Q2 For the six Months ended June 30, 2011

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PINE CLIFF ENERGY REPORTS SECOND QUARTER 2011 FINANCIAL AND OPERATING RESULTS

Report to Shareholders

Pine Cliff Energy Ltd. (Pine Cliff or the Company) is pleased to report its operational and financial results for the three months and six months ended June 30, 2011.

As previously announced, senior management and the Board of Directors are redirecting Pine Cliff's corporate strategy and are now focusing on Canadian properties to provide new opportunities to increase shareholder value.

Financial

A significant step to realizing this strategy was the disposition of its South American Operations in the third quarter of 2010 which significantly reduced future operating and capital costs. The Company received shares in a public company from the disposition, which as of June 30, 2011 were valued at $322,904. The Company now has modest positive cash flow from continuing operations as well as a positive working capital position.

As of June 30, 2011, Pine Cliff had working capital of $510,444. Pine Cliff is actively assessing available acquisition opportunities and believes that with the sustained low natural gas price environment, there may be increased opportunities for either corporate or property acquisitions in the near term.

Operations

The Company's present production all comes from non-operated properties in the Sundance area in northwest Alberta. There are additional drilling opportunities on Company lands in this area, however, Pine Cliff presently does not have a large enough land position to make it a significant core area. During the second quarter, four wells (0.6 net, 15 percent working interest in each well) were licensed in the area. Pine Cliff is currently evaluating whether it will actively participate in any of these wells.

Outlook

The key focus for Pine Cliff will be to substantially increase the Company's asset base. Pine Cliff is presently reviewing various options and upon completion of this review, will implement new objectives and plans for the Company. It is projected that this review will be completed by the end of the third quarter 2011.

George F. Fink
President, Chief Executive Officer and Director

Management's Discussion and Analysis

The following report dated August 18, 2011 is a review of the operations and current financial position for the three and six months ended June 30, 2011 for Pine Cliff Energy Ltd. (Pine Cliff or the Company) and should be read in conjunction with the condensed consolidated financial statements including the notes related thereto presented under International Financial Reporting Standards (IFRS), including the notes related thereto, and the audited financial statements presented under Canadian generally accepted accounting principles (Canadian GAAP) for the fiscal year ended December 31, 2010, together with the notes related thereto.

A reconciliation of the new and revised standards and interpretations are outlined in Note 11 of the June 30, 2011 condensed consolidated financial statements for the comparative periods.

Transition to IFRS from Canadian GAAP

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in the interim financial statements in accordance with International Accounting Standards (IAS) 34 – Interim Financial Reporting (IAS 34) after applying the requirements of International Financial Reporting Standards 1 – First-time Adoption of International Financial Reporting Standards (IFRS 1). In the Management's Discussion and Analysis (MD&A), the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS.

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. On adoption, the Company utilized certain first-time adoption exemptions available resulting in significant changes to the statement of financial position and statement of comprehensive income.

The accounting policies, methods of application and the use of judgments and estimates followed in the preparation of the condensed consolidated financial statements and the required and allowed exemptions from retrospective application of IFRS from the transition date of January 1, 2010 are the same as those followed in the preparation of Pine Cliff's March 31, 2011 interim condensed consolidated financial statements. Note 17 of our March 31, 2011 condensed consolidated financial statements provides detailed reconciliations between Canadian GAAP and IFRS of shareholders' equity as at January 1, 2010 and December 31, 2010 and of net income for the year ended December 31, 2010. Note 11 of the June 30, 2011 condensed consolidated financial statements provides detailed reconciliations between Canadian GAAP and IFRS of shareholders' equity as at June 30, 2010 and of net income for the three and six months ended June 30, 2010. These reconciliations provide explanations of each major difference.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A include statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: expected cash provided by continuing operations; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and outlook; expansion and growth of our business and operations; and maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, and may include, without limitation: the risks of foreign operations; foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived therefrom. Except as required by law, Pine Cliff disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

Financial and Operational Highlights

As at and for the periods ended	Three months ended		Six months Ended	
	June 30, 2011	June 30, 2010 Restated (1) (3)	**June 30, 2011**	June 30, 2010 Restated (1) (3)
TOTAL OPERATIONS ($)				
Revenue – Oil and Gas sales	**236,229**	548,391	**481,747**	759,188
Cash Flow from Operations	**68,707**	229,181	**216,827**	180,440
Per share Basic and Diluted	**0.00**	0.00	**0.00**	0.00
Net Loss	**(53,732)**	(177,782)	**(86,176)**	(366,276)
Per share Basic and Diluted	**(0.00)**	(0.00)	**(0.00)**	(0.01)
Capital Expenditures	**2,942**	165,734	**9,097**	1,178,911
Total Assets			**2,622,350**	2,910,378
Working Capital (Deficiency)			**510,444**	(387,016)
Shareholders' Equity			**2,459,057**	2,796,462
CONTINUING OPERATIONS ($)				
Cash Flow from Operations	**68,707**	311,063	**216,827**	330,663
Per share Basic and Diluted	**0.00**	0.00	**0.00**	0.00
Net Loss	**(53,732)**	(39,367)	**(86,176)**	(61,396)
Per share Basic and Diluted	**(0.00)**	(0.00)	**(0.00)**	(0.00)
Capital Expenditures	**2,942**	108,979	**9,097**	1,098,129
TOTAL OPERATIONS				
Crude Oil and NGLs – Barrels per day	**1**	4	**1**	3
– Average price ($ per barrel)	**81.55**	79.57	**82.63**	80.21
Natural Gas – MCF per day	**614**	1,387	**636**	914
– average price ($ per MCF)	**4.12**	4.13	**4.07**	4.31
Total Barrels of Oil Equivalent Per Day (BOE) (2)	**103**	235	**107**	155

(1) The comparative highlights have been restated with the adoption of International Financial Reporting Standards.

(2) Barrels of oil equivalent (BOE) is calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

(3) During the second quarter of 2010, Pine Cliff committed to a plan to dispose of its South American operations to allow the Company to focus its continuing operations on the development of Canadian oil and natural gas properties. The South American Operations were sold effective September 24, 2010. Accordingly, the South American Operations have been reclassified as discontinued operations in the Consolidated Financial Statements. This is further discussed in the MD&A section entitled "Operating results from discontinued operations."

