011	4,975,000	4,830,000	\$ 2,796,145

14. PER SHARE AMOUNTS

Basic loss per share has been calculated using the weighted average number of common shares outstanding for the three months ended March 31, 2011 of 169,923,202 (April 30, 2010 – 4,053,587). The effect of all stock options and warrants has been excluded from the calculation as they are anti-dilutive.

Basic loss per share was calculated as follows:

	Three months ended March 31, 2011	Three months ended April 30, 2010
Loss for the period	\$ (421,026)	\$ (90,478)
Issued common shares at the beginning of period	169,638,917	4,000,000
Share options exercised	-	29,102
Warrants exercised	284,285	24,485
Weighted average number of common shares - basic	169,923,202	4,053,587
Loss per share - basic	\$ (0.00)	\$ (0.02)

Pinecrest Energy Inc.

Notes to Interim Financial Statements

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For the three months ended March 31, 2011 and three months ended April 30, 2010

15. RELATED PARTY BALANCES AND TRANSACTIONS

The Company has retained the law firm of Burnet Duckworth and Palmer to provide legal services. The current Chairman of the Board and Corporate Secretary are partners at the law firm. During the three month period ended March 31, 2011, the Company incurred legal fees and disbursements of \$30,252 (April 30, 2010 - \$nil) related to general matters and equity financings, of which \$8,600 was outstanding at March 31, 2011 (December 31, 2010 - \$94,300; August 1, 2009 - \$nil).

For the three month period ended April 30, 2010, general and administrative expenses include legal expenses of \$92,858 and rent expenses of \$8,571 paid to a company that was related by virtue of a common shareholder who was previously a director, officer and shareholder of the Company. No such amounts were paid for the three month period ended March 31, 2011. There were no balances owing as at March 31, 2011 (December 31, 2010 - \$nil).

The Company entered into a loan agreement for \$1,100,000 on May 22, 2009 with a related party, who was a shareholder, director and officer of the Company. The interest rate was 4% per annum. A total of \$3,383 interest was accrued and paid in full during the three month period ended April 30, 2010. The balance of \$998,099 was paid during the year ended July 31, 2010. (August 31, 2009 - \$998,099).

These transactions were conducted in the normal course of operations and have been measured at fair value, which is the amount of consideration established and agreed to by the related parties.

16. FINANCE EXPENSE

	Three months ended March 31, 2011	Three months ended April 30, 2010
Accretion expense	\$ 17,958	\$ 1,787
Interest expense	-	3,383
Total finance expense	\$ 17,958	\$ 5,170

17. FINANCIAL RISK MANAGEMENT

The Company's financial instruments included in the balance sheets are comprised of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities.

a) Fair values

The fair value of a financial instrument is the estimated amount that the Company would receive or pay to settle a financial asset or liability as at the reporting date. The fair values of the Company's financial instruments do not differ significantly from their carrying values at March 31, 2011.

b) Credit risk

The Company is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The maximum exposure of the Company to credit risk at March 31, 2011 is limited to the cash and cash equivalents and accounts receivable balances as reported on the balance sheets.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

17. FINANCIAL RISK MANAGEMENT, continued

b) Credit risk, continued

Cash and cash equivalents:

Currently, cash and cash equivalents are comprised of bank balances. 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.

Trade and other receivables:

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. Collection of accounts receivable may be affected by changes in economic or other conditions and accordingly, may affect the Company's ability to collect these amounts. No provision for doubtful accounts has been made at March 31, 2011.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet a demand for cash or fund its financial liabilities as they come due. Liquidity risk also includes the risk of the Company not being able to liquidate assets in a timely manner at a reasonable price. The Company meets its liquidity requirements by anticipating operating, investing and financing activities and ensuring there are enough funds to cover these activities. Liquidity risks may necessitate the need for the Company to access its available credit line (Note 8). At March 31, 2011 the Company has cash working capital of approximately \$6 million.

d) Market risk

Market risk is the risk that changes in market prices, such as interest rate risk, commodities and currencies will negatively impact the Company's net earnings, future cash flows or the value of the Company's financial assets and financial liabilities.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Pinecrest is not exposed to this risk at March 31, 2011 as there is no debt outstanding.

Commodity Price Risk

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the USD. Significant changes in commodity prices may materially impact the Company's ability to raise capital. The Company does not have any financial risk management contracts in place March 31, 2011, December 31, 2010 or August 1, 2009 to manage these risks.

