



**Condensed Interim Financial Statements
(Unaudited)**

**For the three and six months ended June 30, 2011 and
the three and six months ended July 31, 2010**

Pinecrest Energy Inc.

Condensed Balance Sheets

(Unaudited, in Canadian dollars, except per share amounts)

As at	Note	June 30, 2011	December 31, 2010 (restated to IFRS Note 22)	July 31, 2010 (restated to IFRS Note 22)	August 1, 2009 (restated to IFRS Note 22)
ASSETS					
Current assets					
Cash and cash equivalents		\$ -	\$ 57,002,325	17,960,092	\$ 436,839
Trade and other receivables		11,377,310	5,248,324	507,080	239,266
Prepays and deposits		999,319	646,458	158,725	-
		12,376,629	62,897,107	18,625,897	676,105
Non-current assets					
Exploration and evaluation assets	7	97,370,780	84,733,613	25,297,075	154,589
Property, plant and equipment	9	84,896,010	34,987,748	6,928,471	2,319,312
Deferred tax	12	692,520	2,074,747	234,818	-
Total Assets		\$ 195,335,939	\$ 184,693,215	\$ 51,086,261	\$ 3,150,006
LIABILITIES					
Current liabilities					
Trade and other payables		\$ 14,096,127	\$ 13,287,076	\$ 1,061,674	\$ 142,221
Income taxes payable		-	-	32,922	226,684
Due to related party		-	-	-	347,951
		14,096,127	13,287,076	1,094,596	716,856
Non-current liabilities					
Credit facility	10	8,782,370	-	-	-
Due to related party		-	-	-	650,148
Provision for liabilities and other charges	11	1,942,960	3,005,212	2,414,775	134,461
Deferred tax		-	-	-	284,274
Total Liabilities		24,821,457	16,292,288	3,509,371	1,785,739
Shareholders' Equity					
Share capital	13	164,291,886	163,699,234	42,495,806	1,650,220
Warrants	14	6,599,644	6,712,871	6,712,871	53,883
Contributed surplus		3,223,636	2,392,369	1,121,896	71,928
Accumulated deficit		(3,600,684)	(4,403,547)	(2,753,683)	(411,764)
Total Shareholders' Equity		170,514,482	168,400,927	47,576,890	1,364,267
Commitments	20				
Subsequent events	21				
Total Liabilities and Shareholders' Equity		\$ 195,335,939	\$ 184,693,215	\$ 51,086,261	\$ 3,150,006

The notes are an integral part of these interim financial statements

Pinecrest Energy Inc.

Condensed Statements of Comprehensive Income (Loss)

(Unaudited, in Canadian dollars, except per share amounts)

	Note	Three months ended		Six months ended	
		June 30, 2011	July 31, 2010	June 30, 2011	July 31, 2010
Petroleum and natural gas sales		\$ 7,747,513	\$ 561,351	\$ 13,847,449	\$ 755,815
Royalties		(857,434)	(61,386)	(1,648,407)	(92,458)
Petroleum and natural gas revenue		6,890,079	499,965	12,199,042	663,357
Other operating income (loss)		49,863	(882)	61,519	(882)
Total revenue and other operating income		6,939,942	499,083	12,260,561	662,475
Operating and transportation expense		1,643,983	133,038	2,866,572	187,672
Exploration expense	7	246,680	-	2,126,108	-
Depletion and depreciation	9	2,459,413	125,223	4,184,602	253,011
General and administrative expense		1,005,208	2,568,264	1,811,336	2,627,072
Operating income (loss)		1,584,658	(2,327,442)	1,271,943	(2,405,280)
Finance expense	18	67,904	11,824	85,862	16,994
Income (loss) before income tax		1,516,754	(2,339,266)	1,186,081	(2,422,274)
Income tax expense					
Current income tax expense		-	8,508	-	8,508
Deferred income tax (recovery) expense		387,270	(158,859)	383,218	(151,389)
		387,270	(150,351)	383,218	(142,881)
Net Income (Loss) and Comprehensive Income (Loss)		\$ 1,129,484	\$ (2,188,915)	\$ 802,863	\$ (2,279,393)
Income (loss) per common share					
Basic	16	\$0.01	\$(0.04)	\$0.00	\$(0.08)
Diluted	16	\$0.01	\$(0.04)	\$0.00	\$(0.08)

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Pinecrest Energy Inc.