Quarterly Financial and Operational Highlights

	IFRS					
	2011		2010			
	Q2	Q1	Q4	Q3	Q2	Q1
TOTAL OPERATIONS ($)						
Revenue - Oil and Gas	**236,229**	245,518	279,741	323,641	548,391	210,797
Cash Flow (Deficiency) from Operations	**68,707**	148,120	38,856	(547)	229,181	(48,741)
Per Share Basic and Diluted	**0.00**	0.00	0.00	(0.00)	0.00	(0.00)
Net Earnings (Loss)	**(53,732)**	(32,444)	(917,079)	616,139	(177,782)	(188,494)
Per Share Basic and Diluted	**(0.00)**	(0.00)	(0.02)	0.01	(0.00)	(0.00)
Capital Expenditures	**2,942**	6,155	81,622	63,106	165,734	1,013,177
Total Assets	**2,622,350**	2,896,325	2,929,782	3,095,983	2,910,378	3,767,607
Working Capital (Deficiency)	**510,444**	482,299	309,805	394,482	(387,016)	(426,596)
Shareholders' Equity	**2,549,057**	2,574,353	2,549,850	3,466,507	2,796,462	2,963,254
CONTINUING OPERATIONS ($)						
Cash Flow from Continuing Operations	**68,707**	148,120	38,856	243,335	311,063	19,600
Per Share Basic and Diluted	**0.00**	0.00	0.00	0.01	0.01	0.00
Net Loss from Continuing Operations	**(53,732)**	(32,444)	(917,079)	(121,705)	(39,367)	(22,029)
Per Share Basic and Diluted	**(0.00)**	(0.00)	(0.02)	(0.00)	(0.00)	(0.00)
Capital Expenditures	**2,942**	6,155	81,622	40,549	108,879	989,250
TOTAL OPERATIONS						
Crude Oil and NGLs (Barrels Per Day)	**1**	1	1	1	4	3
Natural Gas (MCF Per Day)	**614**	659	768	908	1,387	435

	Canadian GAAP			
	2009			
	Q4	Q3	Q2	Q1
TOTAL OPERATIONS ($)				
Revenue - Oil and Gas	119,726	93,177	111,773	193,725
Cash Flow (Deficiency) from Operations	(125,061)	(37,247)	(241,924)	(209,166)
Per Share Basic and Diluted	(0.00)	(0.00)	(0.01)	(0.00)
Net Earnings (Loss)	(1,734,926)	(263,808)	(325,010)	(498,532)
Per Share Basic and Diluted	(0.03)	(0.01)	(0.01)	(0.01)
Capital Expenditures	266,470	600,732	9,581	119,786
Total Assets	3,475,877	4,900,934	4,558,217	4,966,907
Working Capital (Deficiency)	491,064	991,619	1,738,974	1,903,038
Shareholders' Equity	2,363,915	4,089,767	4,341,385	4,644,004
CONTINUING OPERATIONS ($)				
Cash Flow from Continuing Operations	(15,506)	91,448	(23,450)	41,850
Per Share Basic and Diluted	(0.00)	0.00	(0.00)	0.00
Net Loss from Continuing Operations	(107,735)	(94,553)	(64,813)	(185,035)
Per Share Basic and Diluted	(0.00)	(0.00)	(0.01)	(0.00)
Capital Expenditures	296,571	573,041	69	1,447
TOTAL OPERATIONS				
Crude Oil and NGLs (Barrels Per Day)	1	1	2	1
Natural Gas (MCF Per Day)	264	295	312	392

Continuing Operations

Production

	Three months ended			Six months ended	
	June 30, 2011	March 31, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Crude oil and NGLs (Barrels per day)	**1**	1	4	**1**	3
Natural gas (MCF per day)	**614**	659	1,387	**636**	914
Total BOE per day[1]	**103**	111	235	**107**	155

[1] Barrels of oil equivalent (BOE) are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

Production was lower in the first six months of 2011 versus the comparable period in 2010 due to flush production from four wells (0.6 net, 15 percent working interest in each well) that were placed on production between February and April of 2010. Production was lower in Q2 2011 compared to Q1 2011 primarily due to natural production declines related to the same four wells.

During the second quarter of 2011, four wells (0.6 net, 15 percent working interest in each well) were licensed in the Sundance area. The Company is currently evaluating whether it will actively participate in any of these wells.

Oil and Gas Sales, Net of Royalties

	Three months ended			Six months ended	
($)	**June 30, 2011**	March 31, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Revenue – oil and gas sales	**236,229**	245,518	548,391	**481,747**	759,188
Less:					
Crown royalties	**5,532**	8,870	29,404	**14,402**	46,773
Gross overriding royalties	**640**	5,964	11,677	**6,604**	16,798
Total royalties	**6,172**	14,834	41,081	**21,006**	63,571
Oil and gas sales, net of royalties	**230,057**	230,684	507,310	**460,741**	695,617
Average Realized Prices ($):					
Crude oil and NGLs (per barrel)	**81.55**	83.63	79.57	**82.63**	80.21
Natural gas (per MCF)	**4.12**	4.03	4.13	**4.07**	4.31
Royalties – percentage of revenue	**2.6**	6.0	7.5	**4.4**	8.4
Royalties $ per BOE	**0.66**	1.49	1.92	**1.09**	2.26

Revenue from petroleum and natural gas sales decreased by 37 percent in the first half of 2011 compared to the first half of 2010 due to lower production volumes from the four (0.6 net) wells brought on production in the first half of 2010, combined with lower commodity prices for natural gas. The decrease in Q2 2011 revenue compared to Q1 2011 was primarily due to natural production declines from these wells, partially offset by higher prices for natural gas. The Company did not enter into any risk management contracts in either 2011 or 2010 and does not anticipate entering into any contracts for the remainder of 2011.

Crown and overriding royalties paid by the Company in the first six months of 2011 were lower than the first six months of 2010 primarily due to lower production volumes which attract lower royalty rates, lower commodity prices for natural gas and the implementation of phase two of the Alberta Government Competitiveness Review program in May 2010. The decrease in crown royalties in Q2 2011 compared to Q1 2011 was due to lower production volumes from these new wells combined with prior period adjustments. The decrease in gross overriding royalties for Q2 2011 and Q1 2011 was primarily due to gross overriding royalty reworks on prior periods and lower production volumes.

Alberta Government Competitiveness Review

On March 11, 2010, the Government of Alberta announced a modification to conventional oil and natural gas royalties effective January 2011 to increase Alberta's competitiveness in the upstream energy sector. The five per cent front-end royalty rate on a certain volume of initial production for conventional oil and natural gas became a permanent feature of the royalty system. The maximum royalty rate for all conventional oil was reduced to 40 percent from 50 percent. New wells that initially had a five percent front-end royalty will increase to regular royalty rates after production exceeds the volume that previously permitted the five percent rate. In accordance with the government amendment, the maximum royalty rate for conventional and unconventional natural gas was reduced at higher prices from 50 to 36 percent. Other royalty incentive programs will remain in effect. Management believes these changes to the royalty system have a positive effect on cash flow.

Production Costs

	Three months ended			Six months ended	
($)	**June 30, 2011**	March 31, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Production costs	**67,308**	68,176	146,138	**135,484**	192,116
Per BOE	**7.18**	6.84	6.83	**7.01**	6.83

Production costs were lower in the first six months of 2011 versus the comparable period in 2010 due to lower production volumes. Production costs per BOE are higher for the first half of 2011 versus the first half of 2010 due to lower production volumes over fixed production costs. The decrease in production costs in Q2 2011 compared to Q1 2011 was due to lower production volumes.

Office and Administrative (G&A)

	Three months ended			Six months ended	
($)	**June 30, 2011**	March 31, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Office and administration expense	**60,695**	49,504	65,664	**110,199**	106,855

Office and administrative expenses were comparable for the first half of 2011 and 2010. The increase in G&A expenditures in Q2 2011 compared to Q1 2011 is due to annual director fees incurred in the second quarter.

Pine Cliff does not have any employees at the present time and has engaged Bonterra Energy Corp. (Bonterra), a related party (see Related Party section), to provide management, administrative and technical services. Pine Cliff also engages the services of consultants on a contract or temporary basis if required.

