Pine Cliff Energy Ltd.

2007 INTERIM REPORT

For the period ended September 30, 2007

Highlights

For the periods ended	Three Months Ended September 30 **2007**	2006	Nine Months Ended September 30 **2007**	2006
Financial ($)				
Revenue – oil and gas	**95,160**	90,386	**470,265**	490,869
Funds Flow from Operations (1)	**(287,764)**	(113,095)	**(706,085)**	(372,415)
Per Share – Basic	**(0.01)**	(0.00)	**(0.02)**	(0.01)
Per Share – Diluted	**(0.01)**	(0.00)	**(0.02)**	(0.01)
Loss	**(383,510)**	(211,784)	**(999,893)**	(805,030)
Per Share – Basic	**(0.01)**	(0.01)	**(0.03)**	(0.02)
Per Share – Diluted	**(0.01)**	(0.01)	**(0.03)**	(0.02)
Capital Expenditures	**174,289**	(3,463)	**2,604,413**	252,699
Total Assets			**4,173,333**	4,700,305
Working Capital (Deficiency)			**(314,684)**	3,030,822
Shareholders' Equity			**3,371,089**	4,411,915
Operations				
Oil and NGL's				
Barrels Per Day	**1**	5	**4**	6
Average Price ($ per barrel)	**75.83**	61.75	**62.07**	65.00
Natural Gas				
MCF Per Day	**163**	131	**204**	184
Average Price ($ per MCF)	**5.83**	5.17	**7.14**	7.73
Total Barrels Per Day (2)	**27**	27	**37**	37

(1) Funds flow from operations is not a recognized measure under GAAP. Management believes that in addition to net loss, funds flow from operations is a useful supplemental measure as it demonstrates the Company's ability to generate the cash 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 including foreign exchange loss.

(2) BOE's 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

The following report dated November 16, 2007 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, 2007, including the notes related thereto, and the audited financial statements for the year ended December 31, 2006, 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.

General

The Company continues to search for investment opportunities in South America and Canada and to date has been successful in completing three farm-in arrangements in Argentina whereby Pine Cliff will earn an interest in 1,164,800 gross (605,400 net) acres of prospective land. The total commitment to earn these interests is approximately $11,240,000 U.S. over the next three years of which $2,557,495 Cdn ($2,208,066 U.S.) has been expended to September 30, 2007.

The Argentina government also recently announced that it will be increasing its export tax on oil, which will have negative implications on cash netbacks for oil production. Pine Cliff will be studying these implications as details become available to determine the overall effect on its operations.

Financing by a rights offering to existing shareholders has been completed subsequent to September 30, 2007. Pine Cliff shareholders received rights to subscribe for one common share for each four shares held and had an additional subscription privilege to subscribe for any common shares not taken up on the exercise of rights. The rights offering options had an exercise price of $1.10 per share. The Company issued 8,312,654 common shares for proceeds of $9,105,969 net of $37,950 of share issue costs. For further details concerning the farm-in arrangements and financing of these arrangements, kindly refer to the applicable sections outlined below in this report.

Financial and Operational

Quarterly Financial and Operational Highlights

	2007		
	3rd	2nd	1st
Revenue - Oil and Gas	**$ 95,160**	$176,590	$198,515
Funds Flow from Operations	**(287,764)**	(252,435)	(165,886)
Per Share Basic	**(0.01)**	(0.01)	(0.00)
Per Share Diluted	**(0.01)**	(0.01)	(0.00)
Loss	**(383,510)**	(354,846)	(270,109)
Per Share Basic	**(0.01)**	(0.01)	(0.01)
Per Share Diluted	**(0.01)**	(0.01)	(0.01)
Capital Expenditures	**174,289**	233,648	2,196,476
Total Assets	**4,173,333**	3,946,888	4,211,984
Working Capital	**(314,684)**	182,319	602,650
Shareholders' Equity	**3,371,089**	3,749,025	4,008,304
Operations			
Oil and Liquids (barrels per day)	**1**	5	7
Natural Gas (MCF per day)	**163**	226	226

	2006				2005
	4th	3rd	2nd	1st	4th
Revenue - Oil and Gas	$170,231	$ 90,386	$ 108,413	$ 292,070	$ 372,315
Funds Flow from Operations	(51,833)	(113,095)	(337,020)	77,700	275,942
Per Share Basic	(0.00)	(0.00)	(0.01)	0.00	0.01
Per Share Diluted	(0.00)	(0.00)	(0.01)	0.00	0.01
Loss	(209,575)	(211,784)	(526,107)	(67,139)	(223,241)
Per Share Basic	(0.01)	(0.01)	(0.01)	0.00	0.01
Per Share Diluted	(0.01)	(0.01)	(0.01)	0.00	0.01
Capital Expenditures	19,227	(3,463)	124,236	131,926	160,809
Total Assets	4,494,010	4,700,305	4,892,079	5,373,147	5,267,988
Working Capital (Deficiency)	2,963,513	3,030,822	3,175,577	3,625,133	3,565,689
Shareholders' Equity	4,239,638	4,411,915	4,589,015	5,093,951	5,110,407
Operations					
Oil and Liquids (barrels per day)	3	5	4	9	8
Natural Gas (MCF per day)	226	131	139	284	279