Condensed Statements of Changes in Equity

(Unaudited, in Canadian dollars)

Six months ended June 30, 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		-	-	-	802,863	802,863
Share issue costs, net of tax		(2,344)	505	-	-	(1,839)
Exercise of warrants	14	594,996	(113,732)	-	-	481,264
Share-based payments	15	-	-	831,267	-	831,267
		592,652	(113,227)	831,267	802,863	2,113,555
June 30, 2011		\$164,291,886	\$ 6,599,644	\$ 3,223,636	\$ (3,600,684)	\$ 170,514,482

Six months ended July 31, 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		-	-	-	(2,279,393)	(2,279,393)
Issue of common shares and warrants		41,931,731	6,722,947	-	-	48,654,678
Share and warrant issue costs, net of tax		(1,504,707)	(41,100)	-	-	(1,545,807)
Exercise of warrants	14	236,904	(22,859)	1,103,424	-	1,317,469
Exercise of options	15	187,456	-	(53,456)	-	134,000
		40,851,384	6,658,988	1,049,968	(2,279,393)	46,280,947
July 31, 2010		\$ 42,495,806	\$ 6,712,871	\$ 1,121,896	\$ (2,753,683)	\$ 47,576,890

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Pinecrest Energy Inc.

Condensed Statements of Cash Flows

(Unaudited, in Canadian dollars)

	Three months ended		Six months ended		
	Note	June 30, 2011	July 31, 2010	June 30, 2011	July 31, 2010
Cash flows from operating activities					
Net income (loss)		\$ 1,129,484	\$ (2,188,915)	\$ 802,863	\$ (2,279,393)
Adjustments for:					
Decommissioning provision		26,685	930	44,643	2,717
Exploration and evaluation expense		246,680	-	2,126,108	-
Depletion and depreciation		2,459,413	125,223	4,184,602	253,011
Share-based payments		323,651	1,957,998	624,723	1,957,998
Amortized finance costs		6,148	-	6,148	-
Deferred income tax expense		387,270	(158,859)	383,218	(151,389)
Change in non-cash working capital		4,448,929	(678,850)	3,203,305	(670,170)
Net cash from (used in) operating		9,028,260	(942,473)	11,375,610	(887,226)
Cash flows from investing activities					
Expenditure on exploration and evaluation assets		(13,256,085)	(9,369,476)	(13,998,606)	(25,137,510)
Acquisition of exploration and evaluation assets		(2,405,590)	(15,768,034)	(2,425,590)	-
Expenditure on property, plant and equipment		(5,492,588)	(322,345)	(51,756,215)	(2,799,488)
Acquisition of property, plant and equipment		(115,540)	(2,196,807)	(577,070)	-
Change in non-cash working capital		(22,431,218)	487,547	(8,903,964)	487,547
Net cash from (used in) investing activities		(43,701,021)	(27,169,115)	(77,661,445)	(27,449,451)
Cash flows from financing activities					
Proceeds from credit facility		8,776,222	-	8,776,222	-
Proceeds from issue of common shares		300,240	42,181,771	481,264	42,279,771
Proceeds from issue of warrants		-	6,611,947	-	6,722,947
Share and warrant issue costs		-	(1,978,998)	(1,839)	(1,978,998)
Advances to related parties		-	(756,314)	-	(772,617)
Change in non-cash working capital		27,863	-	27,863	-
Net cash from (used in) financing activities		9,104,325	46,058,406	9,283,510	46,251,103
Net increase (decrease) in cash and cash equivalents		(25,568,436)	17,946,818	(57,002,325)	17,914,426
Cash and cash equivalents, beginning of period		25,568,436	13,274	57,002,325	45,666
Cash and cash equivalents, end of period		\$ -	\$ 17,960,092	\$ -	\$ 17,960,092
Interest received		\$ -	\$ -	\$ -	\$ -
Interest paid		\$ 35,071	\$ 10,894	\$ 35,071	\$ 14,277

The notes are an integral part of these interim financial statements

Pinecrest Energy Inc.
Notes to Condensed Interim Financial Statements
For the six months ended June 30, 2011, and six months ended July 31, 2010
(Unaudited, in Canadian dollars unless otherwise stated)

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. 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 ("Recapitalization").

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 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 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 and six month period for the quarter ended June 30, 2011 with comparative information for the three and six months ended July 31, 2010. Due to the different periods, the information may not be fully comparable.

2. BASIS OF PREPARATION

a) Statement of Compliance

These unaudited interim financial statements 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.

These unaudited interim financial statements have been 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 June 30, 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 22.

The Board of Directors has approved and authorized the issuance of these condensed interim financial statements on August 11, 2011.

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.

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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, revisions of these estimates, assumptions and judgments are recognized in the year in which the estimates are revised 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.
- 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.

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- 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.

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(e).

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.

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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) 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.

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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.

f) 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.

g) 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.

h) 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.

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- (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.

i) 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.

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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.

j) 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.

k) 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.

l) 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:

- (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.