Foreign Exchange Risk

The Company's functional and reporting currency is Canadian dollars. The Company does not sell or transact in any foreign currency, however fluctuations in the exchange rates between the United States dollar ("USD") and the Canadian dollar can affect the Company's reported results, as the USD influences the price of crude oil sold in Canada. The valuation of the financial assets and liabilities on the balance sheet at March 31, 2011 would not be directly impacted by changes in foreign exchange rates.

Pinecrest Energy Inc.

Notes to Interim Financial Statements

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For the three months ended March 31, 2011 and three months ended April 30, 2010

17. FINANCIAL RISK MANAGEMENT, continued

e) Capital Management

The Company defines capital as working capital (current assets less current liabilities) and shareholders' equity. The Company's overall objective in managing its capital structure has not changed during the period. The Company's objectives are to: maintain a flexible capital structure which will optimize the cost of capital at an acceptable level to provide optimal returns to shareholders, and to manage its financial flexibility to preserve its ability to fund ongoing operations, fund acquisitions and future projects. The Company is not subject to any externally imposed capital requirements.

At March 31, 2011 working capital was approximately \$6 million and total shareholders' equity was approximately \$168 million (December 31, 2010 – working capital approximately \$49 million, equity approximately \$168 million). The capital position of the Company decreased due primarily the increased capital expenditures for the period ended March 31, 2011.

18. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended March 31, 2011	Three months ended April 30, 2010
Trade and other receivables	\$ (14,837,520)	\$ (32,979)
Prepays and deposits	(1,016,499)	-
Trade and other payables	28,135,649	40,352
Income taxes payable	-	(2,076)
Due to related party	-	3,383
Change in non-cash working capital	\$ 12,281,630	\$ 8,680
Net change in non-cash working capital relating to:		
Operating activities	\$ (1,245,625)	\$ 8,860
Investing activities	13,527,255	-
Financing activities	-	-
	\$ 12,281,630	\$ 8,680
Cash interest received	\$ 160	\$ -
Cash interest paid	\$ -	\$ 3,383
Cash income taxes paid	\$ -	\$ -

19. COMMITMENTS

The company is committed to lease payments of \$131,820 plus operating costs for its office premises until September 2011.

Notes to Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2011 and three months ended April 30, 2010

20. EXPLANATION OF THE EFFECT OF TRANSITION TO IFRS

As stated in Note 2, these interim financial statements for the period ended March 31, 2011 are the Company's first financial statements prepared in accordance with IFRS. For all accounting periods prior to this, the Company prepared its financial statements under Canadian generally accepted accounting principles ("GAAP"). During the year ended July 31, 2010, the Company changed its GAAP accounting policy for petroleum and natural gas properties and equipment from the successful efforts method to the full cost method. In addition the Company changed its accounting policy for depletion of its petroleum and natural gas properties from the declining balance method of depletion to the unit-of-production method. The only impact that these GAAP accounting policy changes had on the financial statements is the amount of depletion and related future income taxes associated with the change in net book values of the Company's petroleum and natural gas assets.

The Company's significant accounting policies under IFRS are summarized in Note 4. The following are the significant accounting policy changes upon adoption of IFRS that affected the previous year's comparative financial statements:

(a) Depletion and depreciation policy

Upon transition to IFRS, the Company adopted a policy of depleting petroleum and natural gas interests on a unit-of-production basis over proved and probable reserves. The depletion policy under GAAP was based on unit-of-production over proved reserves. In addition, depletion and depreciation was calculated on a country cost centre basis under GAAP whereas IFRS requires depletion and depreciation by unit of account (specific areas).

(b) Accretion expense

Under GAAP, the asset retirement obligations were measured as the estimated fair value of the retirements and decommissioning expenditures expected to be incurred and liabilities were not re-measured using the period end discount rate. Under IFRS, the decommissioning provision is measured as the best estimate of the expenditure to be incurred and requires that the asset retirement obligation be re-measured using the period end discount rate. The Company is using a credit adjusted risk-free discount rate and there is no impact under IFRS. In addition, under GAAP accretion of the discount was included in depletion and depreciation whereas under IFRS it is included in finance expense.

