

# Second Quarter 2009

## Highlights

For the periods ended	Three Months Ended		Six Months Ended		
	June 30 2009	June 30 2008	June 30 2009	June 30 2008	
<b>FINANCIAL (\$)</b>					
Revenue - Oil and Gas	<b>111,773</b>	138,415	<b>305,498</b>	281,531	
Cash Flow from Operations	<b>(294,455)</b>	(224,141)	<b>(523,762)</b>	(523,762)	
Per Share Basic and Diluted	<b>(0.01)</b>	(0.00)	<b>(0.01)</b>	(0.01)	
Net Loss	<b>(325,010)</b>	(295,111)	<b>(823,542)</b>	(612,224)	
Per Share Basic and Diluted	<b>(0.01)</b>	(0.01)	<b>(0.02)</b>	(0.01)	
Capital Expenditures and Acquisitions	<b>9,581</b>	2,516,214	<b>129,367</b>	2,797,602	
Total Assets			<b>4,558,217</b>	12,043,617	
Working Capital			<b>1,738,974</b>	5,278,074	
Shareholders' Equity			<b>4,341,385</b>	11,799,266	
<b>OPERATIONS</b>					
Oil and NGLs	- Barrels Per Day	<b>2</b>	-	<b>2</b>	1
	-Average Price (\$ per barrel)	<b>62.14</b>	-	<b>55.74</b>	104.38
Natural Gas	-MCF Per Day	<b>312</b>	142	<b>352</b>	155
	-Average Price (\$ per MCF)	<b>3.62</b>	10.84	<b>4.56</b>	9.40
Total Barrels of Oil Equivalent (BOE) Per Day <sup>(1)</sup>		<b>51</b>	24	<b>57</b>	27

<sup>(1)</sup> 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.

## Report to Shareholders

Pine Cliff Energy Ltd. ("Pine Cliff" or "the Company") is pleased to report its operating and financial results for the three months and six months ended June 30, 2009.

The Board of Directors and Management recognize that there is a need to evaluate the overall direction for the Company and are presently assessing various options and opportunities available to add value on behalf of shareholders.

As a result of its unsuccessful completion of the three-well drill program on the Canadon Ramirez Concession in Argentina and the country's difficult political and business environment, the Company is reviewing its involvement in that region. In addition, positive changes in the Canadian energy sector and an increased availability in assets for sale have provided the impetus for Pine Cliff to once again focus its efforts domestically rather than internationally. The Company intends to increase its activities in Canada by aggressively pursuing acquisition opportunities and to participate in more drilling.

### Operations

During the fourth quarter of 2008, Pine Cliff participated in drilling one natural gas well (15 percent working interest) in the Sundance area of Alberta. Production for this well for the first six months of 2009 has averaged approximately 225 MCF per day net to the company and total company production for the first six months of 2009 averaged 57 BOE per day (352 MCF per day of natural gas and 2 barrels per day of crude oil and NGLs).

Pine Cliff is considering participating in one gross exploration well (0.25 net) in the Laguna de Piedra concession, a property in Argentina which the Company has deemed highly prospective. Drilling is expected to take place in late 2009 or early 2010. Should the Company elect to participate in the well, its share of the costs will be approximately \$500,000.

### Financial:


The Company is currently focused on decreasing general and administrative (G&A) expenses and has reduced its consulting services and other international expenses in the second quarter of 2009. G&A expenditures decreased by approximately 23 percent quarter over quarter due to reduced contractor fees for services provided to the Company's South American activities and reduced management fees.

As of June 30, 2009, Pine Cliff had positive working capital of \$1,738,974. These funds may be used to cover the Company's budgeted 2009 capital expenditures of \$900,000 in relation to the drilling of its Laguna de Piedra Concession (\$500,000) as well as miscellaneous capital costs in respect to its Canadian oil and gas operations.

### Outlook

The Board of Directors and management feel confident that there will be investment opportunities in Canada in the near term and are continuing to pursue the available options.

Submitted on behalf of the Board of Directors



George F. Fink  
President, Chief Executive Officer and Director

## Management's Discussion and Analysis

The following report dated August 20, 2009 is a review of the operations and current financial position for Pine Cliff Energy Ltd. ("Pine Cliff" or "the Company") and should be read in conjunction with the unaudited financial statements for the six months ended June 30, 2009, including the notes related thereto, and the audited financial statement for the year ended December 31, 2008, together with the notes related thereto.

