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T H I R D   Q U A R T E R

For the period ended  
September 30, 2008



## H I G H L I G H T S

For the periods ended	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
<b>Financial (\$)</b>				
Revenue – oil and gas	<b>129,537</b>	95,160	<b>411,068</b>	470,265
Funds Flow from Operations <sup>(1)</sup>	<b>(326,163)</b>	(287,764)	<b>(628,598)</b>	(706,085)
Per Share Basic	<b>(0.01)</b>	(0.01)	<b>(0.01)</b>	(0.02)
Per Share Diluted	<b>(0.01)</b>	(0.01)	<b>(0.01)</b>	(0.02)
Loss	<b>(505,953)</b>	(383,510)	<b>(1,118,177)</b>	(999,893)
Per Share Basic	<b>(0.01)</b>	(0.01)	<b>(0.02)</b>	(0.03)
Per Share Diluted	<b>(0.01)</b>	(0.01)	<b>(0.02)</b>	(0.03)
Capital Expenditures	<b>1,511,745</b>	174,289	<b>4,309,347</b>	2,604,413
Total Assets			<b>11,621,915</b>	4,173,333
Working Capital (Deficiency)			<b>3,440,165</b>	(314,684)
Shareholders' Equity			<b>11,400,311</b>	3,371,089
<b>Operations</b>				
Oil and NGLs				
– Barrels Per Day	<b>1</b>	1	<b>1</b>	4
– Average Price (\$ per barrel)	<b>119.90</b>	75.83	<b>110.45</b>	62.07
Natural Gas				
– MCF Per Day	<b>146</b>	163	<b>152</b>	204
– Average Price (\$ per MCF)	<b>8.74</b>	5.83	<b>9.18</b>	7.14
Total Barrels of Oil Equivalent Per Day <sup>(2)</sup>	<b>24</b>	27	<b>25</b>	37

(1) Funds flow from operations is not a recognized measure under GAAP. Management believes that in addition to cash flow from operations, funds flow from operations is a useful supplemental measure as it demonstrates the Company's ability to generate the funds necessary to fund future growth through capital investment. Investors are cautioned, however, that this measure should not be construed as an indication of the Company's performance. The Company's method of calculating this measure may differ from other issuers and accordingly, it may not be comparable to that used by other issuers. For these purposes, the Company defines funds flow from operations as funds provided by operations before changes in non-cash operating working capital items excluding foreign exchange loss and asset retirement expenditures.

(2) BOEs 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.



What a difference a few months can make. In the last three months the world has seen significant declines in many areas; including major reductions in oil and natural gas prices, recessions in most countries in the world, the failure of many banks and credit facilities and a substantial decrease in consumer spending.

Virtually all businesses have been impacted by these changes including Pine Cliff. As a result, the Board of Directors and management will be confronted with difficult decisions, both now and in the future, to ensure all expenditures are made with a great deal of analysis and caution.

The changing landscape is indeed challenging but also provides many opportunities. The Company will be aggressively pursuing such opportunities, especially from a domestic rather than a foreign perspective. This does not mean that Pine Cliff will no longer focus on completing its prospects in Argentina, but the environment in Canada has changed. The opportunities here may once again be more economic than in foreign jurisdictions. If oil and natural gas prices remain depressed, there may be numerous opportunities to acquire high quality producing and non-producing properties.

In regards to Argentina, the difficult operating and political conditions persist. However, the Company remains optimistic that it will be successful with its drill program that is presently being conducted. In addition, a shortage of most commodities still exists in Argentina and the Company is of the view that the Argentinean federal government will likely have to modify its energy policy to once again entice oil and natural gas companies to become more active.

During the latter part of 2008 and the first quarter of 2009, Pine Cliff expects to test the three wells that have been drilled in the Canadon Ramirez property and to drill an exploratory well in the Laguna de Piedra property. During the fourth quarter of 2008, Pine Cliff also participated in drilling a well (15 percent working interest) in the Sundance area of Alberta. This has been completed as a natural gas well and it is anticipated that the well will be on production prior to the end of 2008.

Although circumstances are expected to continue to be challenging in 2009, the Company is optimistic about being able to take advantage of the many opportunities that will be available.



George F. Fink  
President, CEO and Director  
November 26, 2008



The following report dated November 26, 2008 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 nine months ended September 30, 2008, including the notes related thereto, and the audited financial statements for the year ended December 31, 2007, together with the notes related thereto.

### Forward-Looking Information

Certain statements contained in this Management Discussion and Analysis (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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