South American Activities

The Company through its 93% owned subsidiary CanAmericas Energy Ltd. ("CanAmericas") will be participating in a three well drilling program in the Canadon Ramirez Concession. This program is scheduled to start in January 2008. CanAmericas is also planning to run a 3D seismic program on its Laguna de Piedra Concession in the first quarter of 2008. Also the Company is currently in the process of finalizing the terms and planning its work program on the exploration permit in the San Jorge Basin concessions. The terms of the commitments for all three concessions are discussed below.

Production

Production volumes increased in the nine months of 2007 to 204 MCF per day from 184 MCF per day for the nine months of 2006. During the third quarter of each year the operator of the gas plant, where approximately 80 percent of the Company's production is processed, performs an annual turnaround resulting in having to shut in wells for lengthy periods of time. The wells were shut in for a longer period in 2006 than in 2007. The Company's production for the third quarter of 2007 compared to the second quarter of 2007 decreased from 226 MCF per day to 163 MCF per day due to the turnaround.

Revenue

Revenue from petroleum and natural gas sales was $470,265 during the first nine months of 2007 compared to $490,869 for the first nine months of 2006. The decline was due to an approximate 8% decline in commodity prices in the first nine months of 2007 compared to the first three quarters of 2006. Revenue from the third quarter of 2007 compared to the second quarter of 2007 decreased by $81,430 due to a significant decrease in production (see discussion above) and lower commodity prices for natural gas.

Royalties

Royalties consist of Crown royalties of $86,166 (2006 – ($3,544)) paid to (recovered from) the Province of Alberta and gross overriding royalties of $19,186 (2006 - $22,833). Crown royalties are significantly higher in the first three quarters of 2007 due to the expiry of the Crown royalty holiday. In 2007 gross overriding royalties are lower mainly because of the decline in commodity prices for natural gas. Royalties for Q3 2007 consist of Crown royalties of $13,791 (Q2 2007 - $41,585) and gross overriding royalties of $7,338 (Q2 2007 - $5,296). The decrease in Crown royalties is due to the decrease in production of natural gas and prices. Gross overriding royalties increased mainly due to an allocation of a prior year adjustment of $2,538 by the operator.

Interest Income

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 has reduced its cash balance with the development of its South American operations and did not earn interest during Q3. With the funds received as a result of the rights offering the Company will again receive interest income commencing in Q4.

Production Costs

Production costs for the nine months ended September 30, 2007 were $99,363 or $9.91 per BOE (2006 – $91,066 or $9.14 per BOE). BOE's 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. The increase in Q3 production costs ($32,057) from Q2 production costs ($26,350) was due to the payment of annual rents related to surface and mineral leases in Q3.

General and Administrative

General and administrative expense for the first nine months of 2007 was $959,336 ($315,257 in the third quarter) compared to $789,640 for the first nine months of 2006 and $349,160 for the second quarter of 2007. The primary reason for the increase in expenses in the first three quarters of 2007 over the first three quarters of 2006 was due to the Company incurring additional professional fees related to its activities in South America and for continuous disclosure obligations. The decrease in expenses of $33,903 in the third quarter over the second quarter of 2007 was primarily due to reduced administrative activities in South America and fewer professional fees for continuous disclosure obligations.

Pine Cliff does not have any employees at the present time but engages the services of consultants on a contract or temporary basis. CanAmericas has on a full time basis engaged the services of two professionals as senior management and officers of CanAmericas.

Foreign Exchange Gain (Loss)

In February 2006, the Company incorporated 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 with $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.

Further Canadian funds from Pine Cliff have also been loaned to CanAmericas and converted to US funds. The funds held in US cash have caused a loss in foreign exchange as the Canadian dollar appreciated against the US dollar in 2007 and 2006. The first nine months of 2007 the Company had a foreign exchange loss of $34,129 ($52,157 – 2006.)