### **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

## Quarterly Financial and Operational Highlights

	2009		2008			
	2nd	1st	4th	3rd	2nd	1st
Financial (\$)						
Revenue - Oil and Gas	111,773	193,725	295,944	129,537	138,415	143,116
Cash Flow from Operations	(294,455)	(229,307)	(68,211)	(305,368)	(224,141)	(204,923)
Per Share Basic and Diluted	(0.01)	(0.01)	0.00	(0.01)	0.00	0.00
Net Loss	(325,010)	(498,532)	(6,423,691)	(505,953)	(295,111)	(317,113)
Per Share Basic and Diluted	(0.01)	(0.01)	(0.14)	(0.01)	(0.01)	(0.01)
Capital Expenditures and Acquisitions	9,581	119,786	1,067,843	1,511,745	2,516,214	281,388
Total Assets	4,558,217	4,966,907	5,570,015	11,621,915	12,043,617	12,221,650
Working Capital	1,738,974	1,903,038	2,316,982	3,440,165	5,278,074	7,937,179
Shareholders' Equity	4,341,385	4,644,004	5,044,701	11,400,311	12,043,617	12,003,398
Operations						
Oil and NGLs (barrels per day)	2	1	2	1	-	4
Natural Gas (MCF per day)	312	392	453	146	142	168
2007						
			4th	3rd	2nd	1st
Financial (\$)						
Revenue - Oil and Gas			112,685	95,160	176,590	198,515
Cash Flow from Operations			(234,653)	(172,281)	(262,144)	(115,860)
Per Share Basic and Diluted			(0.01)	(0.01)	(0.01)	0.00
Net Loss			(381,561)	(383,540)	(346,274)	(270,109)
Per Share Basic and Diluted			(0.01)	(0.01)	(0.01)	(0.01)
Capital Expenditures and Acquisitions			193,350	174,289	233,648	2,196,476
Total Assets			12,445,994	4,173,333	3,946,888	4,211,984
Working Capital			8,378,110	(314,684)	182,319	602,650
Shareholders' Equity			12,205,066	3,371,089	3,749,025	4,008,304
Operations						
Oil and NGLs (barrels per day)			2	1	5	7
Natural Gas (MCF per day)			182	163	226	226

## Production

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
	2009	2009	2008	2009	2008
Crude oil and NGLs (barrels per day)	2	1	-	2	1
Natural gas (MCF per day)	312	392	142	352	155
Total BOE per day <sup>(1)</sup>	51	64	24	57	27

<sup>(1)</sup> 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.

During the fourth quarter of 2008, a natural gas well that is not operated by Pine Cliff was completed and placed on production (0.15 net) by the operator. Production for the first six months of 2009 from this well is 225 MCF per day net to the Company. The Company has an expected annual decline rate of approximately 20 percent on its overall production.

## Revenue

(\$)	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
	2009	2009	2008	2009	2008
Revenue:					
Oil and gas sales	111,773	193,725	138,415	305,498	281,531
Average Realized Prices					
Crude oil and NGLs (per barrel)	62.14	48.06	-	55.74	104.38
Natural gas (per MCF)	3.62	5.32	10.84	4.56	9.40

Revenue from petroleum and natural gas sales for the first half of 2009 increased by \$23,967 from the first half of 2008 due to increased production volumes, partially offsetting a 51 percent decrease in commodity prices for natural gas. A decrease in revenue from Q2 2009 to Q1 2009 was due to lower production volumes and reduced commodity prices for natural gas. The Company did not have hedging agreements in either 2009 or 2008 and presently does not have any future hedging agreements.

## Royalties

(\$)	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
	2009	2009	2008	2009	2008
Crown royalties	(49,052)	44,556	21,864	(4,496)	55,994
Gross overriding royalties	2,533	4,796	10,049	7,329	12,787
Total royalty expense	(46,519)	49,352	31,913	2,833	68,781

Crown royalties are lower in the first six months of 2009 compared to the first six months of 2008 due to a \$58,000 crown royalty holiday adjustment received in the second quarter of 2009 related to 2008 crown royalty payments made on the new natural gas well. Gross overriding royalties were also lower

due to the significant decrease in the commodity prices for natural gas. Crown and gross overriding royalties were lower for Q2 2009 compared to Q1 2009 for the same reasons.

### Interest Income

(\$)	Three months ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Interest income	<b>284</b>	5,781	26,162	<b>6,065</b>	94,330

The Company maintains both Canadian and U.S. investment accounts that pay interest at prime less various percentages as long as the Company maintains certain minimum account balances. The Company was earning interest at higher rates and on an increased cash balance throughout the first half of 2008. Interest income for Q2 2009 and Q1 2009 decreased significantly due to the lower cash balance on hand.

### Production Costs

(\$)	Three months ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Production costs	<b>24,680</b>	57,809	13,273	<b>82,489</b>	39,522
\$ per BOE	<b>5.30</b>	10.08	7.25	<b>7.94</b>	8.51

Production costs were higher in the first six months of 2009 versus the first six months of 2008 due to higher production volumes. The decrease in production costs in the second quarter of 2009 compared to the first quarter of 2009 was due to decreased production volumes and adjustments to prior period charges.

### General and Administrative

(\$)	Three months ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
G&A expense	<b>249,238</b>	324,997	359,043	<b>574,235</b>	641,172

General and administrative (G&A) expenditures decreased by \$66,937 from the first half of 2009 compared to the first half of 2008. The decrease in G&A expenses is due to reduced contractor fees for services provided to the Company's South American activities and reduced management fees. The decrease in G&A expenditures in Q2 2009 compared to Q1 2009 is for the same reasons. The majority of the G&A expenses pertain to the Company's operations in Argentina. With the unsuccessful completion of the three-well drill program on the Canadon Ramirez Concession, the Company's Board of Directors and management are reviewing the Company's involvement in Argentina and have reduced its consulting services and other international expenses in Q2 2009.