### Quarterly Financial and Operational Highlights

	2008				2007		
	3rd	2nd	1st	4th	3rd	2nd	1st
<b>Financial (\$)</b>							
Revenue – Oil and Gas	<b>129,537</b>	138,415	143,116	112,685	95,160	176,590	198,515
Funds Flow from Operations <sup>(1)</sup>	<b>(326,163)</b>	(142,894)	(159,541)	(228,913)	(287,764)	(252,435)	(165,886)
Per Share Basic	<b>(0.01)</b>	0.00	0.00	(0.01)	(0.01)	(0.01)	0.00
Per Share Diluted	<b>(0.01)</b>	0.00	0.00	(0.01)	(0.01)	(0.01)	0.00
Loss	<b>(505,953)</b>	(295,111)	(317,113)	(381,561)	(383,540)	(346,274)	(270,109)
Per Share Basic	<b>(0.01)</b>	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Per Share Diluted	<b>(0.01)</b>	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Capital Expenditures and Acquisitions	<b>1,511,745</b>	2,516,214	281,388	193,350	174,289	233,648	2,196,476
Total Assets	<b>11,621,915</b>	12,043,617	12,221,650	12,445,994	4,173,333	3,946,888	4,211,984
Working Capital (Deficiency)	<b>3,440,165</b>	5,278,074	7,937,179	8,378,110	(314,684)	182,319	602,650
Shareholders' Equity	<b>11,400,311</b>	12,043,617	12,003,398	12,205,066	3,371,089	3,749,025	4,008,304
<b>Operations</b>							
Oil and Liquids (barrels per day)	<b>1</b>	-	4	2	1	5	7
Natural Gas (MCF per day)	<b>146</b>	<b>142</b>	168	182	163	226	226



	2006			
	4th	3rd	2nd	1st
<b>Financial (\$)</b>				
Revenue – Oil and Gas	170,231	90,386	108,413	292,070
Funds Flow from Operations <sup>(1)</sup>	(51,833)	(113,095)	(337,020)	77,700
Per Share Basic	0.00	0.00	(0.01)	0.00
Per Share Diluted	0.00	0.00	(0.01)	0.00
Loss	(209,575)	(211,784)	526,107	(67,139)
Per Share Basic	(0.01)	(0.01)	(0.01)	0.00
Per Share Diluted	(0.01)	(0.01)	(0.01)	0.00
Capital Expenditures and Acquisitions	19,227	(3,463)	124,236	131,926
Total Assets	4,494,010	4,700,305	4,892,079	5,373,147
Working Capital	2,963,513	3,030,822	3,175,577	3,625,133
Shareholders' Equity	4,239,638	4,411,915	4,589,015	5,093,951
<b>Operations</b>				
Oil and Liquids (barrels per day)	3	5	4	9
Natural Gas (MCF per day)	226	131	139	284

<sup>(1)</sup> Funds flow from operations is not a recognized measure under GAAP. Management believes that in addition to cash flow from operations, funds flow from operations is a useful supplemental measure as it demonstrates the Company's ability to generate the funds necessary to fund future growth through capital investment. Investors are cautioned, however, that this measure should not be construed as an indication of the Company's performance. The Company's method of calculating this measure may differ from other issuers and accordingly, it may not be comparable to that used by other issuers. For these purposes, the Company defines funds flow from operations as funds provided by operations before changes in non-cash operating working capital items excluding foreign exchange loss and asset retirement expenditures.

## Production

	Three months ended			Nine months ended	
	Sept 30 2008	June 30 2008	Sept 30 2007	Sept 30 2008	Sept 30 2007
Crude oil and NGLs (barrels per day)	<b>1</b>	–	1	<b>1</b>	4
Natural gas (MCF per day)	<b>146</b>	142	163	<b>152</b>	204
Total BOE per day <sup>(1)</sup>	<b>24</b>	24	27	<b>25</b>	37

<sup>(1)</sup> BOEs 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Production volumes for natural gas decreased 25 percent in the first nine months of 2008 compared to the first nine months of 2007. During the third quarter of 2007, one of the Company's commingled gas wells with various production zones started to produce sand and production declined significantly. The operator of the well performed an unsuccessful workover in December of 2007 to attempt to optimize production from all zones. Production continued to decline and the well was eventually shut-in in June of 2008.

### Revenue

(Cdn \$)	Three months ended			Nine months ended	
	Sept 30 2008	June 30 2008	Sept 30 2007	Sept 30 2008	June 30 2007
Revenue:					
Oil and gas sales	<b>129,537</b>	138,415	95,160	<b>411,068</b>	470,265
Average Realized Prices					
Crude oil and NGLs (per barrel)	<b>119.90</b>	–	75.83	<b>110.45</b>	62.07
Natural gas (per MCF)	<b>8.74</b>	10.84	5.83	<b>9.18</b>	7.14

The decrease in revenue from oil and natural gas sales was due to a significant decline in production in the first nine months of 2008 compared to the first nine months of 2007, despite the higher commodity prices for natural gas in 2008. Revenue from the third quarter of 2008 compared to the second quarter of 2008 decreased slightly due to a decrease in commodity prices for natural gas.

### Royalties

(\$)	Three months ended			Nine months ended	
	Sept 30 2008	June 30 2008	Sept 30 2007	Sept 30 2008	June 30 2007
Crown royalties	<b>31,888</b>	21,864	13,791	<b>87,882</b>	86,166
Gross overriding royalties	<b>5,568</b>	10,049	7,338	<b>18,355</b>	19,186
Total royalty expense	<b>37,456</b>	31,913	21,129	<b>106,237</b>	105,352

Crown royalties were approximately the same in the first nine months of 2008 even with the decrease in oil and gas sales, as one of the wells in 2007 was on crown royalty holiday. Gross overriding royalties were slightly less for the same periods largely due to the increase in commodity prices for natural gas, which offset the decrease in production. The increase in Crown royalties quarter over quarter was mainly due to the increased production volumes on the wells subject to crown royalties and adjustments to prior quarter crown royalties paid in the third quarter. Gross overriding royalties decreased primarily as a result of the decrease in natural gas commodity prices.