(c) Share-based payments

Under IFRS, the expense related to share-based payments is to be recognized at fair value as the options or warrants vest, and requires that each tranche of a share-based award to be valued separately. Under GAAP, the Company recognized the expense associated with stock-based compensation at fair value using the graded-vesting method.

(d) Flow-through shares

IFRS requires that the proceeds from the sale of flow-through shares be allocated between the sale of the shares and the sale of the tax benefit. The allocation is made based on the difference between the quoted market price of the existing shares and the amount the investor pays for the flow through shares. A liability is established for the difference that is reversed upon renunciation of the tax benefit. The difference between the liability and the deferred tax liability is recorded as an income tax expense or recovery, if applicable.

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(e) Adjustments to the statement of cash flows

The transition to IFRS did not have an impact on the Company's statement of cash flows.

In accordance with IFRS 1 *First-time Adoption of IFRS*, certain disclosures, exemption and elections relating to the transition to IFRS are available. The Company has made estimates under IFRS at the date of transition, which are consistent with those estimates made for the same date under GAAP. The Company has chosen the following exemptions under IFRS 1:

20.1a IFRS 1 (D8A) Full-cost as deemed cost: The GAAP full cost pool was measured upon transition to IFRS as follows:

- i. exploration and evaluation assets were reclassified from the full cost pool to intangible exploration assets at the amount that was recorded under GAAP; and
- ii. the remaining full cost pool was allocated to the producing/development petroleum and natural gas properties and equipment, classified as property, plant and equipment, pro rata using Proved plus Probable ("2P") reserve values as the basis for allocation

This resulted in an increase in exploration and evaluation assets of \$154,589 with a corresponding decrease in property, plant and equipment at August 1, 2009. The Company performed an impairment test on transition to IFRS for both the exploration and evaluation assets and the petroleum and natural gas properties and equipment. There was no impairment on transition.

20.1b IFRS 1 (D2 & D3) Share-based payments: The exemption permits Pinecrest to not apply the provisions of IFRS 2 *Share-based Payments* to equity instruments that were issued, and vested prior to August 1, 2009. On transition, Pinecrest had a total of 364,800 outstanding stock options which were fully vested. By taking this exemption, Pinecrest was not required to make any adjustments to the balance sheet, statement of equity or cash flows on August 1, 2009.

20.1c A provision of \$67,912 relating to the flow through shares which were issued in May 2009, was set up with an offset to share capital in the opening balance sheet at August 1, 2009.

An explanation of how the transition from GAAP to IFRS has affected the Company's balance sheet, financial performance and cash flows is set out in the following tables and the notes that accompany the tables:

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20.1 Reconciliation of equity as at August 1, 2009

	Note	Canadian GAAP (restated)	Effect of transition to IFRS	IFRS
Assets				
Current				
Cash and cash equivalents		\$ 436,839	\$ -	\$ 436,839
Trade and other receivables		239,266	-	239,266
		676,105	-	676,105
Non-current assets				
Evaluation and exploration assets	20.1a	-	154,589	154,589
Property, plant and equipment	20.1a	2,473,901	(154,589)	2,319,312
		\$ 3,150,006	\$ -	\$ 3,150,006
Liabilities				
Current				
Trade and other payables		\$ 142,221	\$ -	\$ 142,221
Income taxes payable		226,684	-	226,684
Due to related party		347,951	-	347,951
		716,856	-	716,856
Non-current liabilities				
Due to related party		650,148	-	650,148
Provision for liabilities and other charges	20.1c	66,549	67,912	134,461
Deferred tax		284,274	-	284,274
		1,717,827	67,912	1,785,739
Shareholder's Equity				
Share capital	20.1c	1,718,132	(67,912)	1,650,220
Warrants		53,883	-	53,883
Contributed surplus	20.1b	71,928	-	71,928
Accumulated deficit		(411,764)	-	(411,764)
		1,432,179	(67,192)	1,364,267
		\$ 3,150,006	\$ -	\$ 3,150,006

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For the three months ended March 31, 2011 and three months ended April 30, 2010