Pine Cliff does not have any employees at the present time but has engaged Bonterra Energy Corp. (Bonterra Corp) a related party (see Related Party section), to provide management services and engage the services of consultants on a contract or temporary basis. Pine Cliff's subsidiary CanAmericas Energy

Ltd. (CanAmericas) has also engaged the consulting services of an individual professional as senior management and officer of CanAmericas.

### Foreign Exchange Loss (Gain)

(\$)	Three months ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Foreign exchange loss (gain)	<b>16,432</b>	7,043	(101,624)	<b>23,475</b>	(103,934)

The Company maintains foreign denominated bank accounts to facilitate its foreign operations. The loss on foreign exchange in the first half of 2009 relates to the appreciation of the Canadian dollar with the Argentine peso and U.S. dollar versus a depreciation in 2008.

### Stock-Based Compensation

(\$)	Three months ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Stock-based compensation	<b>22,392</b>	97,834	90,979	<b>120,226</b>	206,424

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. The decrease in stock-based compensation in 2009 is due to the amortization in 2008 of most of the stock-based compensation, on the 1,108,000 options issued in the fourth quarter of 2007. The Company issued 40,000 stock options in Pine Cliff during the first six months of 2009. The Company estimated the 2009 stock options fair value at \$3,350 (\$0.08 per option) using the Black-Scholes option pricing model, assuming a weighted average risk free interest rate of 1.24 percent, weighted average expected volatility of 96.0 percent, weighted average expected life of 2.5 years and no annual dividend rate. Of the options outstanding as of June 30, 2009, \$23,400 of stock-based compensation is remaining to be expensed in 2009 and 2010.

### Depletion, Depreciation, and Accretion and Dry Hole Exploration Costs

The Company follows the successful efforts method of accounting for petroleum and natural gas properties and related equipment. Costs of acquiring unproved properties are capitalized. When petroleum and natural gas properties are found to contain proved reserves as determined by Company engineers, the related net book value is depleted on the unit-of-production basis, calculated by field. The costs of dry holes and abandoned properties are charged to operations. Geological costs, lease rentals and carrying costs are charged to income as incurred. Costs of drilling exploratory and development wells that result in additions to proved reserves are capitalized and depleted on the unit-of-production basis. Tangible equipment is depreciated on a straight-line basis over ten years.

During the first six months of 2009, the Company expensed \$194,639 (2008 - \$128,544) for depletion, depreciation and accretion of its property and equipment. The increase is related to increased production volumes in the first half of 2009. The second quarter of 2009 had a slightly lower depletion, depreciation and accretion amount of \$88,099 compared to Q1 2009 of \$106,540 due to slightly lower production. The Company incurred \$60,036 of capital costs in the second quarter of 2009 related to the three wells drilled in the Canadon Ramirez Concession in Argentina. These costs were written off as dry

hole costs as the 2008 three-well exploration program was unsuccessful. No amounts were expensed to dry hole costs in the first half of 2008.

### Income Taxes

The Company follows the liability method of accounting for income taxes under which the income tax provision is based on the temporary differences in the accounts calculated using income tax rates expected to apply in the year in which the temporary differences will reverse. The Company has sufficient tax pools such that it is not liable for current income tax. However the Company is subject to a one percent Argentina capital tax on assets in Argentina. These amounts are deductible from future income earned in Argentina.

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

	Rate of Utilization %	Amount
Undepreciated capital costs	25	\$ 356,778
Foreign exploration expenditures	10	5,295,915
Share issue costs	20	58,320
Canadian exploration expenditures	100	392,110
Canadian development expenditures	30	499,820
Canadian oil and gas expenditures	10	560,482
Non-capital loss carry forward *	100	4,556,066
		<b>\$ 11,719,491</b>

\* \$620,121 expires 2026, \$1,523,672 expires 2027, \$1,684,143 expires in 2028 and \$728,130 expires in 2029

### Non-Controlling Interest

A private foreign company (Foreign Corp.) owns seven percent of CanAmericas Energy Ltd. (CanAmericas), a 93 percent owned subsidiary of Pine Cliff. In 2008, losses in CanAmericas exceeded the non-controlling interest investment and therefore none of CanAmericas' loss in 2009 was allocated to the non-controlling interest.

### Loss

(\$)	Three months ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Loss	<b>(325,010)</b>	(498,532)	(295,111)	<b>(823,542)</b>	(612,224)
Loss per share	<b>(0.01)</b>	(0.01)	(0.01)	<b>(0.01)</b>	(0.01)

The increase in loss for the first six months of 2009 compared to the first six months of 2008 was predominantly due to decreased interest income, increased depletion and dry hole costs and a foreign exchange loss versus a foreign exchange gain in 2008 partially offset by reduced G&A costs in 2009. The decrease in the Q2 2009 loss compared to Q1 2009 loss was predominantly due to the crown royalty recovery, reduced G&A costs and lower stock-based compensation.