Share-Based Compensation

	Three months ended			Six months ended	
($)	**June 30, 2011**	March 31, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Share-based compensation	**-**	-	1,619	**-**	4,514

The Company has a stock-based compensation plan. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees of the management company (see section “Related Party Transactions”), directors and service providers in respect of the Company. No options were issued in 2011 or 2010.

Depletion and depreciation

	Three months ended			Six months ended	
($)	**June 30, 2011**	March 31, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Depletion and depreciation	**145,760**	153,524	332,618	**299,284**	452,360

Capital costs for oil and gas properties that result in the addition of reserves are depleted using the unit-of-production basis by field. For production facility and equipment expenditures such as well equipment, the Company depreciates these assets on a straight-line basis over ten years.

Depletion and depreciation in the first half of 2011 was lower versus the comparable period in 2010 due to increased depletion incurred from the flush production from four wells (0.6 net) that were placed on production between February and April of 2010. Depletion and depreciation decreased in Q2 2011 compared to Q1 2011 due to lower production volumes.

Income Taxes

The Company has adopted the liability method of accounting for income taxes under which the deferred tax provision is based on the temporary differences between the carrying values and tax values of assets and liabilities using income tax rates expected to apply in the year in which the temporary differences will reverse. The Company has no current income tax expense as it has sufficient tax pools to ensure that no current income taxes are payable.

The Company has the following tax pools which can be used to reduce future taxable income:

	Rate of Utilization (%)	Amount ($)
Undepreciated capital costs	25	285,741
Canadian oil and gas expenditures	10	453,991
Canadian development expenditures	30	1,324,645
Canadian exploration expenditures	100	392,110
Share issue costs	20	7,032
Non-capital loss carryforward *	100	3,312,806
Capital loss carryforward	100	829,012
		6,605,337

* $700,214 expires 2026, $1,114,518 expires 2027, $675,721 expires in 2028, $447,500 expires in 2029, $283,173 expires in 2030 and $91,680 expires in 2031.

Net Loss

	Three months ended			Six months ended	
($)	**June 30, 2011**	March 31, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Net Loss	**(53,732)**	(32,444)	(39,367)	**(86,176)**	(61,396)
Net Loss per share	**(0.00)**	(0.00)	(0.00)	**(0.00)**	(0.00)

The increase in net loss for the first six months of 2011 compared to the same period in 2010 was predominantly due to reduced oil and gas revenues, partially offset by a reduction in production costs and depletion and depreciation expense. Net loss increased in Q2 2011 over Q1 2011 due to the recognition of deferred income tax expense versus a deferred income tax recovery in Q1.

Other Comprehensive Loss

Other comprehensive loss relates entirely to the decrease in fair value of Pine Cliff's investment in shares of the purchaser were received in the first quarter of 2011 as part of the disposal of the South American Operations (see discontinued operations). During the first half of 2011, the market value of this investment decreased by $5,322.

Cash Flow from Operations

	Three months ended			Six months ended	
($)	**June 30, 2011**	March 31, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
Cash flow from operations	**68,707**	148,120	311,063	**216,827**	330,663
Cash flow from operations per share	**0.00**	0.00	0.00	**0.00**	0.00

Cash flow decreased in the first six months of 2011 compared to the first six months of 2010 due to a reduction in oil and gas revenues, which was partially offset by lower royalties, production costs and positive adjustments for non-cash working capital items. The decrease in cash flow in Q2 2011 compared to Q1 2011 was due to an increase in office and administration costs combined with a decrease in non-cash working capital.

Related Party Transactions

Pine Cliff has a management agreement with Bonterra (a company with common directors and management with Pine Cliff), to have Bonterra provide executive services (President and CEO, CFO and COO), technical services, accounting services, oil and gas administration and office administration. The management fee consists of a monthly fee of $5,000 (2010 - $7,500). As at June 30, 2011, amounts owing to Bonterra were $1,913 (December 31, 2010 - $464). The agreement with Bonterra can be cancelled by either party by providing 90 days notice.

Liquidity and Capital Resources

As of June 30, 2011, Pine Cliff had positive working capital of $510,444 (December 31, 2010 - $309,805). During the second quarter of 2011, four wells (0.6 net) were licensed in the Sundance area. The Company is currently evaluating whether it will actively participate in any of these wells.

With current low natural gas prices management believes there may be other opportunities for either corporate or property acquisitions. The Company is examining such opportunities as well as the future development of its existing land base.

From the disposition of the South American Operations, the Company received shares in a public company, which as of June 30, 2011 were valued at $322,904 (December 31, 2010 - $328,227).

With this disposition, the Company has positive cash flow from continuing operations as well as a positive working capital position. Future activities will be financed from its present working capital, potential bank debt (currently no debt) or by equity issues.

The Company is authorized to issue an unlimited number of common shares without nominal or par value. Equity transactions during the past years are as follows:

	June 30, 2011		December 31, 2010	
Issued – common shares	**Number**	**Amount ($)**	Number	Amount ($)
Balance, January 1	**46,145,695**	**14,819,372**	45,295,695	14,593,560
Options exercised	**-**	**-**	850,000	127,500
Transfer of contributed surplus to share capital		**-**		98,312
Balance, end of period	**46,145,695**	**14,819,372**	46,145,695	14,819,372

A summary of the status of the Company's stock option plan as of June 30, 2011 and December 31, 2010, and changes during the six month and twelve month periods ended on those dates is presented as follows:

	June 30, 2011		December 31, 2010	
	Number of options	**Weighted average exercise price $**	Number of options	Weighted average exercise price $
Balance, January 1	**40,000**	**0.15**	3,126,000	0.63
Options exercised	**-**	**-**	(850,000)	0.15
Options expired and cancelled	**-**	**-**	(2,236,000)	0.79
Balance, end of period	**40,000**	**0.15**	40,000	0.15

The following table summarizes information regarding stock options outstanding at June 30, 2011:

Options Outstanding				Options Exercisable	
Range of exercise prices	Number outstanding at June 30, 2011	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at June 30, 2011	Weighted-average exercise price
$ 0.15	40,000	0.5 years	$ 0.15	40,000	$ 0.15

The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. All the options are vested as of June 30, 2011.

Operating Results From Discontinued Operations

The following represents the results of operations from the South American assets which have been designated as discontinued operations.

Statements of Net Loss

For the six months ended	**June 30, 2011**	June 30, 2010
Expenses		
Office and administrative	-	195,325
Unwinding of the discounted value of decommissioning liabilities	-	785
Impairment of oil and gas assets	-	80,782
	-	276,892
Loss From Discontinued Operations Before Taxes	-	(276,892)
Taxes	-	27,988
Net Loss and Comprehensive Loss From Discontinued Operations	-	(304,880)

Disposal of South American Operations

On September 24, 2010 the Company disposed of its South American subsidiary, whose assets and liabilities related primarily to the Canadon Ramirez Concession and Laguna de Piedra Concession (South American Properties). The proceeds of disposition were $450,000 consisting of $1,000 of cash, a note receivable for

$449,000 and a contingent receivable not used to calculate the impairment reversal on the disposal of oil and gas assets (see below). During Q1 2011, the purchaser settled the note by issuing shares in the purchaser's publicly traded corporation. As at June 30, 2011, these shares were valued at $322,904 (December 31, 2010 - $328,227 (value of the note receivable)). At the time of disposition, the Company had a net book value of $23,121 for the South American properties after prior period write-downs of $7,746,705. The Company also had decommissioning liabilities of $38,838 and a working capital deficiency of $342,969, that was transferred to the purchaser, related to the South American property resulting in a recovery of impairment on oil and gas assets of $808,686.