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- (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.

m) Finance Expense

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

n) Leases

The Company enters into operating leases in the normal course of business, which are not recognized on the balance sheet. Operating lease payments are recognized in net income in the period in which they are incurred, which is generally on a straight-line basis over the term of the lease.

o) Per Share Calculations

Basic loss per share is calculated by dividing net income (loss) attributable to common shareholders 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 which comprise warrants and share options granted. The calculation assumes that the proceeds on exercise of the warrants or options are used to repurchase shares at the current market price. Should the Company have a loss in a period, stock options and share warrants would be anti-dilutive and are excluded from the determination of fully diluted loss per share.

p) Recent Accounting Pronouncements Issued

The following are new and revised accounting pronouncements that have been issued but are not yet effective. Management is currently assessing the impact of these new standards on the Company's accounting policies and financial statement presentation.

- **IFRS 7 Financial Instruments Disclosures-Transfers of Financial Assets;** was amended in October 2010 to require additional disclosure on the transfer of financial assets to: (i) understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities, and (ii) to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. IFRS 7 is effective for annual periods beginning on or after July 1, 2011.
- **IFRS 9 Financial Instruments:** is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. IFRS 9 was issued by the IASB in November 2009 and amended in October 2010 and is the first step to replace IAS 39, "Financial Instruments: Recognition and Measurement". 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.
- **IAS 12 Income Taxes:** IAS 12 was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for annual periods beginning on or after January 12, 2012 with early adoption permitted.

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- **IFRS 10 Consolidated Financial Statements:** IFRS 10 was issued in May 2011 and will replace portions of IAS 27 "Consolidation and Separate Financial Statements" and interpretation SIC-12 "Consolidation - Special Purpose Entities." The key features of IFRS 10 include consolidation using a single control model, definition of control, considerations on power and continuous reassessment. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.
- **IFRS 11 Joint Arrangements:** IFRS 11 was issued in May 2011 and will replace the guidance in IAS 31 "Interests in Joint Ventures." Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. The legal form of the arrangement will no longer be the most significant factor when classifying the joint arrangement as either a joint operation or joint venture, but rather the rights and obligations of the arrangements will be focused on. In addition, IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation; instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Management has determined that early adoption of this standard will have no impact on its financial statements.
- **IFRS 12 Disclosure of Interests in Other Entities:** IFRS 12 was issued in May 2011 and contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. The disclosures are intended to provide information in order to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.
- **IFRS 13 Fair Value Measurement:** IFRS 13 was issued in May 2011 and replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. IFRS 13 is effective for annual periods beginning on or after January 13, 2013 and is to be applied prospectively.
- **IAS 27 Separate Financial Statements:** IAS 27 was reissued in May 2011 as a result of the new consolidation suite of standards, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. These amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.
- **IAS 28 Investments in Associates and Joint Ventures:** IAS 28 was amended in May 2011 as a consequence of the issuance of IFRS 10, IFRS 11 and IFRS 12 and will provide the accounting guidance for investments in associates and will set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. These amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

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5. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods:

- a) **Exploration and evaluation assets and property, plant and equipment:** The fair value of property, plant and equipment recognized in a business combination is based on market values. The market value of property, plant and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of petroleum and natural gas properties, included in property, plant and equipment and exploration and evaluation assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The market value of other items of property and equipment is based on the quoted market prices for similar items.
- b) **Cash and cash equivalents, trade receivable, trade and other payables:** The fair value of cash and cash equivalents, trade and other receivables and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of these balances approximated their carrying value due to their short term to maturity.
- c) **Credit facility:** The fair value of the credit facility approximates its carrying value, as it bears interest at floating rates and the premium charge at June 30, 2011 was indicative by the Company's current credit spreads.
- d) **Stock options:** The fair value of stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior) and the risk-free interest rate (based on government bonds).

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – observable inputs such as quoted market prices in active markets;
- Level 2 – inputs, other than the quoted market prices in active markets, which are observable, either directly and or indirectly; and
- Level 3 – unobservable inputs for the asset or liability in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

6. FINANCIAL RISK MANAGEMENT

The Company is exposed to credit, market and liquidity risks from its use of financial instruments. Risk management is ultimately established by the Board of Directors and is implemented and monitored by senior management.

- a) **Credit risk:** The Company is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The maximum exposure of the Company to credit risk at June 30, 2011 is limited to the cash and cash equivalents and trade receivable balances as reported on the balance sheets.

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(Unaudited, in Canadian dollars unless otherwise stated)

- i) **Cash and cash equivalents:** At June 30, 2011 cash and cash equivalents are comprised of bank balances, less outstanding cheques and is included in trade and other payables. 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.
- ii) **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. All of the Company's trade and other receivables are from joint interest partners and crude oil and natural gas marketers. Receivables from joint interest partners are typically collected within one to three months of the joint venture billings. 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 result in the Company's ability to collect these amounts. The carrying amount of trade and other receivables represents the maximum credit exposure to the Company. At June 30, 2011, the Company's trade and other receivables included \$2,309,916 million from crude oil and natural gas marketers which has substantially been collected subsequent to June 30, 2011. No provision for doubtful accounts has been made at June 30, 2011.