## Cash Flow from Operations

(\$)	Three months ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Cash flow from operations	<b>(294,455)</b>	(229,307)	(224,141)	<b>(523,762)</b>	(429,064)
Cash flow from operations per share	<b>(0.01)</b>	(0.01)	(0.00)	<b>(0.01)</b>	(0.01)

Cash flow deficiency increased in the first half of 2009 compared to the first half of 2008 as the Company had decreased interest income, increased production costs and increased taxes and a decrease in non-cash working capital adjustments, which were partially offset by higher oil and gas sales, a crown royalty recovery and decreased G&A costs. The reduction in cash flow from Q2 2009 compared to Q1 2009 was primarily due to a decrease in non-cash working capital adjustments, which was partially offset by lower G&A and production costs.

## Related Party Transactions

Pine Cliff has a management agreement with Bonterra Corp, a wholly owned subsidiary of Bonterra Oil & Gas Ltd. (a company with common directors and management with Pine Cliff), to have Bonterra Corp provide executive services (President and CEO, CFO and COO), accounting services, oil and gas administration and office administration. The management fee consists of a monthly fee of \$10,000 (2008 - \$19,800), three percent of net earnings before income taxes plus minor general and administrative expenses incurred by Bonterra that were specifically attributable to Pine Cliff. Total fees for 2009 were \$60,000 (2008 - \$118,800). As at June 30, 2009, amounts owing to Bonterra Corp were \$779 (December 31, 2008 - \$592).

## Commitments

The Company has a related party management agreement with Bonterra Corp that can be cancelled by giving 90 days notice.

## Liquidity and Capital Resources

As of June 30, 2009, Pine Cliff had positive working capital of \$1,738,974 (December 31, 2008 - \$2,316,982). These funds may be used to cover the Company's budgeted 2009 capital expenditures of \$900,000 in relation to the drilling of its Laguna de Piedra Concession if it is drilled in 2009 (see below) as well as miscellaneous capital costs in respect of its Canadian oil and gas operations. The Company is currently focusing on reducing general and administrative expenses related to its Argentina operations.

Pine Cliff through its subsidiaries has paid 40 percent of costs totaling U.S. \$1,120,000 including V.A.T. to earn a 25 percent participating interest in the Laguna de Piedra Concession. The Company may participate in a one well project, which is expected to be drilled in late 2009 or early 2010. The Company's share of the costs to drill the well will be approximately \$500,000.

The V.A.T amount is recoverable against V.A.T liabilities generated on the sale of petroleum production in Argentina. The V.A.T amount has been capitalized to exploration costs, as its recoverability cannot be determined until a successful producing property is established.

The Company has a line of credit through its subsidiary CanAmericas to the lower of its available amount of cash or U.S. \$3,690,000, which can be drawn by means of letters of guarantee and letters of credit.

The line of credit may be cancelled without notice. No letters of guarantee or credit are currently outstanding.

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

<b>Issued</b>	Number	Amount
<b>Common Shares</b>		
Balance, January 1, 2009	45,275,695	\$ 14,588,722
Balance, June 30, 2009	45,275,695	\$ 14,588,722

A summary of the status of the Company's stock option plan as of June 30, 2009 and December 31, 2008, and changes during the three month and twelve month periods ending on those dates is presented as follows:

	June 30, 2009		December 31, 2008	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	3,118,000	\$0.63	3,053,000	\$0.62
Options granted	40,000	0.15	65,000	1.15
Options exercised	-	-	-	-
Options cancelled	(12,000)	1.15	-	-
Outstanding at end of period	3,146,000	\$0.62	3,118,000	\$0.63
Options exercisable at end of period	2,838,000	\$0.58	2,003,500	\$0.33

The following table summarizes information about stock options outstanding at June 30, 2009:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 6/30/09	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 6/30/09	Weighted-Average Exercise Price
\$0.15	1,130,000	0.5 years	\$0.15	1,090,000	\$0.15
0.50 – 0.60	825,000	0.5 years	0.51	825,000	0.51
0.70 – 0.75	80,000	0.5 years	0.72	80,000	0.72
1.10 – 1.20	1,071,000	0.9 years	1.18	823,000	1.18
1.40 – 1.50	40,000	1.5 years	1.49	20,000	1.49
\$0.15 - \$1.50	3,146,000	0.7 years	\$0.62	2,838,000	\$0.58

The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. Unvested options as of June 30, 2009 vest 210,500 in 2009 and 77,500 in 2010 and 20,000 in 2011.

The Company's subsidiary CanAmericas issued an option to Foreign Corp. during the first quarter of 2006 to acquire 1,000,000 common shares of CanAmericas at an option price of U.S. \$0.25 per common share. Fifty percent of the options vested on January 13, 2007, and fifty percent vested on January 13, 2008, and all the options will expire on January 13, 2011.

### Financial Reporting Update

In January 2009, the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including

derivative instruments. This standard is effective for the Company's fiscal periods ending on or after January 20, 2009 with retrospective application. The application of this EIC did not have a material effect on the Company's Consolidated Financial Statements.

Effective January 1, 2009, the Company prospectively adopted the Canadian Institute of Chartered Accountants (CICA) Section 1582, "Business Combinations", which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures.

Effective January 1, 2009, the Company prospectively adopted CICA Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

### **Recent Accounting Pronouncements**

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) will be effective January 1, 2011.