Contingent Receivable

Upon disposal of the South American properties, the Company received a contingent consideration of $200,000 (payable in cash or shares from the purchaser corporation) if by September 24, 2012 the purchaser or an affiliate to the purchaser is successful in obtaining a drilling permit followed by the drilling of a well on the Laguna de Piedra concession block in the Rio Negro Province of Argentina or the local permitting authority in the province grants a concession to substitute for the Laguna de Piedra concession and the purchaser or affiliate entity drills a well on the substitute concession. The purchaser has announced they plan to drill on the concession in the first half of 2012. However, collection of this receivable is not determinable at this time and therefore has not been recorded by the Company.

Sensitivity Analysis

Given the current status of the Company, changes of U.S. $1.00 per barrel in the price of crude oil, $0.10 per MCF in the price of natural gas, or a $0.01 change in the Cdn/U.S. exchange rate would have no significant impact on the cash flow or cash flow per share amounts for the Company.

Financial Reporting Update

Recent Accounting Pronouncements

Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet assessed the impact, if any, that the new amended standards will have on its financial statements or whether to early adopt any of the new requirements.

IFRS 9 "Financial Instruments"

The result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

IFRS 10 "Consolidated financial Statements"

Replaces Standing Interpretations Committee 12, "Consolidation - Special Purpose Entities" and the consolidation requirements of IAS 27 "Consolidated and Separate Financial Statements". The new standard replaces the existing risk and rewards based approaches and establish control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements.

IFRS 11 "Joint Arrangements"

Replaces IAS 31 "Interests in Joint Ventures" along with amending IAS 28 "Investment in Associates". The new standard focuses on the rights and obligations of an arrangement, rather than its legal form. The standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted.

IFRS 12 “Disclosure of Interests in Other Entities”

Provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosure requires information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity’s interest in subsidiaries and joint arrangements.

IFRS 13 "Fair Value Measurement"

Provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when IFRS requires or permits the item to be measured at fair value, with limited exceptions. This standard does not determine when an item is measured at fair value and as such does not require new fair value measurements.

Additionally, as of July 1, 2012, Pine Cliff will be required to adopt amendments to IAS 1 “Presentation of Financial Statements” which will require companies to group together items within other comprehensive income that may be reclassified to the net earnings section of the comprehensive income statement. Pine Cliff does not expect a material impact as a result of the amendment.

Additional information

Additional information relating to the Company may be found on www.sedar.com and by visiting its website at **www.pinecliffenergy.com**.

Management's Responsibility for Financial Statements

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

The audit committee has reviewed these financial statements with management and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented in this interim report.

These financial statements have not been audited or reviewed by the Company's external auditors.

PINE CLIFF ENERGY LTD.
Condensed Consolidated Statements of Financial Position

As at (unaudited) ($)	Note	June 30, 2011	December 31, 2010 (Note 11)
Assets			
Current			
Cash		**176,072**	108,039
Accounts receivable		**78,443**	155,945
Prepaid expenses		**23,949**	26,402
Note receivable	**3**	**-**	328,227
Investment	**3**	**322,904**	-
		601,368	618,613
Property and Equipment	**4**	**2,020,982**	2,311,169
		2,622,350	2,929,782
Liabilities			
Current			
Accounts payable and accrued liabilities		**90,924**	308,808
Decommissioning liabilities		**72,369**	71,124
		163,293	379,932
Shareholders' Equity			
Share capital	**7**	**14,819,372**	14,819,372
Contributed surplus		**766,244**	766,244
Accumulated other comprehensive loss		**(4,617)**	-
Deficit		**(13,121,942)**	(13,035,766)
Total Shareholders' Equity		**2,459,057**	2,549,850
Non-Controlling Interest	**6**	**-**	-
Total Equity		**2,459,057**	2,549,850
		2,622,350	2,929,782

See the accompanying notes to these condensed consolidated financial statements

PINE CLIFF ENERGY LTD.
Condensed Consolidated Statements of Comprehensive Loss

For the periods ended June 30 (unaudited)		Three Months		Six Months	
($)	Note	**2011**	2010 (Note 11)	**2011**	2010 (Note 11)
Revenue					
Oil and gas sales, net of royalties	8	**230,057**	507,310	**460,741**	695,617
Expenses					
Production costs		**67,308**	146,138	**135,484**	192,116
Office and administration	9	**60,695**	65,664	**110,199**	106,855
Depletion and depreciation		**145,760**	332,618	**299,284**	452,360
Unwinding of the discounted value of decommissioning liabilities		**623**	638	**1,245**	1,168
Share-based compensation		**-**	1,619	**-**	4,514
		274,386	546,677	**546,212**	757,013
Loss before income taxes		**(44,329)**	(39,367)	**(85,471)**	(61,396)
Deferred income taxes	5	**9,403**	-	**705**	-
Net loss from continuing operations for the period		**(53,732)**	(39,367)	**(86,176)**	(61,396)
Net loss from discontinued operations, net of tax	3	**-**	(138,415)	**-**	(304,880)
Net loss for the period		**(53,732)**	(177,782)	**(86,176)**	(366,276)
Other comprehensive loss					
Unrealized losses on investments		**(70,967)**	-	**(5,322)**	-
Deferred taxes on unrealized losses on investments		**9,403**	-	**705**	-
		(61,564)	-	**(4,617)**	-
Total Comprehensive loss		**(115,296)**	(177,782)	**(90,793)**	(366,276)
Net loss for the period attributable to:					
Common shareholders of the Company		**(53,732)**	(168,411)	**(86,176)**	(341,580)
Non-controlling interest		**-**	(9,371)	**-**	(24,696)
Comprehensive loss for the period attributable to:					
Common shareholders of the Company		**(115,296)**	(168,411)	**(90,793)**	(341,580)
Non-controlling interest		-	(9,371)	-	(24,696)
Net loss per share from continuing operations					
Basic and diluted	7	**(0.00)**	(0.00)	**(0.00)**	(0.00)
Net loss per share					
Basic and diluted	7	**(0.00)**	(0.00)	**(0.00)**	(0.01)
Comprehensive loss per share					
Basic and diluted	7	**(0.00)**	(0.00)	**(0.00)**	(0.01)

See accompanying notes to these condensed consolidated financial statements.