As at June 30, 2011, the Company's aged trade and other receivables are as follows:

	June 30, 2011
Current (less than 30 days)	\$ 4,721,249
31 – 90 days	3,848,663
Greater than 90 days	2,807,398
Total	\$ 11,377,310

- b) **Liquidity risk:** Liquidity risk is the risk that the Company will not be able to meet a demand for cash or fund its financial liabilities as they come due. Liquidity risk also includes the risk of the Company not being able to liquidate assets in a timely manner at a reasonable price. The Company monitors its liquidity requirements by preparing an annual budget, which anticipates operating, investing and financing activities. The Company generates a certain level of cash flows which is used to partially fund operating, investing and financing activities. In addition, the Company has a revolving reserves-based credit facility which is disclosed in Note 10. The following are the contractual maturities of financial liabilities as at June 30, 2011:

	Less than One Year	One to Two Years	Thereafter
Trade and other payables	\$ 14,096,127	\$ -	\$ -
Credit facility	-	8,782,370	-
Total	\$ 14,096,127	\$ 8,782,370	\$ -

- c) **Market risk:** Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will impact the Company's net earnings, future cash flows or the value of the Company's financial assets and financial liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted within the risk management tolerances as established by the Board of Directors.

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- i) 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 or hedges as at June 30, 2011. Had the borrowing rate been 100 basis points higher (or lower) for the six months ended June 30, 2011, net income would have been affected by \$2,850 based on the average outstanding bank debt balance outstanding for the period.
- ii) 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 United States dollar (USD). Significant changes in commodity prices may materially impact the Company's ability to raise capital. The Company did not have any commodity price risk management contracts in place June 30, 2011, December 31, 2010, July 31, 2010 or August 1, 2009 to manage these risks.
- iii) 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 commodity prices are largely denominated in USD, and as a result the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar compared to the USD will reduce the prices received by the Company for its crude oil and natural gas sales. The Company did not have any foreign exchange rate swaps or related financial contracts in place as at June 30, 2011.
- d) Capital Management:** The Company's capital management policy is 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, future capital projects and to fund property and corporate acquisitions. The Company's share capital is not subject to any externally imposed restrictions. At June 30, 2011, the Company's capital structure included shareholders' equity of \$170.5 million, credit facility of \$8.8 million and working capital deficiency of \$1.7 million.

Pinecrest monitors its capital structure based on the ratio of total debt (which includes working capital deficiency plus outstanding credit facilities) to funds from operations. This ratio is calculated by dividing the total debt at the end of the period by the annualized current monthly funds from operations (defined as cash flow from operating activities before expenditures on decommissioning activities and changes in non-cash working capital). This ratio may increase at certain times due to the timing of capital expenditures, acquisitions and changes in market conditions. In order to monitor this ratio, the Company prepares operating and capital expenditure budgets and forecasts, which are updated as necessary depending on factors such as current and forecast crude oil and natural gas prices, capital deployment and general industry conditions.

The budgets are monitored by management and approved by the Board of Directors during the year. In order to maintain or adjust its capital structure, the Company may issue commons shares if available upon acceptable terms, seek additional debt financing and adjust its capital spending. Company's overall objective in managing its capital structure has not changed during the period.

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Notes to Condensed Interim Financial Statements

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7. EXPLORATION AND EVALUATION ASSETS

	Cost
At August 1, 2009	\$ 154,589
Capital expenditures	25,142,486
At July 31, 2010	\$ 25,297,075
Capital expenditures	56,487,557
Acquisitions	4,690,016
Transfers to property, plant and equipment (Note 9)	(1,741,035)
At December 31, 2010	\$ 84,733,613
Capital expenditures	13,998,606
Acquisitions	2,425,590
Transfers to property, plant and equipment (Note 9)	(1,660,921)
Expired undeveloped land	(2,126,108)
At June 30, 2011	\$ 97,370,780

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 June 30, 2011, there were no indicators of impairment noted. For the six months ended June 30, 2011, \$2,126,108 million in costs related to expired land was charged directly to the statement of comprehensive loss.

8. PROPERTY ACQUISITION

On June 1, 2011, Pinecrest acquired certain interests in petroleum and natural gas properties for cash consideration of \$2,500,695. Using the purchase method, \$2,405,590 was recognized in exploration and evaluation assets for the value of undeveloped land, \$95,105 was recognized in property, plant and equipment and decommissioning liabilities of \$27,328 were recognized in relation to the acquired properties.