20.2 Reconciliation of equity as at April 30, 2010

	Note	Canadian GAAP (restated)	Effect of transition to IFRS	IFRS
Assets				
Current				
Cash and cash equivalents		\$ 13,274	\$ -	\$ 13,274
Trade and other receivables		85,140	-	85,140
		98,414	-	98,414
Non-current assets				
Evaluation and exploration assets	20.2a	-	159,565	159,565
Property, plant and equipment	20.2b	3,025,331	47,430	3,072,761
		\$ 3,123,745	\$ 206,995	\$ 3,330,740
Liabilities				
Current				
Trade and other payables		\$ 676,036	\$ -	\$ 676,036
Income taxes payable		25,813	-	25,813
Due to related party		125,852	-	125,852
		827,701		827,701
Non-current liabilities				
Due to related party		650,148	-	650,148
Provision for liabilities and other charges	20.1c	81,198	67,912	149,110
Deferred tax	20.2c	231,095	58,221	289,316
		1,790,142	126,133	1,916,275
Shareholder's Equity				
Share capital	20.1c	1,971,434	(67,912)	1,903,522
Warrants		43,375	-	43,375
Contributed surplus		32,336	-	32,336
Accumulated deficit	20.2d	(713,542)	148,774	(564,768)
		1,333,603	80,862	1,414,465
		\$ 3,123,745	\$ 206,995	\$ 3,330,740

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For the three months ended March 31, 2011 and three months ended April 30, 2010

20.2 Reconciliation of comprehensive loss for the three months ended April 30, 2010

	Note	Canadian GAAP (restated)	Reclass from transition to IFRS	Effect of transition to IFRS	IFRS
Petroleum and natural gas sales		\$ 194,464	\$ -	\$ -	\$ 194,464
Royalties		(31,072)	-	-	(31,072)
Petroleum and natural gas revenue		163,392	-	-	163,392
Operating and transportation expense		54,634	-		54,634
Accretion expense	20(b)	1,787	(1,787)		-
Depletion and depreciation	20.2b	204,352		(76,564)	127,788
General and administrative expense		58,808			58,808
Operating loss		(156,189)	1,787	76,564	(77,838)
Finance expense	20(b)	3,383	1,787		5,170
Loss before income tax		(159,572)	-	76,564	(83,008)
Income tax expense					
Deferred income tax (recovery)	20.2c	(13,895)	-	21,365	7,470
Net Loss and Comprehensive Loss		\$ (145,677)	\$ -	\$ 55,199	\$ (90,478)

The nature of adjustments from Canadian GAAP to IFRS at April 30, 2010 are as follows:

	Debit (Credit) \$
20.2a Reclass to exploration and evaluation assets on transition at August 1, 2009	154,589
Expenditures for the nine months August 1, 2009 to April 30, 2010	4,976
Net increase in exploration and evaluation assets	159,565
20.2b Reclass from full cost pool to exploration and evaluation assets	(159,565)
Decrease in depletion for the six months August 1, 2009 to January 31, 2010	130,431
Decrease in depletion due for the three months February 1, 2010 to April 30, 2010	76,564
Net increase in property, plant and equipment	47,430
20.2c Effect of decrease in depletion, six months August 1, 2009 to January 31, 2010	(36,856)
Effect of decrease in depletion, three months February 1, 2010 to April 30, 2010	(21,365)
Net increase in deferred tax provision	(58,221)
20.2d Change in deficit due to IFRS 1 transition entries	-
Decrease in depletion, six months August 1, 2009 to January 31, 2010	(130,431)
Decrease in depletion, three months February 1, 2010 to April 30, 2010	(76,564)
Increase in deferred tax provision	58,221
Net decrease in accumulated deficit	(148,774)

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For the three months ended March 31, 2011 and three months ended April 30, 2010

20.3 Reconciliation of equity as at July 31, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current				
Cash and cash equivalents		\$ 17,960,092	\$ -	\$ 17,960,092
Trade and other receivables		507,080	-	507,080
Prepays and deposits		158,725	-	158,725
		18,625,897	-	18,625,897
Non-current assets				
Evaluation and exploration assets	20.3a	-	25,297,075	25,297,075
Property, plant and equipment	20.3b	32,182,337	(25,253,866)	6,928,471
Deferred tax	20.3c	246,052	(11,234)	234,818
		\$ 51,054,286	\$ 31,975	\$ 51,086,261
Liabilities				
Current				
Trade and other payables		\$ 1,061,674	\$ -	\$ 1,061,674
Income taxes payable		32,922	-	32,922
		1,094,596	-	1,094,596
Non-current liabilities				
Provision for liabilities and other charges	20.3d	1,262,073	1,152,702	2,414,775
		2,356,669	1,152,702	3,509,371
Shareholder's Equity				
Share capital		42,495,806	-	42,495,806
Warrants		6,712,871	-	6,712,871
Contributed surplus		1,121,896	-	1,121,896
Accumulated deficit	20.3e	(1,632,956)	(1,120,727)	(2,753,683)
		48,697,617	(1,120,727)	47,576,890
		\$ 51,054,286	\$ 31,975	\$ 51,086,261