PINE CLIFF ENERGY LTD.
Condensed Consolidated Statements of Cash Flow

For the periods ended June 30 (unaudited)	Three Months		Six Months	
($)	**2011**	2010	**2011**	2010
Operating Activities				
Loss before income taxes	**(44,329)**	(39,367)	**(85,471)**	(61,396)
Items not affecting cash				
Depletion and depreciation	**145,760**	332,618	**299,284**	452,360
Unwinding of the discounted value of decommissioning liabilities	**623**	638	**1,245**	1,168
Share-based compensation	**-**	1,619	**-**	4,514
Change in non-cash working capital				
Accounts receivable	**(1,522)**	(62,204)	**65,950**	(83,274)
Prepaid expenses	**6,130**	(3,367)	**2,453**	(5,738)
Accounts payable and accrued liabilities	**(37,955)**	81,126	**(66,634)**	23,029
Cash provided by continuing operations	**68,707**	311,063	**216,827**	330,663
Cash used in discontinued operations	**-**	(81,882)	**-**	(150,223)
Cash provided by Operating Activities	**68,707**	229,181	**216,827**	180,440
Financing Activities				
Share option proceeds	**-**	-	**-**	127,500
Cash provided by Financing Activities	**-**	-	**-**	127,500
Investing Activities				
Property, plant and equipment expenditures	**(2,942)**	(108,979)	**(9,097)**	(1,098,129)
Change in non-cash working capital				
Accounts receivable	**6,740**	3,142	**11,553**	(18,416)
Accounts payable and accrued liabilities	**(121,347)**	(866,858)	**(151,250)**	(535,158)
Cash used in continuing operations	**(117,549)**	(972,595)	**(148,794)**	(1,651,703)
Cash used in discontinued operations	**-**	(10,171)	**-**	(15,117)
Cash used in Investing Activities	**(117,549)**	(982,766)	**(148,794)**	(1,666,820)
Net cash (Outflow) Inflow	**(48,842)**	(753,585)	**68,033**	(1,358,880)
Cash, beginning of period	**224,914**	728,258	**108,039**	1,333,553
Cash (bank indebtedness), end of period	**176,072**	(25,327)	**176,072**	(25,327)
Cash taxes paid by discontinued operations	**-**	8,297	**-**	55,703

See accompanying notes to these condensed consolidated financial statements

PINE CLIFF ENERGY LTD.
Condensed Consolidated Statements of Changes in Equity

For the periods ended (unaudited)
($ except for number of common shares outstanding)

	Number of common shares (Note 7)	Share capital (Note 7)	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders` equity	Non-controlling interest	Total equity
January 1, 2010	**45,295,695**	**14,593,560**	**859,620**	**-**	**(12,447,152)**	**3,006,028**	**(648,583)**	**2,357,445**
Share-based compensation			4,514			4,514		4,514
Exercise of options	850,000	127,500				127,500	-	127,500
Transfer to share capital on exercise of options		98,312	(98,312)			-	-	-
Comprehensive loss for the six months				-	(341,580)	(341,580)	(24,696)	(366,276)
June 30, 2010	**46,145,695**	**14,819,372**	**765,822**	**-**	**(12,788,732)**	**2,796,462**	**(673,279)**	**2,123,183**
Share-based compensation			422			422	-	422
Acquisition of non-controlling interest (Note 6)						-	727,185	727,185
Comprehensive loss for the six months				-	(247,034)	(247,034)	(53,906)	(300,940)
December 31, 2010	**46,145,695**	**14,819,372**	**766,244**	**-**	**(13,035,766)**	**2,549,850**	**-**	**2,549,850**
Comprehensive loss for the six months				(4,617)	(86,176)	(90,793)	-	(90,793)
June 30, 2011	**46,145,695**	**14,819,372**	**766,244**	**(4,617)**	**(13,121,942)**	**2,459,057**	**-**	**2,459,057**

See accompanying notes to these condensed consolidated financial statements.

PINE CLIFF ENERGY LTD.
Notes to the Condensed Consolidated Financial Statements

As at June 30, 2011 and December 31, 2010 and for the three and six month periods ended June 30, 2011 and 2010 (unaudited)

1. NATURE OF BUSINESS

Pine Cliff Energy Ltd. (Pine Cliff or the Company) is a widely held public company listed on the TSX Venture Exchange and incorporated under the Business Corporations Act (Alberta). The address of the Company's registered office is Suite 901, 1015 4th Street SW, Calgary, Alberta.

Pine Cliff's continuing operations is in the development and production of oil and natural gas in the Western Canadian Sedimentary Basin.

2. BASIS OF PREPARATION

a) Statement of Compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim financial statements in accordance with International Accounting Standards 34 – Interim Financial Reporting (IAS 34) after applying the requirements of International Financial Reporting Standards (IFRS) 1 – First-time Adoption of International Financial Reporting Standards (IFRS 1). In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The accounting policies, methods of application and the use of judgments and estimates followed in the preparation of the condensed consolidated financial statements and the required and allowed exemptions from retrospective application of IFRS from the transition date of January 1, 2010 are the same as those followed in the preparation of Pine Cliff's March 31, 2011 interim condensed consolidated financial statements and should be read in conjunction with the March 31, 2011 interim condensed consolidated financial statements and the audited financial statements presented under Canadian GAAP for the fiscal year ended December 31, 2010 together with the notes related thereto.

The June 30, 2010 comparative reconciliations to IFRS from the previously published Canadian GAAP consolidated financial statements are summarized in Note 11.

b) Recent Accounting Pronouncements

Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet assessed the impact, if any, that the new amended standards will have on its financial statements or whether to early adopt any of the new requirements.

IFRS 9 "Financial Instruments"

The result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

IFRS 10 “Consolidated financial Statements”

Replaces Standing Interpretations Committee 12, “Consolidation - Special Purpose Entities” and the consolidation requirements of IAS 27 “Consolidated and Separate Financial Statements”. The new standard replaces the existing risk and rewards based approaches and establish control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements.

IFRS 11 “Joint Arrangements”

Replaces IAS 31 “Interests in Joint Ventures” along with amending IAS 28 “Investment in Associates”. The new standard focuses on the rights and obligations of an arrangement, rather than its legal form. The standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted.

IFRS 12 “Disclosure of Interests in Other Entities”

Provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosure require information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity’s interest in subsidiaries and joint arrangements.

IFRS 13 "Fair Value Measurement"

Provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when IFRS requires or permits the item to be measured at fair value, with limited exceptions. This standard does not determine when an item is measured at fair value and as such does not require new fair value measurements.

Additionally, as of July 1, 2012, Pine Cliff will be required to adopt amendments to IAS 1 “Presentation of Financial Statements” which will require companies to group together items within other comprehensive income that may be reclassified to the net earnings section of the comprehensive income statement. Bonterra does not expect a material impact as a result of the amendment.

3. DISCONTINUED OPERATIONS

On September 24, 2010, Pine Cliff sold its South American subsidiary CanAmericas (Argentina) Energy Ltd. to an unrelated party.

The assets and liabilities of the South American Operations have been presented as discontinued operations in the condensed consolidated statement of financial position, since June 1, 2010, the date the South American Operations met the criteria for discontinued operations. Operating results related to these assets and liabilities have been included in net loss from discontinued operations in the condensed consolidated statement of comprehensive loss.