Stock Based Compensation

Stock based compensation for the first three quarters of 2007 was $88,043 (2006 - $175,061). The Company has a stock-based compensation plan for Pine Cliff. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants in respect of the Company. The Company issued 102,000 stock options in Pine Cliff during the nine months of 2007. The Company estimated the stock options fair value at $44,712 ($0.44 per option) using the Black-Scholes option pricing model, assuming a weighted average risk free interest rate of 4.35 percent, weighted average expected average volatility of 62.7 percent, weighted average expected average life of 2.8 years and no annual dividend rate.

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 first three quarters of 2007 the Company provided $223,260 (2006 - $183,337) for depletion, depreciation and accretion of its property and equipment. The increase is related to additional production volumes in 2007. Depletion, depreciation and accretion decreased in the third quarter of 2007 ($62,487) compared to the second quarter of 2007 ($81,167) due to reduced production volumes, caused by downtime in the gas plant, where approximately 80 percent of the Company's production is processed as the operator performed an annual turnaround in Q3.

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 and its subsidiaries have the following tax pools which can be used to reduce their future taxable income:

	Rate of Utilization %	Amount
Undepreciated capital costs	25	$ 324,237
Foreign exploration expenditures	10	2,557,496
Share issue costs	20	126,145
Non-capital loss carry forward*	100	1,646,551
Canadian exploration expenditures	100	392,110
Canadian development expenditures	30	427,201
Canadian oil and gas expenditures	10	728,371
		$ 6,202,111

* $757,797 expires 2026 and $888,754 expires 2027

Non-Controlling Interest

As described above, Foreign Corp. owns seven percent of CanAmericas. The first nine months loss applicable to non-controlling interest for 2007 of $28,495 (2006 - $36,716) and the Q3 2007 loss applicable to non-controlling interest of $7,264 (Q2 2007 - $8,572) relates to its share of revenues and costs associated with CanAmericas' South American activities.

Loss

The loss in the first nine months of 2007 was $999,893 ($383,510 in the third quarter) compared to $805,030 in the corresponding 2006 period and $346,274 in the second quarter of 2007. The loss incurred in the first three quarters of 2007 increased from the first three quarters of 2006 due primarily to higher general and administrative costs in respect of the Company's South American operations as well as less revenue from lower commodity prices and higher royalties due to the expiry of Crown royalty holidays early in Q1 2007. These increases in expenditures and reduction of revenues were offset by a reduction in 2007 of future taxes of $94,000 and a reduction in stock based compensation expense of $87,000. The increase in loss from Q3 2007 over Q2 2007 is due to lower production and commodity prices for natural gas.

Funds Flow From Operations

Funds flow from operations decreased to negative $706,085 in the first nine months of 2007 from negative $372,415 in the first nine months of 2006. The decreases from 2006 were due to the increased activity in South America, higher crown royalty payments and less interest income earned. Negative funds flow in the third quarter of 2007 of ($287,764) compared to the second quarter of 2007 of ($252,435) was higher due to less revenue because of lower production and lower commodity prices for natural gas, which was partially offset by lower administrative costs with regard to its South American activities.

The following reconciliation compares funds flow for the first nine months of 2007 and the corresponding 2006 period to the Company's cash flow from operating activities as calculated according to Canadian generally accepted accounting principles:

	2007	2006
Cash flow from operating activities	**($550,285)**	($149,734)
Items not affecting funds flow		
Due from related party	–	(16,006)
Accounts receivable	**(111,059)**	(217,258)
Prepaid expenses	**20,444**	(1,048)
Accounts payable and accrued liabilities	**(31,056)**	28,500
Due from related party	–	165
Asset retirement obligations settled	–	35,123
Foreign exchange loss	**(34,129)**	(52,157)
Funds flow for the period	**($706,085)**	($372,415)

Related Party Transactions

Due to a delay in financing caused by changing plans to finance by a private placement to a rights offering the Company required interim short term loans and as of September 30, 2007 the Company had borrowed a total of $503,337 from the President and CEO of the Company. Subsequent to September 30, 2007 after completion of the rights offering this amount has been repaid. The loan carried interest of Canadian prime plus 1%. The proceeds were used to cover operations expenses until the completion of the rights offering.

Pine Cliff has a management agreement with Bonterra Energy Corp. ("Bonterra Corp."), a wholly owned subsidiary of Bonterra Energy Income Trust 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 $18,000, 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, 2007 were $162,000 (2006 - $162,000) plus minimal out of pocket costs. This agreement can be cancelled by either party by giving 90 day's notice.

Liquidity and Capital Resources

As of September 30, 2007, Pine Cliff had working capital of ($314,684) (December 31, 2006 - $2,963,513). As mentioned above under the "General" heading the Company has completed a rights offering resulting in net proceeds of approximately $9.1 million. These funds will be used to fund future exploration and development and property acquisitions in Canada and internationally.