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9. 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 7)	1,741,035	-	1,741,035
At December 31, 2010	\$ 35,961,403	\$ 190,744	\$ 36,152,147
Additions	51,818,506	36,367	51,854,873
Acquisitions	577,070	-	577,070
Transfer from exploration and evaluation assets (Note 7)	1,660,921	-	1,660,921
At June 30, 2011	\$ 90,017,900	\$ 227,111	\$ 90,245,011
Accumulated Depletion & Depreciation			
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	4,160,332	24,270	4,184,602
At June 30, 2011	\$ 5,287,174	\$ 61,827	\$ 5,349,001
Carrying Value			
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 June 30, 2011	\$ 84,730,726	\$ 165,284	\$ 84,896,010

At June 30, 2011, future development costs of \$2,943,000 (December 31, 2010 - \$6,287,000) were included in the depletion calculation and costs of \$4,666,021 (December 31, 2010 - \$2,729,270) relating to projects under construction were excluded from the depletion calculation. During the six month period ended June 30, 2011 Pinecrest capitalized personnel costs of \$574,572, which includes \$206,544 of share-based payments and \$368,028 of general and administrative expenses (five months ended December 31, 2010 - \$540,211, which includes \$324,271 of 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 June 30, 2011, there were no indicators of impairment noted.

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10. CREDIT FACILITY

On May 18, 2011, the Company amended and restated its \$30,000,000 credit facility with a Canadian chartered bank. Advances under the credit facility may be made by way of Canadian Prime Rate Loans, U.S. Base Rate Loans, Bankers' Acceptances, LIBOR Based Loans and Letters of Credit. The Canadian Prime Rate Loan bears interest at the Canadian prime rate plus the applicable margin. The applicable margin is based on a sliding scale pricing grid tied to the Company's trailing debt to annualized quarterly funds from operations ratio, ranging from a minimum of 1.25% to a maximum of 3.25%.

The credit facility is secured by a \$100,000,000 general debenture and a general security interest on all of the present and future acquired assets of the Company. The credit facility constitutes a revolving facility for a 364 day term which is extendable annually for a further 364 day revolving period if requested by the Company and accepted by the lender. If the revolving period is not extended, the undrawn portion of the facility will be cancelled and the amount outstanding will convert to a 366 day non-revolving term facility. The amounts outstanding under the non-revolving facility are required to be repaid at the end of the non-revolving term being May 18, 2013. The current term conversion date for the credit facility is May 18, 2012. The next review of the revolving credit facility by the bank is scheduled on November 30, 2011.

At June 30, 2011, \$8,782,370 (December 31, 2010 – nil; July 31, 2010 – nil; August 31, 2009 – nil) had been drawn on the revolving credit facility. During the three months ended June 30, 2011, the Company incurred interest expense relating to the credit facility of \$41,219.

11. 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	143,772	-	143,772
Revision of estimates	(251,656)	-	(251,656)
Accretion expense	44,643	-	44,643
Reversal of provision	-	(999,011)	(999,011)
At June 30, 2011	\$ 1,789,269	\$ 153,691	\$ 1,942,960

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- (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 \$3,460,723 at June 30, 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 13(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.

12. TAXATION

The Company used an effective tax rate of 27.6% to determine its current period tax recovery. As at June 30, 2011 the Company has approximately \$182 million in tax pools available to offset future taxable income.

13. SHARE CAPITAL

At June 30, 2011, the Company has an authorized unlimited number of common shares without nominal or par value and an 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.

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Share Capital 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 14	-	(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 14	-	(3,053,158)
Issued in bought deal financing (v)	27,657,500	28,763,800
Issued on exercise of options (Note 15)	259,200	187,456
Issued on exercise of warrants (Note 14)	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 14)	862,447	594,996
Share issue costs, net of tax	-	(2,344)
Balance, June 30, 2011	170,501,364	164,291,886

- (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 14). 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.
- (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

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("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 June 30, 2011 a total of 15,086,273 (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.

14. WARRANTS

	Number	Stated Value
Balance, August 1, 2009	857,134	\$ 53,883
Private placement common share Units (Note 13 (iv))	16,063,864	3,669,789
Private placement flow-through Units (Note 13 (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	(862,447)	(113,732)
Share issue costs, net of tax	-	505
Balance, June 30, 2011	29,066,483	\$ 6,599,644

The issued and outstanding warrants are as follows:

	June 30, 2011	December 31, 2010	August 1, 2009
2009 Private placement	-	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	29,066,483	29,928,930	857,134

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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

15. 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.

During the six months ended June 30, 2011 the Company recorded non-cash compensation expense of \$831,267, of which \$624,723 has been expensed and \$206,544 capitalized to petroleum and natural gas properties and equipment (Note 9). (July 31, 2010 - \$2,256,126; \$1,957,998 expensed and \$298,128 capitalized).