Statements of Comprehensive Loss

($)	Three Months ended June 30, 2011	June 30, 2010	Six Months ended June 30, 2011	June 30, 2010
Expenses				
Office and administrative	-	63,587	-	195,325
Unwind of the discounted value of decommissioning liabilities	-	393	-	785
Impairment of oil and gas assets	-	47,829	-	80,782
	-	111,809	-	276,892
Loss From Discontinued Operations Before Taxes	-	(111,809)	-	(276,892)
Taxes	-	26,606	-	27,988
Net Loss and Comprehensive Loss From Discontinued Operations	-	(138,415)	-	(304,880)

Impairment and Disposal of Oil and Gas Assets

On September 24, 2010 the Company disposed of its South American subsidiary, whose assets and liabilities related primarily to the Canadon Ramirez Concession and Laguna de Piedra Concession (South American Properties). The proceeds of disposition were $450,000 consisting of $1,000 of cash, a note receivable for $449,000 and a contingent receivable not used to calculate the impairment reversal on the disposal of oil and gas assets. During the first quarter of 2011, the purchaser settled the note by issuing shares in the purchaser's publicly traded corporation. As at June 30, 2011, these shares were valued at $322,904 (December 31, 2010 - $328,227 (value of the note receivable)). At the time of disposition, the Company had a net book value of $23,121 for the South American properties after prior period write-downs of $7,746,705. It also had decommissioning liabilities of $38,838 and a working capital deficiency of $342,969 that was transferred to the purchaser related to the South American property resulting in a recovery of impairment on oil and gas assets of $808,686.

For the six month period ended June 30, 2010, the Company recorded an impairment provision of $34,626 on the exploration costs related to the Canadon Ramirez Concession and an impairment provision of $46,156 on the Laguna de Piedra Concession prior to the disposal of the South American properties.

Contingent Receivable

Upon disposal of the South American properties, the Company received a contingent consideration of $200,000 (payable in cash or shares in the purchaser corporation) if by September 24, 2012 the purchaser or an affiliate to the purchaser is successful in obtaining a drilling permit followed by the drilling of a well on the Laguna de Piedra concession block in the Rio Negro Province of Argentina or the local permitting authority in the province grants a concession to substitute for the Laguna de Piedra concession and the purchaser or affiliate entity drills a well on the substitute concession. The purchaser has announced they plan to drill on the concession in the first half of 2012. However, collection of this receivable is not determinable at this time and therefore has not been recorded by the Company.

Taxes
The Company accrued a $27,988 current tax expense related to Argentina capital tax in the six month period ended June 30, 2010. A one percent Argentina capital tax is payable in respect of the exploration costs for the Canadon Ramirez and the Laguna de Piedra Concessions. This liability was transferred to the purchaser on the disposal of its South American subsidiary.

4. PROPERTY AND EQUIPMENT

Cost $	**Oil and gas properties**	**Production facilities**	**Furniture, fixtures and other equipment**	**Total property and equipment**
Balance at January 1, 2010	**2,943,509**	**389,630**	**45,957**	**3,379,096**
Additions	1,020,976	216,176	-	1,237,152
Disposals	-	-	(45,957)	(45,957)
Balance at December 31, 2010	**3,964,485**	**605,806**	**-**	**4,570,291**
Additions	4,305	4,792	-	9,097
Balance at June 30, 2011	**3,968,790**	**610,598**	**-**	**4,579,388**

Accumulated Depletion and depreciation $	**Oil and gas properties**	**Production facilities**	**Furniture, fixtures and other equipment**	**Total property and equipment**
Balance at January 1, 2010	**1,229,337**	**160,393**	**33,038**	**1,422,768**
Depletion for the year	808,812	60,580	6,462	875,854
Disposals	-	-	(39,500)	(39,500)
Balance at December 31, 2010	**2,038,149**	**220,973**	**-**	**2,259,122**
Depletion for the period	268,756	30,528	-	299,284
Balance at June 30, 2011	**2,306,905**	**251,501**	**-**	**2,558,406**
Net book values as at: $				
January 1, 2010	1,714,172	229,237	12,919	1,956,328
December 31, 2010	1,926,336	384,833	-	2,311,169
June 30, 2011	**1,661,885**	**359,097**	**-**	**2,020,982**

5. INCOME TAXES

The Company has recorded a full valuation allowance for its deferred income tax assets as it has been determined that it is unlikely that they will be recovered.

$	**June 30, 2011**	December 31, 2010
Deferred tax assets (liabilities):		
Note receivable	**-**	15,097
Investment	**705**	-
Property and equipment	**108,876**	108,581
Decommissioning liabilities	**18,092**	17,781
Share issue costs	**1,758**	3,916
Non-capital loss carry-forward	**828,202**	805,272
Capital loss carry-forward	**103,627**	75,252
Valuation allowance	**(1,061,260)**	(1,025,899)
	-	-

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

	Rate of utilization (%)	Amount ($)
Undepreciated capital costs	25	285,741
Canadian oil and gas property expenditures	10	453,991
Canadian development expenditures	30	1,324,645
Canadian exploration expenditures	100	392,110
Share issue costs	20	7,032
Non-capital loss carryforward (1)	100	3,312,806
Capital loss carryforward	100	829,012
		6,605,337

(1) $700,214 expires 2026, $1,114,518 expires 2027, $675,721 expires 2028, $447,500 expires in 2029, $283,173 expires in 2030 and $91,680 expires in 2031.

6. NON-CONTROLLING INTEREST (NCI)

The Company incorporated the subsidiary company CanAmericas Energy Ltd. (CanAmericas) to explore and develop oil and gas properties primarily in South America. CanAmericas was owned 93 percent by the Company and seven percent by a foreign private corporation (NCI). CanAmericas was initially financed by investments of U.S. $1,400,000 for 5,600,000 common shares from the Company and U.S. $100,000 for 400,000 common shares from NCI.

On November 23, 2010, NCI sold its interest in CanAmericas to Pine Cliff for $10. NCI at the acquisition date had a deficit balance of $727,185, which resulted on a loss on acquisition of a non-controlling interest of $727,195.

7. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of Common Shares without nominal or par value.

The Company is also authorized to issue in one or more series an unlimited number of Class B Preferred Shares without nominal or par value.

Issued

	June 30, 2011		December 31, 2010	
Common shares	**Number**	**Amount ($)**	Number	Amount ($)
Balance, January 1	**46,145,695**	**14,819,372**	45,295,695	14,593,560
Options exercised	**-**	**-**	850,000	127,500
Transfer of contributed surplus to share capital		**-**		98,312
Balance, end of period	**46,145,695**	**14,819,372**	46,145,695	14,819,372

The weighted average number of common shares used to calculate basic and diluted net loss per share for the periods ended June 30 are as follows:

	Three Months		Six Months	
	2011	2010	**2011**	2010
Basic shares outstanding [1]	**46,145,695**	46,145,695	**46,145,695**	46,049,783
Dilutive effect of share options	**12,267**	20,729	**15,712**	19,819
Diluted shares outstanding	**46,157,962**	46,166,424	**46,161,407**	46,069,602

(1) Basic shares outstanding are used to calculate basic and diluted loss and comprehensive loss per share when the Company is in a loss position.