## Interest Income

(\$)	Three months ended			Nine months ended	
	Sept 30 2008	June 30 2008	Sept 30 2007	Sept 30 2008	Sept 30 2007
Interest income	<b>21,025</b>	26,162	–	<b>115,355</b>	21,830

The Company maintains both Canadian and US investment accounts that pay interest at prime less various percentages as long as the Company maintains certain minimum account balances. The Company has increased its cash balance with regard to proceeds received from the rights offering done in the fourth quarter of 2007. The Company was therefore earning interest at higher rates and on an increased cash balance. Interest income for Q3 2008 decreased by \$5,137 from Q2 2008 due to the lower cash balance on hand as \$1.5 million was spent on capital projects in Argentina in the third quarter of 2008.

## Production Costs

(\$)	Three months ended			Nine months ended	
	Sept 30 2008	June 30 2008	Sept 30 2007	Sept 30 2008	Sept 30 2007
Production costs	<b>27,187</b>	13,273	32,057	<b>66,709</b>	99,363
\$ per BOE	<b>12.17</b>	7.25	12.90	<b>9.70</b>	9.91

Production costs for the nine months of 2008 decreased by \$32,654 compared to the first nine months of 2007 due to a decrease in production which resulted in a reduction of variable costs. The increase in production costs quarter over quarter was mainly due to the payment of annual rents related to surface and mineral leases in Q3.

## General and Administrative (G&A) Expense

(\$)	Three months ended			Nine months ended	
	Sept 30 2008	June 30 2008	Sept 30 2007	Sept 30 2008	Sept 30 2007
G&A expense	<b>358,105</b>	359,043	315,257	<b>999,277</b>	959,336

General and administrative expenditures were similar between the first nine months of 2008 and the first nine months of 2007 and between Q3 and Q2 of 2008.

Pine Cliff does not have any employees at the present time but engages the services of consultants on a contract or temporary basis. Pine Cliff's subsidiary CanAmericas Energy Ltd. (CanAmericas) has also engaged the services of two individual professionals as senior management and officers of CanAmericas.



### Foreign Exchange Loss (Gain)

(\$)	Three months ended			Nine months ended	
	Sept 30 2008	June 30 2008	Sept 30 2007	Sept 30 2008	Sept 30 2007
Foreign exchange loss (gain)	<b>26,816</b>	101,624	14,481	<b>(77,118)</b>	34,129

The Company maintains foreign denominated bank accounts to facilitate its foreign operations. The gain on foreign exchange in the first three quarters of 2008 and the loss in the first three quarters of 2007 relates to the depreciation of the Canadian dollar with the US dollar in 2008. The majority of the foreign exchange gain in the first nine months of the year was recorded in the second quarter of 2008 as the Canadian dollar depreciated more over that period.

### Stock Based Compensation

Stock based compensation for the first nine months of 2008 was \$313,422 (2007 – \$88,043). 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 Company issued 1,108,000 stock options in Pine Cliff during the fourth quarter of 2007 and only 65,000 in the first nine months of 2008, causing an increase in stock based compensation for 2008 over 2007. The Company estimated the 2008 stock options fair value at \$33,761 (\$0.52 per option) using the Black-Scholes option pricing model, assuming a weighted average risk free interest rate of 2.89 percent, weighted average expected volatility of 72.1 percent, weighted average expected life of 2.5 years and no annual dividend rate. As of September 30, 2008 approximately \$215,000 of unamortized stock based compensation exists and will be amortized over two years, approximately \$95,000 in 2008 and \$120,000 in 2009.

### Depletion, Depreciation and Accretion

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 nine months of 2008 the Company provided \$201,336 (2007 – \$223,260) for depletion, depreciation and accretion of its property and equipment. The decrease is related to lower production volumes in 2008. Depletion, depreciation and accretion increased modestly from the second quarter of 2008 due to higher production volumes.

### 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 so that it is not liable for current income tax.

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

	Rate of Utilization %	Amount (\$)
Undepreciated capital costs	25	387,967
Foreign exploration expenditures	10	5,242,229
Share issue costs	20	96,713
Canadian exploration expenditures	100	392,110
Canadian development expenditures	30	383,290
Canadian oil and gas expenditures	10	606,369
Non-capital loss carry forward *	100	2,854,950
		9,963,628

\* \$750,298 expires 2026, \$1,523,672 expires 2027 and \$580,980 expires in 2028

### Non-Controlling Interest

A private foreign company (Foreign Corp.) owns seven percent of CanAmericas. The loss applicable to non-controlling interest for the 2008 nine month period was \$25,179 (2007 – \$28,495). In Q3, 2008 there were no gains or losses recorded with regard to non-controlling interest as the cumulative losses recorded for previous periods equated to investments made by the non-controlling interests. Until CanAmericas is producing a cumulative net income above its original investment or there are additional investments by the non-controlling interests there will be no further gains or losses allocated to the non-controlling interest.



Loss

(\$)	Three months ended			Nine months ended	
	Sept 30 2008	June 30 2008	Sept 30 2007	Sept 30 2008	Sept 30 2007
Loss	<b>505,953</b>	295,111	383,510	<b>1,118,177</b>	999,893
Loss per share	<b>(0.01)</b>	(0.01)	(0.01)	<b>(0.02)</b>	(0.03)

The loss incurred in the first nine months of 2008 remained at similar levels to the loss incurred in the first nine months of 2007 as the decrease in oil and gas revenue was offset by lower production costs, increased interest income and a foreign exchange gain as the Canadian dollar depreciated against the US dollar. The increase in loss from Q3 2008 over Q2 2008 is primarily due to a foreign exchange loss in Q3 compared to a foreign exchange gain in Q2.