The farm-in arrangements for two of the concessions in Argentina by CanAmericas required guarantees for the commitments that were made. Prior to completion of the rights offering these guarantees of $3,690,000 US by means of letters of guarantee were secured by guarantees from the president and the chief operating officer of the Company. The line of credit bears interest at US or CDN prime plus 2% per annum. Subsequent to September 30, 2007 the secured guarantee from the officers of the Company is no longer required and has been cancelled and has been replaced with a cash restriction on CanAmericas' cash to maintain a minimum balance of 1.25 times the amount of outstanding letters of guarantees and letters of credit.

As of September 30, 2007 CanAmericas has issued letters of guarantee in the amount of $3,411,618 US.

The Company has entered into commitments in relation to its farm-ins on three parcels of land in Argentina. A summary of the commitments is provided below:

Canadon Ramirez Concession

Pine Cliff through its 93 percent owned subsidiary, CanAmericas, has committed to pay 100% of costs totaling $5,500,000 US, including the 21% Value Added Tax ("V.A.T."), for work to be conducted on the concession within two years to earn a 49% participating interest.

As of September 30, 2007, the Company has expended $2,520,266 CDN ($2,173,406 US) including V.A.T of $426,014 CDN ($367,371 US) on seismic costs in respect of the Canadon Ramirez Concession. The V.A.T amount is recoverable against V.A.T liabilities generated on sale of petroleum production in Argentina.

Commitment by Year ($000's US)

Year	Amount
2007	4,630
2008	870
	5,500

The Company has entered into a Letter of Guarantee to cover its commitment to spend $2,291,618 US for drilling three wells on this Concession. The guarantee expires January 31, 2008. Subsequent to September 30, 2007 the guarantee has been reduced by $149,172 US for funds spent on this project.

San Jorge Basin Permit

Pine Cliff through its 93 percent owned subsidiary, CanAmericas, has committed to pay 100% of costs totaling $4,620,000 US including V.A.T. to earn a 60% participating interest in the entire permit. As of September 30, 2007, no amounts have been expended on this permit. The V.A.T amount is recoverable against V.A.T liabilities generated on sale of petroleum production in Argentina.

Commitment by Year ($000's US)

Year	Amount
2007	300
2008	2,595
2009	1,725
	4,620

Laguna de Piedra Concession

Pine Cliff through its 93 percent owned subsidiary, CanAmericas, has committed to pay 40% of costs totaling $1,120,000 US including V.A.T. to earn a 25% participating interest in the entire permit.

As of September 30, 2007, the Company has expended $36,329 CDN ($34,660 US) including V.A.T of $4,832 CDN ($4,617 US) on seismic costs in respect of the Laguna de Piedra Concession. The V.A.T amount is recoverable against V.A.T liabilities generated on sale of petroleum production in Argentina.

Commitment by Year ($000's US)

Year	Amount
2007	310
2008	810
	1,120

The Company entered into a Letter of Guarantee to spend $1,120,000 US for work to be conducted on this Concession. The guarantee expires July 1, 2008. Subsequent to September 30, 2007 the Company has entered into a performance security agreement whereby the guarantee has been reassigned to Export Development Canada for a fee. The reassignment reduces the Company's requirement to maintain 1.25 times the Letter of Guarantee in its bank account.

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, 2007	36,523,041	$5,377,343
Shares issued pursuant to Company option plan	410,000	70,250
Share issue costs	–	(37,950)
Future income tax on share issue costs	–	11,000
Transfer of contributed surplus to share capital	–	40,566
Balance, September 30, 2007	36,933,041	$5,461,209

A summary of the status of the Company's stock option plan as of September 30, 2007 and December 31, 2006, and changes during the nine month and twelve month periods ending on those dates is presented below:

	September 30, 2007		December 31, 2006	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	2,420,000	$0.29	1,686,000	$0.16
Options granted	102,000	1.01	895,000	0.52
Options exercised	(410,000)	0.15	(103,000)	0.15
Options cancelled	(35,000)	0.40	(58,000)	0.21
Outstanding at end of period	2,077,000	$0.35	2,420,000	$0.29
Options exercisable at end of period	1,192,500	$0.18	740,000	$0.16

The following table summarizes information about stock options outstanding at September 30, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At 9/30/07	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 9/30/07	Weighted-Average Exercise Price
$0.15	1,120,000	2.2 years	$0.15	1,120,000	$0.15
0.50 - 0.60	825,000	2.2 years	0.51	32,500	0.56
0.70 - 0.80	80,000	2.2 years	0.72	40,000	0.72
1.15	12,000	2.2 years	1.15	–	–
1.49	40,000	3.2 years	1.49	–	–
$0.15 - $1.49	2,077,000	2.2 years	$0.35	1,192,500	$0.18

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 $0.25 US per common share. Fifty percent of the options vested on January 13, 2007, and the remaining fifty percent will vest on January 13, 2008, and all the options will expire on January 13, 2011.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure the information required to be disclosed by the Company is accumulated and communicated to the Company's management, as appropriate, to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the interim filings that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

Internal Controls Update

The Company is required to comply with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", otherwise referred to as Canadian SOX ("C-Sox"). The 2007 certificate requires that the Company disclose in the interim MD&A any changes in the Company's internal control over financial reporting that occurred during the period that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting. The Company confirms that no such changes were made to the Company's internal controls over financial reporting during the first nine months of 2007.