The Company provides a stock option plan for its directors, employees and consultants. Under the plan, the Company may grant options for up to 4,527,569 (December 31, 2010 – 4,527,569) common shares. The exercise price of each option granted will not be lower than the market price of the Company's stock on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as of June 30, 2011 and December 31, 2010, and changes during the six month and twelve month periods ended on those dates is presented below:

	June 30, 2011		December 31, 2010	
	Number of options	**Weighted average exercise price $**	Number of options	Weighted average exercise price $
Balance, January 1	**40,000**	**0.15**	3,126,000	0.63
Options exercised	**-**	**-**	(850,000)	0.15
Options expired and cancelled	**-**	**-**	(2,236,000)	0.79
Balance, end of period	**40,000**	**0.15**	40,000	0.15

The following table summarizes information about stock options outstanding at June 30, 2011:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at June 30, 2011	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at June 30, 2011	Weighted-average exercise price
$ 0.15	40,000	0.5 years	$ 0.15	40,000	$ 0.15

The Company did not issue any stock options in 2011 or 2010.

8. OIL AND GAS SALES, NET OF ROYALTIES

	Three Months		Six Months	
$	**June 30, 2011**	June 30, 2010	**June 30, 2011**	June 30, 2010
Oil and gas sales	**236,229**	548,391	**481,747**	759,188
Less:				
Crown royalties	**5,532**	29,404	**14,402**	46,773
Gross overriding royalties	**640**	11,677	**6,604**	16,798
Oil and gas sales, net of royalties	**230,057**	507,310	**460,741**	695,617

9. RELATED PARTY TRANSACTIONS

Pine Cliff has a management agreement with Bonterra Energy Corp. (Bonterra), an oil and gas corporation publicly traded on the Toronto Stock Exchange, with common directors and management, to provide executive services, technical services, accounting services, oil and gas administration and office administration for Pine Cliff. Total fees for the six month period ended June 30, 2011 were $30,000 (2010 - $45,000) plus minimal administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As of June 30, 2011, Pine Cliff owed Bonterra $1,913 (December 31, 2010 - $464).

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

Compensation of Key Management Personnel

$	**June 30, 2011**	June 30, 2010
Director fees	**22,557**	23,173

Key management personnel are those persons, including all directors, having authority and responsibility for planning, directing and controlling the activities of the Company. Compensation represents director fees paid by Pine Cliff. Other key management personnel are not paid directly by Pine Cliff as their services are included in the management fee with Bonterra.

10. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial Risk Factors

The Company undertakes transactions in a range of financial instruments including:

- Cash
- Accounts receivable
- Investment
- Accounts payable

The Company's activities result in exposure to a number of financial risks including market risk (commodity price risk, interest rate risk and foreign exchange risk), credit risk and liquidity risk. Financial risk management is carried out by senior management under the direction of the Board of Directors.

Currently the Company does not enter into risk management contracts to sell its oil and gas commodities. Commodities are sold at market prices at the date of sale.

Capital Risk Management

The Company's objectives when managing capital, which the Company defines to include shareholders' equity and working capital balances, are to safeguard the Company's ability to continue as a going concern, to continue providing returns to its shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue debt or additional shares.

The following section (a) of this note provides a summary of the Company's underlying economic positions as represented by the carrying values, fair values and contractual face values of its financial assets and financial liabilities. The Company's working capital to capital expenditure requirement ratio is also provided.

The following section (b) addresses in more detail the key financial risk factors that arise from the Company's activities including its policies for managing these risks.

a) Financial assets, financial liabilities

The carrying amounts, fair values and face values of the Company's financial assets and liabilities are shown below:

Continuing Operations

	As at June 30, 2011			As at December 31, 2010		
($ 000s)	**Carrying Value**	**Fair Value**	**Face Value**	Carrying Value	Fair Value	Face Value
Financial assets						
Cash	**176**	**176**	**176**	108	108	108
Accounts receivable	**78**	**78**	**78**	156	156	156
Investment	**323**	**323**	**-**	-	-	-
Note receivable	**-**	**-**	**-**	328	328	449
Financial liabilities						
Accounts payable and accrued liabilities	**91**	**91**	**91**	309	309	309

Financial instruments, consisting of accounts receivable and accounts payable and accrued liabilities included in the statement of financial position, are carried at amortized cost. Cash and investment are carried at fair value. All of the fair value items are transacted in active markets. Pine Cliff classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially verified or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on available market data.

Pine Cliff's cash and investment has been assessed on the fair value hierarchy described above and is considered Level 1.

b) Risks and mitigations

Market risk is the risk that the fair value or future cash flow of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which Pine Cliff is exposed are discussed below.

Commodity Price Risk

The Company's principal operation is the exploration and development of oil and natural gas properties in western Canada. Fluctuations in prices of these commodities may directly impact the Company's performance and ability to continue its operations.

The Company's management currently does not use risk management contracts to set price parameters for its production.

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flow associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that Pine Cliff uses. The principal exposure to the Company is on its cash balances which have a variable interest rate which gives rise to a cash flow interest rate risk.

Pine Cliff's cash consists of Canadian dollar investment chequing accounts on which it earns an insignificant amount of interest. Since these funds need to be accessible for the development of the Company's capital projects, management does not reduce its exposure to interest rate risk through entering into term contracts of various lengths.

Foreign Exchange Risk

The Company has disposed of its foreign operations. The Company's domestic or continuing operations currently sells all of its Canadian production in Canadian currency. The Company has a Canadian dollar denominated cash balance and as such, Pine Cliff does not have exchange rate risk.

Credit Risk

Credit risk is the risk that a contracting party will not complete its obligations under a financial instrument and cause the Company to incur a financial loss. Pine Cliff is exposed to credit risk on all financial assets included on the balance sheet. To help mitigate this risk, the Company maintains the majority of its cash balances with a major Canadian chartered bank.

Substantially all of the continuing operations' accounts receivable balance at June 30, 2011 ($78,443) and December 31, 2010 ($155,945) relates to product sales with Canadian oil and gas companies and crown royalty credits with the province of Alberta, all of which have generally been received within 30 to 60 days.

Pine Cliff assesses its financial assets quarterly to determine if there has been any impairment. No impairment provision was required on the Company's financial assets. Pine Cliff does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The maximum exposure to credit risk is represented by the carrying amount on the statement of financial position. There are no material financial assets that Pine Cliff considers past due.

Liquidity Risk

Liquidity risk includes the risk that, as a result of Pine Cliff's operational liquidity requirements, the Company:

- will not have sufficient funds to settle a transaction on the due date,
- will not have sufficient funds to continue with its financing of its exploration projects,
- will be forced to sell assets at a value which is less than what they are worth, or
- may be unable to settle or recover financial assets.

To help reduce these liquidity risks, the Company:

- may arrange short-term financing at a reasonable interest rate with its CEO and director.
- may negotiate a bank loan,
- may do an equity issue.

11. TRANSITION TO IFRS

As stated in Note 2, these financial statements are prepared in accordance with IFRS. For all accounting periods prior to this, the Company prepared its financial statements under Canadian GAAP. An explanation of how the transition from previous GAAP to IFRS has affected the Company's consolidated statement of financial position and consolidated comprehensive income is set out in this note.

The accounting policies set out in Pine Cliff's March 31, 2011 interim condensed consolidated financial statements have been applied in preparing the financial statements for the period ended June 30, 2011, the comparative information presented in these financial statements for the periods ended June 30, 2010 and as at June 30, 2010 and December 31, 2010.