Funds Flow from Operations

Funds flow from operations decreased to negative \$628,598 in the first nine months of 2008 from negative \$706,085 in the first nine months of 2007. The decrease from 2007 was due to the foreign exchange gain, increased interest income and decreased production costs, which was offset by lower oil and gas revenue. The third quarter 2008 negative funds flow of (\$326,163) increased from the second quarter of 2008 of (\$142,894) due to lower oil and gas sales, increased production costs and a foreign exchange loss in Q3 compared to a foreign exchange gain in Q2.

The following reconciliation compares funds flow for the first nine months of 2008 and the corresponding 2007 period to the Company's cash flow from operating activities as calculated according to Canadian generally accepted accounting principles:

(\$)	2008	2007
Cash flow from operating activities	<b>(734,432)</b>	(550,285)
Items not affecting funds flow		
Accounts receivable	<b>26,351</b>	(111,059)
Prepaid expenses	<b>6,929</b>	20,444
Accounts payable and accrued liabilities	<b>(4,564)</b>	(31,056)
Foreign exchange gain (loss)	<b>77,118</b>	(34,129)
Funds flow for the period	<b>(628,598)</b>	(706,085)



## Related Party Transactions

Pine Cliff has a management agreement with Bonterra Energy Corp. (Bonterra Corp.), a wholly owned subsidiary of Bonterra Energy Income Trust which is a wholly owned trust of Bonterra Oil & Gas Ltd. and a company with common directors and management, 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 \$19,800, three percent of net earnings before income taxes, \$250 per month per operated producing well and \$150 per month per water injector well plus out of pocket costs. Total fees for the nine months ended September 30, 2008 were \$178,200 (2007 – \$162,000) plus minimal out of pocket costs. This agreement can be cancelled by either party by giving 90 days notice.

## Commitments

The Company has two farm-in agreements and one pending farm-in agreement in South America which require future expenditure commitments as outlined below:

### Canadon Ramirez Concession

Pine Cliff has committed to pay 100 percent of costs totaling US \$5,500,000, including a 21 percent Value Added Tax (V.A.T.), for work to be conducted on the concession within two years to earn a 49 percent participating interest.

As of September 30, 2008, the Company has expended Cdn \$5,700,940 (US \$5,293,623) including V.A.T. of Cdn \$963,605 (US \$894,612) on the Canadon Ramirez Concession. 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 can not be determined until a successful producing property is established.

Commitment by Year (US \$000's)	
Year	Amount
2008	206

### San Jorge Basin Permit

Pine Cliff has agreed to farm-in terms whereby it has committed to pay 100 percent of costs totaling US \$4,620,000 including V.A.T. to earn a 60 percent participating interest in the entire permit. As of September 30, 2008, no amounts have been expended on this permit. Any V.A.T. amount paid in the future will be recoverable against V.A.T. liabilities generated on the sale of petroleum production in Argentina. CanAmericas' commitment and earn-in in this property is subject to final granting of the concession by the provincial government



to the Farmor. Some issues have developed whereby the provincial government has informed the Farmor that it is withdrawing the concession and will be looking for larger work commitments for the concession. Pine Cliff has recently been advised by the Farmor that negotiations are continuing. Further details will be provided when additional information is received from the Farmor.

**Laguna de Piedra Concession**

Pine Cliff through its subsidiaries has paid 40 percent of costs totaling US \$1,120,000 including V.A.T. to earn a 25 percent participating interest in the entire permit.

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 can not be determined until a successful producing property is established.

The Company issued a letter of guarantee to spend US \$1,120,000 for work to be conducted on this Concession. The guarantee expired July 1, 2008 and the Company is not required to replace the letter of guarantee.

**Liquidity and Capital Resources**

As of September 30, 2008, Pine Cliff had positive working capital of \$3,440,165 (December 31, 2007 – \$8,378,110). These funds will be used to fund future exploration and development of Canadian and international properties and for general corporate expenditures. As of September 30, 2008, the Company estimated a capital budget over the next 12 months of \$1,450,000. Of this capital budget, \$400,000 has been incurred to the date of this report.

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

Issued	Number	Amount (\$)
Common Shares		
Balance, January 1, 2008 and September 30, 2008	45,275,695	14,588,722

A summary of the status of the Company's stock option plan as of September 30, 2008 and December 31, 2007, and changes during the nine month and twelve month periods ending on those dates is presented as follows:



	September 30, 2008		December 31, 2007	
	Options	Weighted-Average Exercise Price (\$)	Options	Weighted-Average Exercise Price (\$)
Outstanding at beginning of period	<b>3,053,000</b>	<b>0.62</b>	2,420,000	0.29
Options granted	<b>65,000</b>	<b>1.15</b>	1,108,000	1.16
Options exercised	-	-	(440,000)	0.17
Options cancelled	-	-	(35,000)	0.40
Outstanding at end of period	<b>3,118,000</b>	<b>0.63</b>	3,053,000	0.62
Options exercisable at end of period	<b>1,923,500</b>	<b>0.33</b>	1,162,500	0.18