Financial Reporting Update

During 2007, the Company completed the implementation of the new CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement and Section 1530, Comprehensive Income that deal with the recognition and measurement of financial instruments at fair value and comprehensive income. See Note 1 in the Notes to the Unaudited Interim Consolidated Financial Statements for further details.

Future Accounting Changes

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Section 3862, Financial instruments – Disclosures , and Section 3863, Financial instruments – Presentation. These new standards will be effective on January 1, 2008.

Section 1535 specifies the disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance. This Section is expected to have minimal impact on the Company's financial statements.

Section 3862 and 3863 specify a revised and enhances disclosure on financial instruments. Increased disclosure will be required on the nature and extent of risks arising from financial instruments and how the entity manages those risks.

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

Submitted on behalf of the Board of Directors,

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 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.

Consolidated Balance Sheets

As at September 30, 2007 (unaudited) and December 31, 2006

	2007	2006
Assets		
Current		
Cash (Note 2)	**$ 302,297**	$2,915,020
Accounts receivable	**73,942**	185,001
Prepaid expenditures	**23,098**	2,654
	399,337	3,102,675
Property and Equipment (Note 5)		
Property and equipment	**4,453,300**	1,848,887
Accumulated depletion and depreciation	**(679,304)**	(457,552)
Net Property and Equipment	**3,773,996**	1,391,335
	$4,173,333	$4,494,010
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 210,684**	$ 139,162
Due to related party (Note 3)	**503,337**	–
	714,021	139,162
Asset Retirement Obligations	**41,749**	40,240
Non-controlling Interests (Note 4)	**46,474**	74,970
	802,244	254,372
Commitments (Note 8)		
Shareholders' Equity		
Share capital (Note 6)	**5,461,209**	5,377,343
Contributed surplus	**253,440**	205,962
Deficit	**(2,343,560)**	(1,343,667)
Accumulated other comprehensive income (Note 1)	**–**	–
	3,371,089	4,239,638
	$4,173,333	$4,494,010

Consolidated Statements of Loss and Deficit

For the periods ended September 30 (unaudited)	Three Months 2007	Three Months 2006	Nine Months 2007	Nine Months 2006
Revenue				
Oil and gas sales	**$ 95,160**	$ 90,386	**$ 470,265**	$ 490,869
Royalties	**(21,129)**	6,307	**(105,352)**	(20,175)
Interest income	**–**	31,042	**23,830**	89,754
	74,031	127,735	**386,743**	560,448
Expenses				
Production costs	**32,057**	23,136	**99,363**	91,066
General and administrative	**315,257**	220,442	**959,336**	789,640
Foreign exchange loss (gain)	**14,481**	(2,748)	**34,129**	52,157
Stock based compensation	**29,523**	62,962	**88,043**	175,061
Dry hole costs	**–**	–	**–**	5,550
Depletion, depreciation and accretion	**62,487**	54,329	**223,260**	183,337
	453,805	358,121	**1,404,131**	1,296,811
Loss Before Taxes and Non-Controlling Interests	**(379,774)**	(230,386)	**(1,017,388)**	(736,363)
Income Taxes (Recovery)				
Current	**–**	–	**–**	–
Future	**11,000**	(7,632)	**11,000**	105,383
	11,000	(7,632)	**11,000**	105,383
Loss before Non-Controlling Interests	**(390,774)**	(222,754)	**(1,028,388)**	(841,746)
Loss applicable to non-controlling interests (Note 4)	**7,264**	10,970	**28,495**	36,716
Loss and Comprehensive Income for the Period	**(383,510)**	(211,784)	**(999,893)**	(805,030)
Deficit, Beginning of Period	**(1,960,050)**	(922,308)	**(1,343,667)**	(329,062)
Deficit, End of Period	**($2,343,560)**	($1,134,092)	**($2,343,560)**	($1,134,092)
Loss Per Share - Basic and Diluted (Note 6)	**($0.01)**	($0.01)	**($0.03)**	($0.02)