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For the three months ended March 31, 2011 and three months ended April 30, 2010

20.3 Reconciliation of comprehensive loss for the twelve months ended July 31, 2010

	Note	Canadian GAAP	Reclass from transition to IFRS	Effect of transition to IFRS	IFRS
Petroleum and natural gas sales		\$ 1,219,663	\$ -	\$ -	\$ 1,219,663
Royalties		(154,487)	-	-	(154,487)
Petroleum and natural gas revenue		1,065,176	-	-	1,065,176
Other operating income		548	-	-	548
Total revenue and other operating income		1,065,724	-	-	1,065,724
Operating and transportation expense		311,782	-	-	311,782
Accretion expense	20(b)	4,282	(4,282)	-	-
Depletion and depreciation	20.3b	472,455	-	(43,209)	429,246
General and administrative expense	20.3d	825,274	805,296	1,152,702	2,783,272
Stock-based compensation		805,296	(805,296)	-	-
Operating loss		(1,353,365)	4,282	(1,109,493)	(2,458,576)
Finance expense	20(b)	30,168	4,282	-	34,450
Loss before income tax		(1,383,533)	-	-	(2,493,026)
Income tax expense					
Current income tax		8,508	-	-	8,508
Deferred income tax (recovery)	20.3c	(170,849)	-	11,234	(159,615)
		(162,341)	-	11,234	(151,107)
Net Loss and Comprehensive Loss		\$ (1,221,192)	\$ -	\$ (1,120,727)	\$ (2,341,919)

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For the three months ended March 31, 2011 and three months ended April 30, 2010

The nature of adjustments from Canadian GAAP to IFRS at July 31, 2010 are as follows:

	Debit (Credit) \$
20.3a Reclass to exploration and evaluation assets on transition	154,589
Expenditures for the twelve months August 1, 2009 to July 31, 2010	25,142,486
Net increase in exploration and evaluations assets	<u>25,297,075</u>
20.3b Reclass from full cost pool to exploration and evaluation assets	(25,297,075)
Decrease in depletion for the twelve months August 1, 2009 to July 31, 2010	43,209
Net decrease in property, plant and equipment	<u>(25,253,866)</u>
20.3c Effect of decrease in depletion, twelve months August 1, 2009 to July 31, 2010	11,234
Net decrease in deferred tax asset	<u>(11,234)</u>
20.3d Effect of provision for flow-through shares-increase in share-based payments	1,152,702
Net increase in provision for liabilities and other charges	<u>(1,152,702)</u>
20.3e Change in deficit due to IFRS 1 transition entries	-
Decrease in depletion for the twelve months August 1, 2009 to July 31, 2010	(43,209)
Effect of provision for flow-through shares - increase in share-based payments	1,152,702
Increase in deferred tax provision	11,234
Net increase in accumulated deficit	<u>1,120,727</u>

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For the three months ended March 31, 2011 and three months ended April 30, 2010

20.4 Reconciliation of equity as at December 31, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current				
Cash and cash equivalents		\$ 57,002,325	\$ -	\$ 57,002,325
Trade and other receivables		5,248,324	-	5,248,324
Prepays and deposits		646,458	-	646,458
		62,897,107	-	62,897,107
Non-current assets				
Evaluation and exploration assets	20.4a	-	84,733,613	84,733,613
Property, plant and equipment	20.4b	119,665,367	(84,677,619)	34,987,748
Deferred tax	20.4c	2,093,010	(18,263)	2,074,747
		\$ 184,655,484	\$ 37,731	\$ 184,693,215
Liabilities				
Current				
Trade and other payables		\$ 13,287,076	\$ -	\$ 13,287,076
Decommissioning provision		143,750	-	143,750
		13,430,826	-	13,430,826
Non-current liabilities				
Provision for liabilities and other charges	20.4d	1,708,760	1,152,702	2,861,462
		15,139,586	1,152,702	16,292,288
Shareholder's Equity				
Share capital		163,699,234	-	163,699,234
Warrants		6,712,871	-	6,712,871
Contributed surplus	20.4e	2,777,397	(385,028)	2,392,369
Accumulated deficit	20.4f	(3,673,604)	(729,943)	(4,403,547)
		169,515,898	(1,114,971)	168,400,927
		\$ 184,665,484	\$ 37,731	\$ 184,693,215