The following table summarizes information about stock options outstanding at September 30, 2008:

Range of Exercise Prices (\$)	Options Outstanding			Options Exercisable	
	Number Outstanding At 9/30/08	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price (\$)	Number Exercisable At 9/30/08	Weighted-Average Exercise Price (\$)
0.15	1,090,000	1.2 years	0.15	1,090,000	0.15
0.50 – 0.60	825,000	1.2 years	0.51	742,500	0.51
0.70 – 0.80	80,000	1.2 years	0.72	65,000	0.72
1.10 – 1.20	1,083,000	2.2 years	1.18	6,000	1.15
1.40 – 1.50	40,000	2.2 years	1.49	20,000	1.49
0.15 – 1.50	3,118,000	1.6 years	0.63	1,923,500	0.33

The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and service providers. Unvested options as of September 30, 2008 vest 80,000 in 2008, 1,057,000 in 2009 and 57,500 in 2010.

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 US \$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

During 2008, the Company adopted Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" that deal with disclosures regarding the Company's objectives, policies and processes for managing capital and the significance of financial instruments for the entity's financial position and performance; and the nature, extent and management of risks arising from financial instruments to which the Company is exposed. See Notes 1 and 10 in the Notes to the Unaudited Consolidated Financial Statements for further details.

### Future Accounting Changes

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets," replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs." Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009.

These changes establish standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

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,



George F. Fink  
President, CEO and Director





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## **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 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.



## FINANCIAL STATEMENTS

### Consolidated Balance Sheets

As at September 30, 2008 (unaudited) and December 31, 2007

	2008	2007
<b>Assets</b>		
<b>Current</b>		
Cash	<b>\$3,492,388</b>	\$5,769,448
Restricted term investment (Note 2)	–	2,689,601
Accounts receivable	<b>98,255</b>	71,904
Prepaid expenditures	<b>35,397</b>	28,468
	<b>3,626,040</b>	8,559,421
<b>Property and Equipment (Note 5)</b>		
Property and equipment	<b>8,948,184</b>	4,638,837
Accumulated depletion and depreciation	<b>(952,309)</b>	(752,264)
<b>Net Property and Equipment</b>	<b>7,995,875</b>	3,886,573
	<b>\$11,621,915</b>	\$12,445,994
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 3)	<b>\$185,875</b>	\$181,311
Asset Retirement Obligations	<b>35,729</b>	34,438
Non-Controlling Interests (Note 4)	–	25,179
	<b>221,604</b>	240,928
<b>Commitments (Note 9)</b>		
<b>Shareholders' Equity</b>		
Share capital (Note 7)	<b>14,588,722</b>	14,588,722
Contributed surplus	<b>654,887</b>	341,465
Deficit	<b>(3,843,298)</b>	(2,725,121)
Accumulated other comprehensive income	–	–
	<b>11,400,311</b>	12,205,066
	<b>\$11,621,915</b>	\$12,445,994



## Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the periods ended September 30 (unaudited)	Three Months		Nine Months	
	2008	2007	2008	2007
<b>Revenue</b>				
Oil and gas sales	\$129,537	\$95,160	\$411,068	\$470,265
Royalties	(37,456)	(21,129)	(106,237)	(105,352)
Interest income	21,025	–	115,355	21,830
	<b>113,106</b>	74,031	<b>420,186</b>	386,743
<b>Expenses</b>				
Production costs	27,187	32,057	66,709	99,363
General and administrative	358,105	315,257	999,277	959,336
Foreign exchange loss (gain)	26,816	14,481	(77,118)	34,129
Stock based compensation	106,998	29,523	313,422	88,043
Depletion, depreciation and accretion	72,792	62,487	201,336	223,260
	<b>591,898</b>	453,805	<b>1,503,626</b>	1,404,131
<b>Loss before Taxes and Non-Controlling Interests</b>	<b>(478,792)</b>	(379,774)	<b>(1,083,440)</b>	(1,017,388)
<b>Taxes (Note 6)</b>				
Current	27,161	–	59,916	–
Future	–	11,000	–	11,000
	<b>27,161</b>	11,000	<b>59,916</b>	11,000
<b>Loss before Non-Controlling Interests</b>	<b>(505,953)</b>	(390,774)	<b>(1,143,356)</b>	(1,028,388)
Loss applicable to non-controlling interests (Note 4)	–	7,264	25,179	28,495
<b>Loss and Comprehensive loss for the Period</b>	<b>(505,953)</b>	(383,510)	<b>(1,118,177)</b>	(999,893)
Deficit, Beginning of Period	(3,337,345)	(1,960,050)	(2,725,121)	(1,343,667)
<b>Deficit, End of Period</b>	<b>(\$3,843,298)</b>	(\$2,343,560)	<b>(\$3,843,298)</b>	(\$2,343,560)
<b>Loss Per Share - Basic and Diluted</b>	<b>(\$0.01)</b>	(\$0.01)	<b>(\$0.02)</b>	(\$0.03)