Consolidated Statements of Cash Flow

For the periods ended September 30 (unaudited)	Three Months 2007	Three Months 2006	Nine Months 2007	Nine Months 2006
Operating Activities				
Loss for the period	**($383,510)**	($211,784)	**($999,893)**	($805,030)
Items not affecting cash				
Stock based compensation	**29,523**	62,962	**88,043**	175,061
Dry hole costs	**–**	–	**–**	5,550
Depletion, depreciation and accretion	**62,487**	54,329	**223,260**	183,337
Future income taxes (recovery)	**11,000**	(7,632)	**11,000**	105,383
Foreign exchange loss (gain)	**14,481**	(2,748)	**34,129**	52,157
Loss applicable to non-controlling interests	**(7,264)**	(10,970)	**(28,495)**	(36,716)
	(273,283)	(115,843)	**(671,956)**	(320,258)
Change in non-cash working capital				
Due from related party	**–**	–	**–**	16,006
Accounts receivable	**23,205**	(53,793)	**111,059**	217,258
Prepaid expenditures	**(17,909)**	1,651	**(20,444)**	1,048
Accounts payable and accrued liabilities	**95,706**	(33,540)	**31,056**	(28,500)
Due to related party	**–**	–	**–**	(165)
Asset retirement obligations settled	**–**	(35,123)	**–**	(35,123)
	101,002	(120,805)	**121,671**	170,524
Cash Used in Operating Activities	**(172,281)**	(236,648)	**(550,285)**	(149,734)
Financing Activities				
Issue of shares under stock option plan	**3,000**	–	**70,250**	11,700
Issue of shares by subsidiary	**–**	–	**–**	113,670
Share issue costs	**(37,950)**	–	**(37,950)**	–
Change in non-cash working capital				
Accounts payable and accrued liabilities	**32,500**	–	**32,500**	–
Proceeds received from related party	**503,337**	–	**503,337**	–
Cash Provided by Financing Activities	**500,887**	–	**568,137**	125,370
Investing Activities				
Property and equipment expenditures	**(174,289)**	3,463	**(2,604,413)**	(252,699)
Change in non-cash working capital				
Accounts payable and accrued liabilities	**(20,400)**	–	**7,967**	–
Cash Used in Investing Activities	**(194,689)**	3,463	**(2,596,446)**	(252,699)
Foreign Exchange Loss on Cash Held in Foreign Currency	**(14,481)**	2,748	**(34,129)**	(52,157)
Net Cash (Inflow) Outflow	**119,436**	(230,437)	**(2,612,723)**	(329,220)
Cash, Beginning of Period	**182,861**	3,236,178	**2,915,020**	3,334,961
Cash, End of Period	**$ 302,297**	$3,005,741	**$ 302,297**	$3,005,741
Cash Interest Paid	**$ –**	$ –	**$ –**	$ –
Cash Taxes Paid	**$ –**	$ –	**$ –**	$ –

Periods ended September 30, 2007 and 2006 (unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of application followed in the preparation of the interim financial statements other than described below are the same as those followed in the preparation of the Company's 2006 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 2006 annual financial statements.

Financial instruments – recognition and measurement

On January 1, 2007, the Company adopted Section 3855 of the Canadian Institute of Chartered Accounts' ("CICA") Handbook, "Financial Instruments – Recognition and Measurement" and Section 3861 Financial Instruments – Presentation and Disclosure. It sets out the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured as fair value.

The Company has made the following classifications:

- Accounts receivable are classified as loans and receivables and are recorded at amortized cost using the effective interest method. Gains and losses are recognized in net earnings when the asset is derecognized.
- Accounts payable and accrued liabilities are classified as other financial liabilities and are recorded at amortized cost using the effective interest method. Gains and losses are recognized in net earnings when the liability is derecognized.

The adoption of this Section is done retroactively without restatement of the consolidated financial statements of prior periods. Further, because the Company does not currently utilize hedges or other derivative financial instruments, the adoption of these sections has had no material impact on the Company's consolidated loss, cash flows or retained earnings as of January 1, 2007 and September 30, 2007.

The Company has reviewed its contracts for embedded derivatives. An embedded derivative is a component of a financial instrument or another contract of which the characteristics are similar to a derivative. This had no impact on the consolidated financial statements.

Comprehensive income

On January 1, 2007, the Company adopted Section 1530 of the CICA Handbook, "Comprehensive Income". It describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in shareholders' equity, which results from transactions and events from sources other than the Company's shareholders. These transactions and events include unrealized gains and losses from changes in fair value of certain financial instruments.

The adoption of this Section had no impact on the Company's presentation. However, should the Company have transactions resulting in an impact to comprehensive income the Company will present a consolidated statement of comprehensive income as a part of the consolidated financial statements.