The Company in the fourth quarter of 2008 commenced the process of conversion to IFRS by engaging its external auditors to perform a preliminary high-level scoping study to consider the potential impact of the implementation of IFRS on the Company. Based on the findings to date the following areas have been identified as high impact areas:

- IFRS 1 – First time adoption of IFRS
- IAS 16 – Property and equipment
- IAS 36 – Impairment of assets

Medium impact areas include:

- IFRS 6 – Exploration and evaluation of mineral resources
- IFRS 2 – Share-based payments
- IAS 1 – Presentation of financial statements
- IAS 10 – Events after the balance sheet date
- IAS 12 – Income Taxes
- IAS 18 – Revenues
- IAS 21 – The effects of changes in foreign exchange rates
- IAS 23 – Borrowing costs
- IAS 37 – Provisions, contingent liabilities and contingent assets

The impact of IFRS will be significant; however the Company has always maintained an accounting policy of successful efforts for property and equipment that will result in a major reduction in the level of conversion compared to most oil and gas companies who used the full cost accounting policy.

Commencing in the third quarter of 2009, the Company will be completing a more detailed analysis of the above areas and making decisions in respect of accounting policies that will be followed in respect of the above identified areas, documenting those policies, and calculating the impact of those policies on existing financial statement items and presentations. Key information will be disclosed as it becomes available during the transition period.

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, "Financial Instruments — Disclosures". The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. The Company will include these additional disclosures in its annual consolidated financial statements for the year ending December 31, 2009.

Additional information relating to the Company may be found on [www.sedar.com](http://www.sedar.com) and by visiting its website at [www.pinecliffenergy.com](http://www.pinecliffenergy.com).

Submitted on behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read "G. Fink", written in a cursive style.

George F. Fink  
President, CEO and Director

## **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 of certain assets or liabilities. Management believes such estimates have been based on careful judgements 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 Company's auditors have not performed a review of these interim financial statements. 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.

## Consolidated Balance Sheets

As at June 30, 2009 and December 31, 2008  
(unaudited)

	2009	2008
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 1,718,511	\$ 2,624,556
Accounts receivable	121,767	107,200
Prepaid expenditures	32,567	29,602
	<b>1,872,845</b>	2,761,358
<b>Property and Equipment (Note 6)</b>		
Property and equipment	3,947,881	3,878,550
Accumulated depletion and depreciation	(1,262,509)	(1,069,893)
<b>Net Property and Equipment</b>	<b>2,685,372</b>	2,808,657
	<b>\$4,558,217</b>	\$5,570,015
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 133,871	\$444,376
<b>Asset Retirement Obligations</b>	<b>82,961</b>	80,938
<b>Non-Controlling Interests (Note 5)</b>	-	-
	<b>216,832</b>	525,314
<b>Commitments</b>		
<b>Shareholders' Equity</b>		
Share capital (Note 8)	14,588,722	14,588,722
Contributed surplus	843,194	722,968
Deficit	(11,090,531)	(10,266,989)
Accumulated other comprehensive income	-	-
	<b>4,341,385</b>	5,044,701
	<b>\$4,558,217</b>	\$5,570,015

# Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the periods ended June 30 (unaudited)

	Three Months		Six Months	
	2009	2008	2009	2008
<b>Revenue</b>				
Oil and gas sales	\$111,773	\$138,415	\$305,498	\$281,531
Royalties	46,519	(31,913)	(2,833)	(68,781)
Interest income	284	26,162	6,065	94,330
	<b>158,576</b>	132,664	<b>308,730</b>	307,080
<b>Expenses</b>				
Production costs	24,680	13,273	82,489	39,522
General and administrative	249,238	359,043	574,235	641,172
Foreign exchange loss (gain)	16,432	(101,624)	23,475	(103,934)
Stock-based compensation	22,392	90,979	120,226	206,424
Dry hole costs (Note 6)	60,036	-	60,036	-
Depletion, depreciation and accretion	88,099	63,075	194,639	128,544
	<b>460,877</b>	424,746	<b>1,055,100</b>	911,728
<b>Loss Before Taxes and Non-Controlling Interests</b>	<b>(302,301)</b>	(292,082)	<b>(746,370)</b>	(604,648)
<b>Taxes (Note 7)</b>				
Current	22,709	4,866	77,172	32,755
Future	-	-	-	-
	<b>22,709</b>	4,866	<b>77,172</b>	32,755
<b>Loss before Non-Controlling Interests</b>	<b>(325,010)</b>	(296,948)	<b>(823,542)</b>	(637,403)
Loss applicable to non-controlling interests (Note 5)	-	1,837	-	25,179
<b>Loss and Comprehensive Income for the Period</b>	<b>(325,010)</b>	(295,111)	<b>(823,542)</b>	(612,224)
Deficit, Beginning of Period	(10,765,521)	(3,042,234)	(10,266,989)	(2,725,121)
<b>Deficit, End of Period</b>	<b>(\$11,090,531)</b>	(\$3,337,345)	<b>(\$11,090,531)</b>	(\$3,337,345)
<b>Loss Per Share - Basic and Diluted</b>	<b>(\$0.01)</b>	(\$0.01)	<b>(\$0.02)</b>	(\$0.01)
<b>Weighted Average Common Shares</b>				
Basic and diluted	45,275,695	45,275,695	45,275,695	45,275,695