## FINANCIAL STATEMENTS

### Consolidated Statements of Cash Flow

For the periods ended September 30 (unaudited)	Three Months		Nine Months	
	2008	2007	2008	2007
<b>Operating Activities</b>				
Loss for the period	<b>(\$505,953)</b>	(\$383,510)	<b>(\$1,118,177)</b>	(\$999,893)
Items not affecting cash				
Stock based compensation	<b>106,998</b>	29,523	<b>313,422</b>	88,043
Depletion, depreciation and accretion	<b>72,792</b>	62,487	<b>201,336</b>	223,260
Foreign exchange loss (gain)	<b>26,816</b>	14,481	<b>(77,118)</b>	34,129
Future income taxes	-	11,000		11,000
Loss applicable to non-controlling interests	-	(7,264)	<b>(25,179)</b>	(28,495)
	<b>(299,347)</b>	(273,283)	<b>(705,716)</b>	(671,956)
Change in non-cash working capital				
Accounts receivable	<b>14,533</b>	23,205	<b>(26,351)</b>	111,059
Prepaid expenditures	<b>2,624</b>	(17,909)	<b>(6,929)</b>	(20,444)
Accounts payable and accrued liabilities	<b>(23,178)</b>	95,706	<b>4,564</b>	31,056
	<b>(6,021)</b>	101,002	<b>(28,716)</b>	121,671
<b>Cash Used in Operating Activities</b>	<b>(305,368)</b>	(172,281)	<b>(734,432)</b>	(550,285)
<b>Financing Activities</b>				
Issue of shares under stock option plan	-	3,000	-	70,250
Shares issue costs	-	(37,950)	-	(37,950)
Change in non-cash working capital				
Accounts payable and accrued liabilities	-	32,500	-	32,500
Proceeds received from related parties	-	503,337	-	503,337
<b>Cash Provided by Financing Activities</b>	-	500,887	-	568,137
<b>Investing Activities</b>				
Property and equipment expenditures	<b>(1,511,745)</b>	(174,289)	<b>(4,309,347)</b>	(2,604,413)
Proceeds on disposal of restricted term investments	-	-	<b>2,689,601</b>	-
Change in non-cash working capital				
Accounts payable and accrued liabilities	-	(20,400)	-	7,967
<b>Cash Used in Investing Activities</b>	<b>(1,511,745)</b>	(194,689)	<b>(1,619,746)</b>	(2,596,446)
Foreign exchange gain (loss) on cash held in foreign currency	<b>(26,816)</b>	(14,481)	<b>77,118</b>	(34,129)
<b>Net Cash Inflow (Outflow)</b>	<b>(1,843,929)</b>	119,436	<b>(2,277,060)</b>	(2,612,723)
<b>Cash, Beginning of Period</b>	<b>5,336,317</b>	182,861	<b>5,769,448</b>	2,915,020
<b>Cash, End of Period</b>	<b>\$3,492,388</b>	\$302,297	<b>\$3,492,388</b>	\$302,297
<b>Cash Interest Paid</b>	<b>\$ -</b>	\$ -	<b>\$ -</b>	\$ -
<b>Cash Taxes Paid</b>	<b>\$ 5,902</b>	\$ -	<b>\$ 27,327</b>	\$ -



Periods ended September 30, 2008 and 2007 (unaudited)

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and methods of application followed in the preparation of the interim financial statements other than those described below are the same as those followed in the preparation of Pine Cliff Energy Ltd.'s (the Company or Pine Cliff) 2007 annual financial statements. These interim financial statements do not include all disclosures required for annual financial statements. The interim financial statements as presented should be read in conjunction with the 2007 annual financial statements.

The Company adopted Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments - Disclosures" and Section 3863, "Financial Instruments – Presentation." All the above Sections were required to be adopted for fiscal years beginning on or after October 1, 2007. As a result the Company has added Note 10 providing the required disclosures regarding the Company's objectives, policies and processes for managing capital and the significance of financial instruments for the entity's financial position and performance; and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

**Accounting Changes**

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets," replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs." Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. This standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

**2. RESTRICTED TERM INVESTMENT AND BANKING AGREEMENT**

The Company has a line of credit through its subsidiary CanAmericas to the lower of its available amount of cash or US \$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 had a letter of guarantee to cover its commitment to spend US \$2,142,446 for drilling three wells on the Canadon Ramirez Concession. The guarantee expired January 31, 2008.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company had a performance security agreement whereby a guarantee to spend US \$1,120,000 on the Laguna de Piedra concession had been reassigned to Export Development Canada for a fee. The guarantee expired June 30, 2008.

### 3. RELATED PARTY TRANSACTIONS

Bonterra Energy Income Trust (Bonterra), an organization with common directors and management and 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 nine month period were \$178,200 (2007 – \$162,000) plus minimal out of pocket costs. As of September 30, 2008, Pine Cliff owed Bonterra Corp. \$267 (December 31, 2007 – \$3,976).

Pine Cliff acquired its Canadian oil and gas properties from Novitas Energy Ltd. (Novitas). As of September 30, 2008, Pine Cliff owed Novitas \$14,198 (December 31, 2007 – \$Nil) for invoiced expenditures by the operator of those oil and gas properties. Novitas is a wholly owned subsidiary of Bonterra.

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.

### 4. 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 93 percent owned by the Company and seven percent by a foreign private corporation (Foreign Corp.). CanAmericas was initially financed by investments of US \$1,400,000 for 5,600,000 common shares from the Company and US \$100,000 for 400,000 common shares from Foreign Corp.