Equity

On January 1, 2007, the Company adopted Section 3251 of the CICA Handbook "Equity" replacing Section 3250 "Surplus". This describes standards for the presentation of equity and changes in equity for reporting the period as a result of the application of Section 1530 "Comprehensive Income".

Accounting changes

The Company also adopted Section 1506, "Accounting Changes," the only impact of which is to provide disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Section 3862, "Financial Instruments Disclosures" and Section 3863, "Financial Instruments Presentations" which are required to be adopted for fiscal years beginning on or after October 1, 2007. The Company will adopt these standards on January 1, 2008 and it is expected the only effect on the Company will be incremental disclosures regarding 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.

2. BANKING AGREEMENT

The Company has secured a line of credit through its subsidiary CanAmericas Energy Ltd. ("CanAmericas") in the amount of $3,690,000 US, which can be drawn by means of letters of guarantee and letters of credit. The line of credit bears interest at US or CDN prime plus 2% per annum depending on the currency borrowed. The line of credit is repayable on demand and was secured by guarantees from the president and chief operating officer in the amount of $4,612,500 CDN.

CanAmericas has issued letters of guarantee worth $3,411,618 as of September 30, 2007 (see Note 8).

Subsequent to September 30, 2007 security provided by the president and chief operating officer has been cancelled and replaced with a cash restriction on the CanAmericas' main bank account to maintain a minimum balance of 1.25 times the amount of outstanding letters of guarantee and letters of credit (see Note 9).

3. RELATED PARTY TRANSACTIONS

Due to related party consists of a loan from the president and shareholder of the Company. Subsequent to September 30, 2007 the loan has been repaid. The loan bears interest at prime plus one percent. The loan accrued interest for the nine month period of $3,337 (2006 - $-).

Bonterra Energy Income Trust, 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 (see Note 7). Total fees for the nine month period were $162,000 (2006 - $162,000) plus minimal out of pocket costs.

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 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.

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

5. PROPERTY AND EQUIPMENT

	September 30, 2007		December 31, 2006	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Petroleum and natural gas properties and related equipment	$1,842,292	$665,229	$1,803,124	$450,365
Seismic	2,557,495	–	–	–
Furniture, equipment and other	53,512	14,075	45,763	7,187
	$4,453,299	$679,304	$1,848,887	$457,552

As of September 30, 2007, the Company spent $2,557,495 for Seismic activities for the Canadon Ramirez Concession and Laguna de Piedra Concession as discussed in Note 8. These costs presently have been excluded from costs subject to depletion and depreciation.

6. 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
Common Shares		
Balance, January 1, 2007	36,523,041	$5,377,343
Shares issued pursuant to Company option plan	410,000	70,250
Share issue costs	–	(37,950)
Future income tax on share issue costs	–	11,000
Transfer of contributed surplus to share capital	–	40,566
Balance,September 30, 2007	36,933,041	$5,461,209

The number of common shares used to calculate diluted loss per share for the period ended September 30, 2007 of 38,257,031 (2006 – 37,797,380) included the basic weighted average number of shares outstanding of 36,758,479 (2006 – 36,473,441) plus 1,498,552 (2006 – 1,323,939) shares related to the dilutive effect of share options.

A summary of the status of the Company's stock option plan as of September 30, 2007 and December 31, 2006, and changes during the nine month and twelve month periods ending on those dates is presented below:

	September 30, 2007		December 31, 2006	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	2,420,000	$0.29	1,686,000	$0.16
Options granted	102,000	1.01	895,000	0.52
Options exercised	(410,000)	0.15	(103,000)	0.15
Options cancelled	(35,000)	0.40	(58,000)	0.21
Outstanding at end of period	2,077,000	$0.35	2,420,000	$0.29
Options exercisable at end of period	1,192,500	$0.18	740,000	$0.16

The following table summarizes information about stock options outstanding at September 30, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At 9/30/07	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 9/30/07	Weighted-Average Exercise Price
$0.15	1,120,000	2.2 years	$0.15	1,120,000	$0.15
0.50 – 0.60	825,000	2.2 years	0.51	32,500	0.56
0.70 – 0.80	80,000	2.2 years	0.72	40,000	0.72
1.15	12,000	2.2 years	1.15	–	–
1.49	40,000	3.2 years	1.49	–	–
$0.15 – $1.49	2,077,000	2.2 years	$0.35	1,192,500	$0.18

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 September 30, 2007 vest 833,500 in 2008 and 51,000 in 2009.