Stock Options	Outstanding	
	Number	Weighted Average Exercise Price
Outstanding, August 2, 2009	364,800	\$0.53
Exercised (i)	(259,200)	\$0.20
Expired	(105,600)	\$0.45
Outstanding, July 31, 2010	-	\$0.00
Granted	4,975,000	\$1.52
Outstanding, December 31, 2010	4,975,000	\$1.52
Granted	50,000	\$2.69
Outstanding, June 30, 2011	5,025,000	\$1.54
Exercisable, June 30, 2011	1,675,003	\$1.54

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

The range of exercise prices of the outstanding options at June 30, 2011 is as follows:

Range of exercise prices	Number of Options	Weighted average exercise price	Weighted average remaining life (years)
\$0.50 - \$1.85	4,975,000	\$1.52	4.09
\$2.69 - \$2.69	50,000	\$2.69	4.50
Total	5,025,000	\$1.54	4.09

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The fair value of options was estimated using the Black-Scholes option pricing model with the following weighted average inputs:

	June 30, 2011	December 31, 2010
Fair value at grant date	\$1.12	\$0.26
Grant price	\$2.69	\$1.52
Exercise price	\$2.69	\$1.52
Risk-free interest rate (%)	1.93%	2.0%
Expected life (years)	3.8	5.0
Expected volatility (%)	53.5%	55.0%
Forfeiture rate	0%	0%

b) Performance Warrants: On May 21, 2010, the Company granted 4,830,000 of performance warrants to various directors, officers and employees, all of which have vested. The warrants are exercisable at \$0.50 per common share 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 June 30, 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
Outstanding, December 31, 2010	4,830,000	\$0.50	4,830,000	\$0.50
Outstanding, June 30, 2011	4,830,000	\$0.50	4,830,000	\$0.50

c) 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 13(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.

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16. PER SHARE AMOUNTS

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options and warrants was based on quoted market prices for the period that the options and warrants were outstanding. The effect of all stock options and warrants has been excluded from the calculation in periods where the company reported a loss, as they are anti-dilutive. The following table summarizes the weighted average shares used in calculating the net income (loss) per share:

	Three months ended		Six months ended	
	June 30, 2011	July 31, 2010	June 30, 2011	July 31, 2010
Net income (loss) for the period	\$ 1,129,484	\$ (2,188,915)	\$ 802,863	\$ (2,279,393)
Issued common shares, beginning of period	170,000,964	4,375,400	169,962,298	4,000,000
Common shares issued	-	26,149,416	-	13,291,416
Share options exercised	-	53,096	-	127,682
Warrants exercised	336,347	25,244,825	169,103	12,939,966
Weighted average number of common shares - basic	170,337,311	55,822,737	170,131,401	30,359,064
Effect of stock options and share warrants outstanding	29,661,578	19,926,100	29,349,792	7,807,709
Weighted average number of common shares - diluted	199,998,889	75,748,837	199,481,193	38,166,773
Earnings (loss) per share:				
Basic	\$0.01	\$(0.04)	\$0.00	\$(0.08)
Diluted	\$0.01	\$(0.04)	\$0.00	\$(0.08)

17. 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 and six month periods ended June 30, 2011, the Company incurred legal fees and disbursements of \$8,600 and \$55,522 (\$298,344 three months and six months July 31, 2010) related to general matters and equity financings, of which \$37,158 was outstanding at July 31, 2011 (December 31, 2010 - \$94,300; July 31, 2010 - \$86,966; August 1, 2009 - \$nil).

Prior to the Recapitalization, general and administrative expenses include, for the three and six month periods ended July 31, 2010, legal expenses of \$84,668 and \$110,857 and rent expenses of \$nil and \$8,571 respectively 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 and six month periods ended June 30, 2011. There were no balances owing as at June 30, 2011 (December 31, 2010 - \$nil).

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18. FINANCE EXPENSE

	Three months ended		Six months ended	
	June 30, 2011	July 31, 2010	June 30, 2011	July 31, 2010
Accretion expense	\$ 26,685	\$ 930	\$ 44,643	\$ 2,717
Interest expense	41,219	10,894	41,219	14,277
Total finance expense	\$ 67,904	\$ 11,824	\$ 85,862	\$ 16,994

19. SUPPLEMENTARY CASH FLOW INFORMATION

	Six months ended	Six months ended
	June 30, 2011	July 31, 2010
Trade and other receivables	\$ (6,128,986)	\$ (454,919)
Prepays and deposits	(352,861)	(158,725)
Trade and other payables	809,051	425,988
Income taxes payable	-	5,033
Change in non-cash working capital	\$ (5,672,796)	\$ (182,623)
Net change in non-cash working capital relating to:		
Operating activities	\$ 3,203,305	\$ (670,170)
Investing activities	(8,903,964)	487,547
Financing activities	27,863	-
	\$ (5,672,796)	\$ (182,623)