Changes to non-controlling interest were as follows:

(\$)	September 30, 2008	December 31, 2007
Non-controlling interest, January 1	25,179	74,970
Loss applicable to non-controlling interest	(25,179)	(49,791)
Non-controlling interest, end of period	–	25,179

Foreign Corp. has been granted an option to acquire an additional 1,000,000 common shares of CanAmericas at US \$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. All of the options will expire on January 13, 2011.



## 5. PROPERTY AND EQUIPMENT

(\$)	September 30, 2008		December 31, 2007	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Petroleum and natural gas properties and related equipment	<b>8,894,672</b>	<b>927,400</b>	4,585,325	734,384
Furniture, equipment and other	<b>53,512</b>	<b>24,909</b>	53,512	17,880
	<b>8,948,184</b>	<b>952,309</b>	4,638,837	752,264

As of September 30, 2008, the Company spent \$6,833,364 for exploration activities for the Canadon Ramirez Concession and Laguna de Piedra Concession as discussed in Note 9. These costs presently have been excluded from costs subject to depletion and depreciation.

## 6. TAXES

A one percent Argentinean 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.

## 7. 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, 2008 and September 30, 2008	45,275,695	14,588,722

The number of shares used to calculate diluted net earnings per share for the periods ended September 30:

	Three Months		Nine Months	
	2008	2007	2008	2007
Basic shares outstanding	<b>45,275,695</b>	36,914,345	<b>45,275,695</b>	36,655,137
Dilutive effect of share options	<b>1,101,180</b>	1,487,209	<b>1,098,237</b>	1,697,697
Diluted shares outstanding	<b>46,376,875</b>	38,401,554	<b>46,373,932</b>	38,352,834

A summary of the status of the Company's stock option plan as of September 30, 2008 and December 31, 2007, and changes during the nine month and twelve month periods ending on those dates is presented as follows:



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	September 30, 2008		December 31, 2007	
	Options	Weighted-Average Exercise Price (\$)	Options	Weighted-Average Exercise Price (\$)
Outstanding at beginning of period	<b>3,053,000</b>	<b>0.62</b>	2,420,000	0.29
Options granted	<b>65,000</b>	<b>1.15</b>	1,108,000	1.16
Options exercised	-	-	(440,000)	0.17
Options cancelled	-	-	(35,000)	0.40
Outstanding at end of period	<b>3,118,000</b>	<b>0.63</b>	3,053,000	0.62
Options exercisable at end of period	<b>1,923,500</b>	<b>0.33</b>	1,162,500	0.18

The following table summarizes information about stock options outstanding at September 30, 2008:

Range of Exercise Prices (\$)	Options Outstanding			Options Exercisable	
	Number Outstanding At 9/30/08	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price (\$)	Number Exercisable At 9/30/08	Weighted-Average Exercise Price (\$)
0.15	1,090,000	1.2 years	0.15	1,090,000	0.15
0.50 – 0.60	825,000	1.2 years	0.51	742,500	0.51
0.70 – 0.80	80,000	1.2 years	0.72	65,000	0.72
1.10 – 1.20	1,083,000	2.2 years	1.18	6,000	1.15
1.40 – 1.50	40,000	2.2 years	1.49	20,000	1.49
0.15 – 1.50	3,118,000	1.6 years	0.63	1,923,500	0.33

The Company records a compensation expense over the vesting period based on the fair value of options granted to employees of the management team (See Note 3), directors and service providers. The Company issued 65,000 (December 31, 2007 – 1,108,000) stock options with an estimated fair value of \$33,761 (December 31, 2007 – \$547,080) (\$0.52 per option (December 31, 2007 – \$0.49 per option)) using the Black-Scholes option pricing model with the following key assumptions:

	September 30, 2008	December 31, 2007
Weighted-average risk free interest rate (%)	<b>2.89</b>	4.13
Dividend yield (%)	<b>0.00</b>	0.00
Expected life (years)	<b>2.5</b>	2.5
Weighted-average volatility (%)	<b>72.1</b>	64.8





## 8. 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 Sept 30, 2008</b>			
Revenue, gross	150,276	286	150,562
Loss before non-controlling interest	201,176	304,777	505,953
Capital expenditures	66,283	1,445,462	1,511,745
<b>Nine Months Ended Sept 30, 2008</b>			
Revenue, gross	505,383	21,040	526,423
Loss before non-controlling interest	505,053	638,303	1,143,356
Capital expenditures	76,505	4,232,842	4,309,347
Property and equipment	1,005,765	6,990,110	7,995,875
Total assets	4,410,838	7,211,077	11,621,915
<b>Three Months Ended Sept 30, 2007</b>			
Revenue, gross	95,160	–	95,160
Loss before non-controlling interest	171,413	219,361	390,774
Capital expenditures	462	173,827	174,289
<b>Nine Months Ended Sept 30, 2007</b>			
Revenue, gross	478,215	13,880	492,095
Loss before non-controlling interest	384,690	643,698	1,028,388
Capital expenditures	38,168	2,565,245	2,604,413
<b>December 31, 2007</b>			
Property and equipment	1,111,830	2,774,743	3,886,573
Total assets	6,428,371	6,017,623	12,445,994

## 9. COMMITMENTS

The Company has two farm-in agreements and one pending farm-in agreement in South America which require future expenditure commitments as outlined below:

### Canadon Ramirez Concession

Pine Cliff, has committed to pay 100 percent of costs totaling US \$5,500,000, including the 21 percent Value Added Tax (V.A.T.), for work to be conducted on the concession within two years to earn a 49 percent participating interest.