The Company issued 102,000 stock options with an estimated fair value of $44,712 ($0.44 per option) using the Black-Scholes option pricing model with the following key assumptions in 2007:

Weighted-average risk free interest rate (%)	4.35
Dividend yield (%)	0.00
Expected life (years)	2.8
Weighted-average volatility (%)	62.7

7. SEGMENTED INFORMATION

The Company, with the incorporation of CanAmericas in February, 2006, has operations in Canada and South America; all operating activities are related to exploration, development and production of petroleum and natural gas as follows:

($)	Canada	South America	Total
Three Months Ended September 30, 2007			
Revenue, gross	95,160	–	95,160
Loss before non-controlling interest	171,413	219,361	390,774
Capital expenditures	462	173,827	174,289
Nine Months Ended September 30, 2007			
Revenue, gross	478,215	13,380	492,095
Loss before non-controlling interest	384,690	643,698	1,028,388
Capital expenditures	39,168	2,565,245	2,604,413
Property and equipment	1,177,063	2,596,934	3,773,996
Total assets	1,326,853	2,846,480	4,173,333
Three Months Ended September 30, 2006			
Revenue, gross	107,073	14,355	121,428
Loss before non-controlling interest	58,194	164,560	222,754
Capital expenditures	(3,666)	203	(3,463)
Nine Months Ended September 30, 2006			
Revenue, gross	542,709	37,914	580,623
Loss before non-controlling interest	291,001	550,745	841,746
Capital expenditures	227,384	25,315	252,699
December 31, 2006			
Property and equipment	1,352,759	38,576	1,391,335
Total assets	3,254,440	1,239,570	4,494,010

8. COMMITMENTS

The Company has entered into three farm-in agreements in South America which require future expenditure commitments as outlined below:

Canadon Ramirez Concession

Pine Cliff through its 93 percent owned subsidiary, CanAmericas, has committed to pay 100% of costs totaling $5,500,000 US, including the 21% Value Added Tax ("V.A.T."), for work to be conducted on the concession within two years to earn a 49% participating interest.

As of September 30, 2007, the Company has expended $2,520,266 CDN ($2,173,406 US) including V.A.T of $426,014 CDN ($367,371 US) on seismic costs in respect of the Canadon Ramirez Concession. The V.A.T amount is recoverable against V.A.T liabilities generated on sale of petroleum production in Argentina.

Commitment by Year ($000's US)

Year	Amount
2007	4,630
2008	870
	5,500

The Company has entered into a Letter of Guarantee to cover its commitment to spend $2,291,618 US for drilling three wells on this Concession. The guarantee expires January 31, 2008. Subsequent to September 30, 2007 the guarantee has been reduced by $149,172 US for funds spent on this project.

San Jorge Basin Permit

Pine Cliff through its 93 percent owned subsidiary, CanAmericas, has committed to pay 100% of costs totaling $4,620,000 US including V.A.T. to earn a 60% participating interest in the entire permit. As of September 30, 2007, no amounts have been expended on this permit. The V.A.T amount is recoverable against V.A.T liabilities generated on sale of petroleum production in Argentina.

Commitment by Year ($000's US)

Year	Amount
2007	300
2008	2,595
2009	1,725
	4,620

Laguna de Piedra Concession

Pine Cliff through its 93 percent owned subsidiary, CanAmericas, has committed to pay 40% of costs totaling $1,120,000 US including V.A.T. to earn a 25% participating interest in the entire permit.

As of September 30, 2007, the Company has expended $36,329 CDN ($34,660 US) including V.A.T of $4,832 CDN ($4,617 US) on seismic costs in respect of the Laguna de Piedra Concession. The V.A.T amount is recoverable against V.A.T liabilities generated on sale of petroleum production in Argentina.

Commitment by Year ($000's US)

Year	Amount
2007	310
2008	810
	1,120

The Company entered into a Letter of Guarantee to spend $1,120,000 US for work to be conducted on this Concession. The guarantee expires July 1, 2008. Subsequent to September 30, 2007 the Company has entered into a performance security agreement whereby the guarantee has been reassigned to Export Development Canada for a fee. The reassignment reduces the Company's requirement to maintain 1.25 times the Letter of Guarantee in its bank account (see Note 2).

The success of the South American operations and recoverability of the capitalized costs related thereto are dependent upon the development of successful producing properties. Specifically, this will require additional financing in amounts sufficient to continue the on-going development of the South American operations and to meet the related obligations as they become due.

9. SUBSEQUENT EVENT – SHARE ISSUANCE

Subsequent to September 30, 2007 the Company has completed a rights offering. The Company shareholders were granted the right to purchase one common share for every four common shares held with an exercise price of $1.10 per share. The Company issued 8,312,654 common shares for proceeds of $9,105,969 net of $37,950 of share issue costs.

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