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For the three months ended March 31, 2011 and three months ended April 30, 2010

20.4 Reconciliation of comprehensive loss for the five months ended December 31, 2010

	Note	Canadian GAAP	Reclass from transition to IFRS	Effect of transition to IFRS	IFRS
Petroleum and natural gas sales		\$ 1,906,353	\$ -	\$ -	\$ 1,906,353
Royalties		(282,340)	-	-	(282,340)
Petroleum and natural gas revenue		1,624,013	-	-	1,624,013
Other income		672	-	-	672
Total revenue and other operating income		1,624,685	-	-	1,624,685
Operating and transportation expense		453,005		-	453,005
Accretion	20(b)	26,186	(26,186)	-	-
Depletion and depreciation	20.4b	822,265		(251,705)	570,560
General and administrative expense	20.4f	1,039,223	1,233,110	(286,908)	1,985,425
Stock-based compensation		1,233,110	(1,233,110)	-	-
			26,186		
Operating loss		(1,949,104)		538,613	(1,384,305)
Finance costs	20(b)	346,644	26,186	-	372,830
Loss before income tax		(2,295,748)	-	538,613	(1,757,135)
Income tax expense					
Current income tax		-		-	-
Deferred income tax (recovery)	20.4f	(255,100)	-	147,828	(107,272)
		(255,100)	-	147,828	(107,272)
Net Loss and Comprehensive Loss		\$ (2,040,648)	\$ -	\$ 390,785	\$ (1,649,863)

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The nature of adjustments from Canadian GAAP to IFRS for the five months ended December 31, 2010 are as follows:

	Debit (Credit) \$
	<u> </u>
20.4a Reclass to exploration and evaluation assets on transition	154,589
Expenditures for the twelve months August 1, 2009 to July 31, 2010	25,142,486
Expenditures for the five months August 1, 2010 to December 31, 2010	61,177,573
Transfer to property, plant and equipment, five months ended December 31, 2010	<u>(1,741,035)</u>
Net increase in exploration and evaluation assets	<u>84,733,613</u>
20.4b Reclass from full cost pool to exploration and evaluation assets	(84,773,613)
Decrease in capitalized stock-based compensation	(238,920)
Decrease in depletion for the twelve months August 1, 2009 to July 31, 2010	43,209
Decrease in depletion for the five months August 1, 2010 to December 31, 2010	<u>251,705</u>
Net decrease in property, plant and equipment	<u>(84,667,619)</u>
20.4c Effect of decrease in depletion, twelve months August 1, 2009 to July 31, 2010	(11,234)
Effect of decrease in depletion, five months August 1, 2010 to December 31, 2010	(147,829)
Decrease in tax-bump on capitalized stock-based compensation	<u>140,800</u>
Net decrease in deferred tax asset	<u>(18,263)</u>
20.4d Effect of provision for flow-through shares-increase in share-based payments	<u>1,152,702</u>
Net increase in provision for liabilities and other charges	<u>(1,152,702)</u>
20.4e Decrease in capitalized stock-based compensation	<u>(385,028)</u>
Net decrease in contributed surplus	<u>385,028</u>
20.4f Change in deficit due to IFRS 1 transition entries	-
Decrease in depletion for the twelve months August 1, 2009 to July 31, 2010	(43,209)
Effect of provision for flow-through shares - increase in share-based payments	1,152,702
Decrease in deferred tax expense, twelve months August 1, 2009 to July 31, 2010	11,234
Decrease in depletion for the five months August 1, 2010 to December 31, 2010	<u>(251,705)</u>
Decrease in stock-based compensation expense five months August 1, 2010 to December 31, 2010	<u>(286,908)</u>
Increase in deferred tax expense for the five months August 1, 2010 to December 31, 2010	<u>147,829</u>
Net increase in accumulated deficit	<u>729,943</u>