## Consolidated Statements of Cash Flow

For the periods ended June 30 (unaudited)

	Three Months		Six Months	
	2009	2008	2009	2008
<b>Operating Activities</b>				
Loss for the period	<b>(\$325,010)</b>	(\$295,111)	<b>(\$823,542)</b>	(\$612,224)
Items not affecting cash				
Stock-based compensation	<b>22,392</b>	90,979	<b>120,226</b>	206,424
Dry hole costs	<b>60,036</b>	-	<b>60,036</b>	-
Depletion, depreciation and accretion	<b>88,099</b>	63,075	<b>194,639</b>	128,544
Unrealized foreign exchange gain	-	(101,624)	-	(103,934)
Loss applicable to non-controlling interests	-	(1,837)	-	(25,179)
	<b>(154,483)</b>	(244,518)	<b>(448,641)</b>	(406,369)
Change in non-cash working capital				
Accounts receivable	<b>(28,788)</b>	(6,341)	<b>(14,567)</b>	(40,884)
Prepaid expenditures	<b>4,547</b>	(4,494)	<b>(2,965)</b>	(9,553)
Accounts payable and accrued liabilities	<b>(115,731)</b>	31,212	<b>(57,589)</b>	27,742
	<b>(139,972)</b>	20,377	<b>(75,121)</b>	(22,695)
<b>Cash Used in Operating Activities</b>	<b>(294,455)</b>	(224,141)	<b>(523,762)</b>	(429,064)
<b>Financing Activities</b>	-	-	-	-
<b>Cash Provided by Financing Activities</b>	-	-	-	-
<b>Investing Activities</b>				
Property and equipment expenditures	<b>(9,581)</b>	(2,516,214)	<b>(129,367)</b>	(2,797,602)
Proceeds on disposal of restricted term investments	-	-	-	2,689,601
Change in non-cash working capital				
Accounts payable and accrued liabilities	<b>8,649</b>	(3,704)	<b>(252,916)</b>	-
<b>Cash used in Investing Activities</b>	<b>(932)</b>	(2,519,918)	<b>(382,283)</b>	(108,001)
<b>Unrealized Foreign Exchange Gain on Cash Held in Foreign Currency</b>	-	101,624	-	103,934
<b>Net Cash Outflow</b>	<b>(295,387)</b>	(2,642,435)	<b>(906,045)</b>	(433,131)
<b>Cash, Beginning of Period</b>	<b>2,013,898</b>	7,978,752	<b>2,624,556</b>	5,769,448
<b>Cash, End of Period</b>	<b>1,718,511</b>	5,336,317	<b>1,718,511</b>	5,336,317
<b>Cash interest paid</b>	<b>\$ -</b>	\$ -	<b>\$ -</b>	\$ -
<b>Cash taxes paid</b>	<b>\$47,986</b>	\$ -	<b>\$55,703</b>	\$ -



# Notes to the Consolidated Financial Statements

Periods ended June 30, 2009 and 2008 (unaudited)

## 1. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements for Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") as at and for the three and six months ended June 30, 2009 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2008. The notes to these interim consolidated financial statements do not conform in all respects to the note disclosure requirements of generally accepted accounting policies ("GAAP") for annual consolidated financial statements. These interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements as at and for the year ended December 31, 2008, except for those disclosed in Note 2 below. The disclosures provided within are incremental to those included with the annual financial statements.

## 2. CHANGE IN ACCOUNTING POLICIES

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, "Goodwill and Intangible Assets". The new section replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company's consolidated financial statements.

On January 1, 2009, the Company adopted the CICA's EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this EIC had no impact on the Company's consolidated financial statements.

### Recent and Pending Accounting Pronouncements

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, "Financial Instruments - Disclosures". The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards ("IFRS"). The Company will include these additional disclosures in its annual consolidated financial statements for the year ending December 31, 2009.

Effective January 1, 2009, the Company prospectively adopted the CICA issued Section 1582, "Business Combinations", which will replace the former guidance on business combinations. Under the new standard, the purchase price used in a business combination is based on the fair value of consideration exchanged at the date of exchange. Currently the purchase price used is based on the fair value of the consideration for a reasonable period before and after the date of acquisition is agreed upon and announced. The new standard generally requires all acquisition costs be expensed, which are currently capitalized as part of the purchase price. In addition, the new standard modified the accounting for contingent consideration and negative goodwill.

Effective January 1, 2009, the Company prospectively adopted the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary subsequent to a business combination.

The Canadian Accounting Standards Board has confirmed that IFRS will replace Canadian GAAP effective January 1, 2011, including comparatives for 2010, for Canadian publicly accountable enterprises. The Company has completed its high-level IFRS impact study and established a preliminary timeline for the execution and completion of the conversion project. The impact of IFRS on the Company's consolidated financial statements is not reasonably determinable at this time.

### **3. BANKING AGREEMENT**

The Company has a line of credit through its subsidiary CanAmericas to the lower of its available amount of cash or U.S. \$3,690,000, which can be drawn by means of letters of guarantee and letters of credit. The line of credit may be cancelled without notice. No letters of guarantee or credit are currently outstanding.