The following are reconciliations for the periods ended June 30, 2010. Reconciliations for the statement of financial position as at January 1, 2010 (the Company's transition date) and December 31, 2010 and the reconciliation of the statement of comprehensive income for the year ended December 31, 2010 are disclosed in Pine Cliff's March 31, 2011 condensed consolidated financial statements.

11.1 Reconciliation of the consolidated statement of financial position

		As at June 30, 2010		
$	Notes	Canadian GAAP	IFRS Adjustments	**IFRS**
Assets				
Current				
Accounts receivable		231,590	-	231,590
Prepaid expenses		22,083	-	22,083
Discontinued operations		38,577	-	38,577
		292,250	-	292,250
Property and equipment	(a)	2,617,163	965	2,618,128
		2,909,413	965	2,910,378
Liabilities				
Current				
Bank indebtedness		25,327	-	25,327
Accounts payable and accrued liabilities		322,883	-	322,883
Discontinued operations		331,056	-	331,056
		679,266	-	679,266
Decommissioning liabilities	(a)	63,851	5,067	68,918
Discontinued operations	(a)	36,732	2,279	39,011
		779,849	7,346	787,195
Shareholders' Equity				
Share capital		14,819,372	-	14,819,372
Contributed surplus		765,822	-	765,822
Accumulated other comprehensive income		-	-	-
Deficit	(c)	(13,455,630)	666,898	(12,788,732)
Total Shareholders' Equity		2,129,564	666,898	2,796,462
Non-Controlling Interests	**(b)**	-	(673,279)	(673,279)
Total Equity		2,129,564	(6,381)	2,123,183
		2,909,413	965	2,910,378

11.1 Reconciliation of the Consolidated Statement of Financial Position (Continued)

IFRS has many similarities with Canadian GAAP as it is based on a similar conceptual framework. However, there are important differences with regard to recognition, measurement and disclosure. Adoption of IFRS resulted in changes to Pine Cliff's consolidated statement of financial position and consolidated statement of comprehensive income (loss) as set out below.

a) Decommissioning Liabilities

The discounted value of the decommissioning liabilities has increased due to a change in the discount rate used to calculate the present value of future oil and gas well reclamation and abandonments. Under Canadian GAAP, a risk adjusted discount rate was used. Under IFRS, a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation has been used. In accordance with IFRS 1, the Company has elected to recognize the $5,067 increase in the decommissioning obligation from continuing operations and $2,279 from discontinued operations along with an increase to related property and equipment assets and an increase in deficit as at June 30, 2010.

b) Non-Controlling Interest (NCI)

Under Canadian GAAP, when the non-controlling interest is not obligated to fund its share of losses, the Company does not attribute losses to the non-controlling interest once the interest has been reduced to nil. Under IFRS, the Company is required to allocate comprehensive losses to the non-controlling interest based on their effective interest, even if this results in a non-controlling deficit balance. The impact of the change was to decrease deficit and increase non-controlling deficit by $673,279.

Under IFRS, the Company includes the NCI as a component of equity in the statement of financial position. Under Canadian GAAP, the NCI would be presented in the statement of financial position as neither a liability nor an equity component.

c) Retained Earnings

The following table reconciles the cumulative effect on the above transitional adjustments with regard to retained earnings as at June 30, 2010.

($)	
Property and equipment (see 11.1 (a))	965
Decommissioning liabilities (see 11.1 (a))	(5,067)
Discontinued operations (see 11.1 (a))	(2,279)
NCI (see 11.1 (b))	673,279
Net effect – increase in retained earnings	666,898

11.2 Reconciliation of the Consolidated Statement of Comprehensive Income (Loss)

		Three months ended June 30, 2010			Six months ended June 30, 2010		
$	Notes	Canadian GAAP	IFRS Adjustments	IFRS	Canadian GAAP	IFRS Adjustments	IFRS
Revenues							
Oil and gas sales, net of royalties		507,310	-	507,310	695,617	-	695,617
Expenses							
Production costs		146,138	-	146,138	192,116	-	192,116
Office and administration		65,664	-	65,664	106,855	-	106,855
Depletion and depreciation	(b)	333,133	(515)	332,618	453,506	(1,146)	452,360
Unwinding of the discounted value of decommissioning liabilities	(c)	-	638	638	-	1,168	1,168
Share-based compensation		1,619	-	1,619	4,514	-	4,514
		546,554	123	546,677	756,991	22	757,013
Loss before taxes		(39,244)	(123)	(39,367)	(61,374)	(22)	(61,396)
Taxes							
Deferred		-	-	-	-	-	-
Net loss from continuing operations for the period		(39,244)	(123)	(39,367)	(61,374)	(22)	(61,396)
Net loss from discontinued operations, net of tax	(d)	(138,470)	55	(138,415)	(304,991)	111	(304,880)
Net loss and comprehensive loss for the period		(177,714)	(68)	(177,782)	(366,365)	89	(366,276)
Net earnings (loss) and comprehensive income (loss) for the period attributable to:							
Common shareholders of the Company		(177,714)	9,303	(168,411)	(366,365)	24,785	(341,580)
Non-controlling interest	(a)	-	(9,371)	(9,371)	-	(24,696)	(24,696)
Net loss and comprehensive loss per share from continuing operations							
Basic and diluted		(0.00)	0.00	(0.00)	(0.00)	0.00	(0.00)
Net earnings (loss) and comprehensive income (loss) per share							
Basic and diluted		(0.00)	0.00	(0.00)	(0.01)	0.00	(0.01)

11.2 Reconciliation of the Consolidated Statement of Comprehensive Income (Loss) (Continued)

The nature of the adjustments is explained as follows:

a) Loss on Acquisition of Non-Controlling Interest (NCI)

Under Canadian GAAP, no losses would be attributed to the NCI once the NCI was reduced to nil. When the Company purchased the non-controlling interest for $10 this amount was recorded to office and administration. Under IFRS, the Company retroactively started to record the NCI's share of losses from inception. For the six month period ended June 30, 2010, the Company recorded $24,696 of the NCI's share of losses. When the Company purchased the NCI it recorded a loss on acquisition of $727,195, which consisted of the NCI's accumulated losses plus the purchase price.

b) Depletion and Depreciation

$	Three months ended June 30, 2010	Six months ended June 30, 2010
Reclassification of the unwinding of the discounted value of decommissioning liabilities previously grouped with depletion and depreciation under Canadian GAAP	(720)	(1,324)
Increase (decrease) in depletion and depreciation due to the decommissioning liabilities transition adjustment (see 11.1 (a))	205	178
	(515)	(1,146)

c) Unwinding of the Discounted Value of Decommissioning Liabilities

$	Three months ended June 30, 2010	Six months ended June 30, 2010
Reclassification of the unwinding of the discounted value of decommissioning liabilities previously grouped with depletion and depreciation under Canadian GAAP	720	1,324
Decrease in the unwinding of the discounted value of decommissioning liabilities due to the transition adjustment (see 11.1 (a))	(82)	(156)
	638	1,168

d) Net Loss from Discontinued Operations, Net of Tax

$	Three months ended June 30, 2010	Six month ended June 30, 2010
Decrease in the unwinding of the discounted value of decommissioning liabilities due to the transition adjustment (see 11.1 (a))	55	111
	55	111

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