20. COMMITMENTS

- a) **Office lease:** The Company has an obligation under its existing sub-lease to pay \$65,910 to September 2011. During the six months ended June 30, 2011 the Company entered into a new lease agreement, effective October 1, 2011 which expires September 30, 2014 and is committed to make lease payments over the next 3 years of \$230,160 per year plus operating costs.
- b) **Equipment purchases:** During the six months ended June 30, 2011, the Company has entered into commitments to purchase well equipment, which will be delivered over the next 12 months, totalling \$2,866,690. The equipment purchase commitments all have cancellation clauses, which require the Company to give 30 days' notice should the equipment not be required.
- c) **Farm-in agreement:** During the six months ended June 30, 2011, the Company has a drilling commitment pursuant to a farm-in agreement to drill and complete one horizontal well in the Slave Point formation in the Greater Red Earth Area, by September 1, 2011. Capital costs of approximately \$2.2 million are expected to earn Pinecrest a 100% working interest in the well.

21. SUBSEQUENT EVENTS

- a) **Property Swap:** On July 27, 2011, the Company completed an exchange agreement with a partner, effective June 30, 2011 in which undeveloped land and certain developed and producing properties were exchanged for undeveloped land and certain developed and producing properties in the Greater Red Earth area of Alberta. The exchange consolidated Pinecrest's interests in certain fields in the Red Earth area.
- b) **Bought Deal Financing \$60,000,000:** On August 3, 2011, the Company announced that it had

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entered into an agreement with a syndicate of underwriters to issue on a bought deal basis 25,000,000 Common Shares at an issue price of \$2.40 per share for gross proceeds of approximately \$60,000,000. In addition, the Company has granted the underwriters an option (the "Over-Allotment Option") to purchase up to an additional 3,750,000 Common Shares at an issue price of \$2.40 per Common Share for additional gross proceeds of \$9,000,000. The Over-Allotment Option is exercisable in whole or in part for a period of 30 days following the closing of the offering. The Preliminary Prospectus was filed on August 9, 2011 and the Offering is expected to close on or about August 24, 2011.

22. EXPLANATION OF THE EFFECT OF TRANSITION TO IFRS

As stated in Note 2, these interim financial statements for the period ended June 30, 2011 are prepared in accordance with IFRS. For all accounting periods prior to 2011 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.

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(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.

(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:

22.1a 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.

22.1b 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.

22.1c 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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22.1 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	22.1a	-	154,589	154,589
Property, plant and equipment	22.1a	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	22.1c	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	22.1c	1,718,132	(67,912)	1,650,220
Warrants		53,883	-	53,883
Contributed surplus	22.1b	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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22.3 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	22.3a	-	25,297,075	25,297,075
Property, plant and equipment	22.3b	32,182,337	(25,253,866)	6,928,471
Deferred tax	22.3c	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	22.3d	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	22.3e	(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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22.3 Reconciliation of comprehensive loss for the three months ended July 31, 2010

	Note	Canadian GAAP	Reclass from transition to IFRS	Effect of transition to IFRS	IFRS
Petroleum and natural gas sales		\$ 561,351	\$ -	\$ -	\$ 561,351
Royalties		(61,386)	-	-	(61,386)
Petroleum and natural gas revenue		499,965	-	-	499,965
Other operating income (loss)		(882)	-	-	(882)
Total revenue and other operating income		499,083	-	-	499,083
Operating and transportation expense		133,038	-	-	133,038
Accretion expense	22(b)	930	(930)	-	-
Depletion and depreciation	22.3b	(38,563)	-	163,786	125,223
General and administrative expense	22.3d	610,266	805,296	1,152,702	2,568,264
Stock-based compensation		805,296	(805,296)	-	-
Operating loss		(1,011,884)	930	(1,316,488)	(2,327,442)
Finance expense	22(b)	10,894	930	-	11,824
Loss before income tax		(1,022,778)	-	(1,316,488)	(2,339,266)
Income tax expense					
Current income tax		8,508	-	-	8,508
Deferred income tax (recovery)	22.3c	(111,872)	-	(46,987)	(158,859)
		(103,364)	-	(46,987)	(150,351)
Net Loss and Comprehensive Loss		\$ (919,414)	\$ -	\$ (1,269,501)	\$ (2,188,915)