### **4. RELATED PARTY TRANSACTIONS**

Bonterra Oil & Gas Ltd. (Bonterra O&G) an oil and gas corporation publicly traded on the Toronto Stock Exchange with common directors and management with Pine Cliff and a former parent of the Company, through its wholly owned subsidiary Bonterra Energy Corp. (Bonterra Corp) provides management services and office administration to the Company. Total fees for the six month period were \$60,000 (2008 - \$118,800) plus minimal administrative costs. As of June 30, 2009 Pine Cliff owed Bonterra Corp \$779 (December 31, 2008 - \$592).

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

### **5. NON-CONTROLLING INTERESTS**

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

Changes to non-controlling interest were as follows:

	<b>June 30, 2009</b>	December 31, 2008
Non-controlling interest, January 1	\$ -	\$ 25,179
Loss applicable to non-controlling interest	( \$ - )	(25,179)
Non-controlling interest, end of period	\$ -	\$ -

Foreign Corp. has been granted an option to acquire an additional 1,000,000 common shares of CanAmericas at U.S. \$0.25 per common share. Fifty percent of the options vested on January 13, 2007, and the remaining 50 percent vested on January 13, 2008, and all of the options will expire on January 13, 2011.

## 6. PROPERTY AND EQUIPMENT

	June 30, 2009		December 31, 2008	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Petroleum and natural gas properties and related equipment	\$3,894,369	\$1,229,667	\$3,825,038	\$1,041,902
Furniture, equipment and other	53,512	32,842	53,512	27,991
	<b>\$3,947,881</b>	<b>\$1,262,509</b>	<b>\$3,878,550</b>	<b>\$1,069,893</b>

In 2009, the exploration costs related to the Canadon Ramirez Concession of \$60,036 (2008 - \$6,171,140) were written-off to dry hole costs as the three-well program was unsuccessful. Exploration costs of \$1,426,639 included in petroleum and natural gas properties and related equipment presently have been excluded from costs subject to depletion and depreciation.

## 7. TAXES

The Company has expensed \$77,172 current tax expense related to Argentina capital tax. A one percent Argentina capital tax is payable in respect of the exploration costs for the Canadon Ramirez and the Laguna de Piedra Concessions.

The Company continues to record a full valuation allowance for its future income tax assets as the recoverability is uncertain.

## 8. SHARE CAPITAL

### Authorized

Unlimited number of Common Shares without nominal or par value.

Unlimited number of Class B Preferred Shares without nominal or par value which may be issued in one or more series.

Issued	Number	Amount
<b>Common Shares</b>		
Balance, January 1, 2009	45,275,695	\$ 14,588,722
Balance, June 30, 2009	45,275,695	\$ 14,588,722

A summary of the changes to the Company's contributed surplus is presented below:

Contributed surplus

(\$)	2009	2008
Balance, January 1	<b>722,968</b>	341,465
Stock-based compensation expensed (non-cash)	<b>120,226</b>	206,424
Balance, June 30	<b>843,194</b>	547,889

The deficit balance is composed of accumulated earnings.

A summary of the status of the Company's stock option plan as of June 30, 2009 and December 31, 2008, and changes during the three month and twelve month periods ending on those dates is presented as follows:

	June 30, 2009		December 31, 2008	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	3,118,000	\$0.63	3,053,000	\$0.62
Options granted	40,000	0.15	65,000	1.15
Options exercised	-	-	-	-
Options cancelled	(12,000)	1.15	-	-
Outstanding at end of period	3,146,000	\$0.62	3,118,000	\$0.63
Options exercisable at end of period	2,838,000	\$0.58	2,003,500	\$0.33

The following table summarizes information about stock options outstanding at June 30, 2009:

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding at 6/30/09	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 6/30/09	Weighted-Average Exercise Price
\$0.15	1,130,000	0.5 years	\$0.15	1,090,000	\$0.15
0.50 – 0.60	825,000	0.5 years	0.51	825,000	0.51
0.70 – 0.75	80,000	0.5 years	0.72	80,000	0.72
1.10 – 1.20	1,071,000	0.9 years	1.18	823,000	1.18
1.40 – 1.50	40,000	1.5 years	1.49	20,000	1.49
\$0.15 - \$1.50	3,146,000	0.7 years	\$0.62	2,838,000	\$0.58

The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. Unvested options as of June 30, 2009 vest 210,500 in 2009, 77,500 in 2010 and 20,000 in 2011.

The Company issued 40,000 (December 31, 2008 – 65,000) stock options with an estimated fair value of \$3,350 (December 31, 2008 - \$33,761) (\$0.08 per option (December 31, 2008 - \$0.52 per option)) using the Black-Scholes option pricing model with the following key assumptions:

	June 30, 2009	December 31, 2008
Weighted-average risk free interest rate (%)	1.24	2.89
Dividend yield (%)	-	-
Expected life (years)	2.5	2.5
Weighted-average volatility (%)	96.0	72.0

## 9. SEGMENTED INFORMATION

The Company has operations in Canada and in South America. All operating activities are related to exploration, development and production of petroleum and natural gas:

(\$)	Canada	South America	Total
<b>Three Months Ended June 30, 2009</b>			
Revenue, gross	112,042	15	112,057
Loss before non-controlling interest	62,662	262,348	325,010
Capital expenditures	68	9,513	9,581
<b>Six Months Ended June 30, 2009</b>			
Revenue, gross	309,790	1,773	311,563
Loss before non-controlling interest	245,542	578,000	823,542
Capital expenditures	1,516	127,851	129,367
Property and equipment	1,230,444	1,454,928	2,685,372
Total assets	2,977,890	1,580,328	4,558,218
<b>Three Months Ended June 30, 2008</b>			
Revenue, gross	163,880	697	164,577
Loss before non-controlling interest	149,674	147,274	296,948
Capital expenditures	2,796	2,513,418	2,516,214
<b>Six Months Ended June 30, 2008</b>			
Revenue, gross	355,106	20,755	375,861
Loss before non-controlling interest	303,876	333,527	637,403
Capital expenditures	10,222	2,787,380	2,797,602
<b>December 31, 2008</b>			
Property and equipment	1,416,693	1,391,964	2,808,657
Total assets	3,884,908	1,685,107	5,570,015

## 10. FINANCIAL AND CAPITAL RISK MANAGEMENT

### Financial Risk Factors

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

- Cash deposits;
- Receivables;
- Payables;

The Company's activities result in exposure to a number of financial risks including market risk (commodity price risk, interest rate risk, 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.

The Company does not enter into risk management contracts. The Company sells its oil and gas commodities at market prices at the date of sale in accordance with the Board directive.

### Capital Risk Management

The Company's objectives when managing capital 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 new shares.

The Company monitors capital on the basis of the ratio of budgeted exploration capital requirements to current working capital. This ratio is calculated using the projected cash requirements for a year in advance and maintaining a working capital balance of at least six months to satisfy this requirement on a continuous basis.

The Company believes that maintaining approximately a six month current working capital balance to the exploration capital budget requirement is an appropriate basis to allow it to continue its future development of the Company's assets.

The following section (a) of this note provides a summary of our underlying economic positions as represented by the carrying values, fair values and contractual face values of our 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 value and face values of the Company's financial assets and liabilities other than cash are shown in Table 1.

Table 1

(\$000)	As at June 30, 2009			As at December 31, 2008		
	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value	Face Value
<b>Financial assets</b>						
Accounts receivable	122	122	184	107	107	142
<b>Financial liabilities</b>						
Accounts payable and accrued liabilities	134	134	134	444	444	444

The budgeted capital expenditure to working capital base figures for June 30, 2009 is presented below:

(\$000)	June 30, 2009
Budgeted capital expenditure <sup>(1)</sup>	900
Current assets	1,873
Current liabilities	(134)
Working capital	1,739
Working capital to budgeted capital expenditure (in months)	23.2

<sup>(1)</sup> Budgeted capital expenditure represents the Company's estimated future twelve month capital expenditures.

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 possible development of its oil and gas properties. The Company also engages in the exploration and development of oil and natural gas properties in Canada. Fluctuations in prices of these commodities may directly impact the Company's performance and ability to continue with its operations.

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

*Sensitivity Analysis*

The Company is still in the exploration stage of development of its exploration properties and as such generates nominal cash flow or earnings from these properties. In addition, the Company's petroleum and natural gas operations provide only moderate cash flow and as such changes in commodity would have no material impact on the Company.

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, U.S. dollar and Argentinean peso investment chequing accounts. 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. As discussed above, the Company generally manages its capital such that its budgeted capital requirements to current working capital ratio are at least six months.

Foreign exchange risk

The Company has foreign operations, but no revenue from production from the foreign properties and currently sells all of its Canadian product sales in Canadian currency. The Company has a U.S. cash and Argentina peso cash balance and earns an insignificant amount of interest on its U.S. and Argentinean peso bank accounts. Funds held in foreign denominated accounts are generally held for short periods of time, as the Company transfers and converts Canadian funds to foreign currency as payments for foreign currency denominated payables come due. As such, Pine Cliff does not mitigate exchange rate risk by using risk management contracts.

### 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 and invests in secure financial instruments.

Substantially all of the accounts receivable balance at June 30, 2009 (\$122,000) and December 31, 2008 (\$107,000) relates to product sales with Canadian oil and gas companies and crown royalty credits with the province of Alberta, all of which have consistently been received within 30 to 60 days. The Company through its subsidiary CanAmericas also has a receivable of \$62,000 for Argentina Value Added Tax on non-capital expenditures. The Company has taken a full allowance on the V.A.T., as the Company has no Argentina income subject to V.A.T. to claim it against.

The Company assesses quarterly if there has been any impairment of the financial assets of the Company. The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying value of accounts receivable approximates their fair value due to the relatively short periods to maturity on this instrument. Currently no accounts receivable is greater than 90 days. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company 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,
- Pine Cliff will not have sufficient funds to continue with its financing of its major exploration projects,
- The Company will be forced to sell assets at a value which is less than what they are worth, or
- Pine Cliff may be unable to settle or recover a financial asset at all.

To help reduce these liquidity risks, the Company:

- Has a general capital policy of maintaining at least six months of budgeted capital requirements as its working capital base.
- Maintains a continuous evaluation approach as to the requirements for its largest exploration programs; the Canadon Ramirez Concession and Laguna de Piedra Concession.



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