As of September 30, 2008, the Company has expended Cdn \$5,700,940 (US \$5,293,623) including V.A.T. of Cdn \$963,605 (US \$894,612) on the Canadon Ramirez Concession. 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 can not be determined until a successful producing property is established.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Commitment by Year (US \$000's)	
Year	Amount
2008	206

### San Jorge Basin Permit

Pine Cliff has agreed to farm-in terms whereby it has committed to pay 100 percent of costs totaling US \$4,620,000 including V.A.T. to earn a 60 percent participating interest in the entire permit. As of September 30, 2008, no amounts have been expended on this permit. The V.A.T. amount is recoverable against V.A.T. liabilities generated on the sale of petroleum production in Argentina. CanAmericas' commitment and earn-in in this property is subject to final granting of the concession by the provincial government to the Farmor. Some issues have developed whereby the provincial government has informed the Farmor that it is withdrawing the concession and will be looking for larger work commitments for the concession. Pine Cliff has recently been advised by the Farmor that negotiations are continuing. Further details will be provided when additional information is received from the Farmor.

### Laguna de Piedra Concession

Pine Cliff through its subsidiaries has paid 40 percent of costs totaling US \$1,120,000 including V.A.T. to earn a 25 percent participating interest in the entire permit.

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 can not be determined until a successful producing property is established.

The Company issued a letter of guarantee to spend US \$1,120,000 for work to be conducted on this Concession. The guarantee expired July 1, 2008.

The success of the South American operations and recoverability of the capitalized costs related thereto are dependent upon the development of successful producing properties. This may require additional financing to continue the on-going development of the South American operations and to meet the related obligations as they become due.

## 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 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 six months to a year in advance and maintaining a working capital balance of approximately 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 largest assets; the "Canadon Ramirez Concession," and "Laguna de Piedra Concession".

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 September 30, 2008			As at December 31, 2007		
	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value	Face Value
<b>Financial assets</b>						
Restricted term investments	-	-	-	2,689	2,689	2,689
Accounts receivable	98	98	132	72	72	81
<b>Financial liabilities</b>						
Accounts payable and accrued liabilities	186	186	186	181	181	181



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The budgeted capital expenditure to working capital base figures for September 30, 2008 and December 31, 2007 are presented below:

(\$000)	<b>September 30, 2008</b>	December 31, 2007
Budgeted capital expenditure <sup>(1)</sup>	<b>1,432</b>	6,425
Number of months budgeted	<b>12</b>	12
Current assets	<b>3,626</b>	8,559
Current liabilities	<b>(185)</b>	(181)
Working capital	<b>3,441</b>	8,378
Working capital to budgeted capital expenditure (in months)	<b>28.9</b>	15.7

(1) September 30, 2008 – for last three months of 2008 and first nine months of 2009; December 31, 2007 – fiscal year ended

### 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 in Argentina. 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 of US \$1.00 per barrel in the price of crude oil, \$0.10 per MCF in the price of natural gas and \$0.01 change in the Cdn/US exchange rate 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 flows 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 Comaplex 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, US dollar and Argentinean Pesos 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 approximately six months.

### *Sensitivity Analysis*

Based on historic movements and volatilities in the interest rate markets and management's current assessment of the financial markets, the Company believes that a one percent variation in the Canadian prime interest rate is reasonably possible over a 12 month period. No income tax effect has been calculated as the Company has more than sufficient tax pools.

The following illustrates the annual impact of a one percent fluctuation in the Canadian prime interest rate:

(\$000)	As at September 30, 2008				As at December 31, 2007			
	Plus 1%		Minus 1%		Plus 1%		Minus 1%	
	Earnings	Equity	Earnings	Equity	Earnings	Equity	Earnings	Equity
<b>Financial assets</b>								
Cash deposits	35	35	(35)	(35)	58	58	(58)	(58)
Restricted term investments	-	-	-	-	27	27	(27)	(27)
Accounts receivable	-	-	-	-	-	-	-	-
<b>Financial liabilities</b>								
Accounts payable and accrued liabilities	-	-	-	-	-	-	-	-
<b>Total increase (decrease)</b>	<b>35</b>	<b>35</b>	<b>(35)</b>	<b>(35)</b>	<b>85</b>	<b>85</b>	<b>(85)</b>	<b>(85)</b>

### **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 US cash and Argentina Pesos cash balance and earns an insignificant amount of interest on its US and Argentinean Pesos 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 payment for foreign currency denominated payables come due. As such, Pine Cliff does not mitigate CAD/USD/ARG 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.



Of the accounts receivable balance at September 30, 2008 (\$79,000) and December 31, 2007 (\$72,000), all relate to product sales with Canadian oil and gas companies and interest income from major Canadian chartered banks all of which have always paid within 30 to 60 days.

The Company assesses quarterly if there has been any impairment of the financial assets of the Company. During the six month period ended September 30, 2008, there was no impairment provision required on any of the financial assets of the Company due to historical success of collecting receivables. 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. 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 risks, the Company:

- Has a general capital policy of maintaining approximately 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.







**P I N E   C L I F F   E N E R G Y   L T D .**

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