22.3 Reconciliation of comprehensive loss for the six months ended July 31, 2010

	Note	Canadian GAAP	Reclass from transition to IFRS	Effect of transition to IFRS	IFRS
Petroleum and natural gas sales		\$ 755,815	\$ -	\$ -	\$ 755,815
Royalties		(92,458)	-	-	(92,458)
Petroleum and natural gas revenue		663,357	-	-	663,357
Other operating income		(882)	-	-	(882)
Total revenue and other operating income		662,475	-	-	662,475
Operating and transportation expense		187,672	-	-	187,672
Accretion expense	22(b)	2,717	(2,717)	-	-
Depletion and depreciation	22.3b	165,789	-	87,222	253,011
General and administrative expense	22.3d	669,074	805,296	1,152,702	2,627,072
Stock-based compensation		805,296	(805,296)	-	-
Operating loss		(1,168,073)	2,717	(1,239,924)	(2,405,280)
Finance expense	22(b)	14,277	2,717	-	16,994
Loss before income tax		(1,182,350)	-	(1,239,924)	(2,422,274)
Income tax expense					
Current income tax		8,508	-	-	8,508
Deferred income tax (recovery)	22.3c	(125,767)	-	(25,622)	(151,389)
		(117,259)	-	(25,622)	(142,881)
Net Loss and Comprehensive Loss		\$ (1,065,091)	\$ -	\$ (1,214,302)	\$ (2,279,393)

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22.3 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	22(b)	4,282	(4,282)	-	-
Depletion and depreciation	22.3b	472,455	-	(43,209)	429,246
General and administrative expense	22.3d	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	22(b)	30,168	4,282	-	34,450
Loss before income tax		(1,383,533)	-	(1,109,493)	(2,493,026)
Income tax expense					
Current income tax		8,508	-	-	8,508
Deferred income tax (recovery)	22.3c	(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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The nature of adjustments from Canadian GAAP to IFRS at July 31, 2010 are as follows:

	Debit (Credit) \$
	<u> </u>
22.3a 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>
22.3b Reclass from full cost pool to exploration and evaluation assets	(25,297,075)
Decrease in depletion for the six months August 1, 2009 to January 31, 2010	130,431
Decrease in depletion for the three months February 1, 2010 to April 30, 2010	76,564
Increase in depletion for the three months May 1, 2010 to July 31, 2010	(163,786)
Net decrease in property, plant and equipment	<u>(25,253,866)</u>
22.3c Effect of decrease in depletion, six months August 1, 2009 to July 31, 2010	(36,856)
Effect of decrease in depletion, three months February 1, 2010 to April 30, 2010	(21,365)
Effect of increase in depletion, three months May 1, 2010 to July 31, 2010	46,987
Net decrease in deferred tax asset	<u>(11,234)</u>
22.3d 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>
22.3e 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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22.4 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	22.4a	-	84,733,613	84,733,613
Property, plant and equipment	22.4b	119,665,367	(84,677,619)	34,987,748
Deferred tax	22.4c	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	22.4d	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	22.4e	2,777,397	(385,028)	2,392,369
Accumulated deficit	22.4f	(3,673,604)	(729,943)	(4,403,547)
		169,515,898	(1,114,971)	168,400,927
		\$ 184,655,484	\$ 37,731	\$ 184,693,215

Pinecrest Energy Inc.

Notes to Condensed Interim Financial Statements

For the six months ended June 30, 2011, and six months ended July 31, 2010

(Unaudited, in Canadian dollars unless otherwise stated)

22.4 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	22(b)	26,186	(26,186)	-	-
Depletion and depreciation	22.4b	822,265		(251,705)	570,560
General and administrative expense	22.4f	1,039,223	1,233,110	(286,908)	1,985,425
Stock-based compensation		1,233,110	(1,233,110)	-	-
Operating loss		(1,949,104)	26,186	538,613	(1,384,305)
Finance costs	22(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)	22.4f	(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)

Pinecrest Energy Inc.
Notes to Condensed Interim Financial Statements
For the six months ended June 30, 2011, and six months ended July 31, 2010
(Unaudited, in Canadian dollars unless otherwise stated)

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

	Debit (Credit) \$
22.4a	
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	(1,741,035)
Net increase in exploration and evaluation assets	84,733,613
22.4b	
Reclass from full cost pool to exploration and evaluation assets	(84,733,613)
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	251,705
Net decrease in property, plant and equipment	(84,677,619)
22.4c	
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	140,800
Net decrease in deferred tax asset	(18,263)
22.4d	
Effect of provision for flow-through shares-increase in share-based payments	1,152,702
Net increase in provision for liabilities and other charges	(1,152,702)
22.4e	
Decrease in capitalized stock-based compensation	(385,028)
Net decrease in contributed surplus	385,028
22.4f	
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	(251,705)
Decrease in stock-based compensation expense five months August 1, 2010 to December 31, 2010	(286,908)
Increase in deferred tax expense for the five months August 1, 2010 to December 31, 2010	147,829
Net increase in accumulated deficit	729,943