



**Pine Cliff
Energy Ltd.**

2007

**INTERIM
REPORT**

For the period ended
June 30, 2007

Highlights

For the periods ended	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Financial (\$)				
Revenue – oil and gas	176,590	108,413	375,105	400,483
Funds Flow from Operations ⁽¹⁾	(252,435)	(337,020)	(418,321)	(259,320)
Per Share – Basic	(0.01)	(0.01)	(0.01)	(0.01)
Per Share – Diluted	(0.01)	(0.01)	(0.01)	(0.01)
Loss	(346,274)	(526,107)	(616,383)	(593,246)
Per Share – Basic	(0.01)	(0.01)	(0.02)	(0.02)
Per Share – Diluted	(0.01)	(0.01)	(0.02)	(0.02)
Capital Expenditures and Acquisitions	233,648	124,236	2,430,124	256,162
Total Assets			3,946,888	4,892,079
Working Capital			182,319	3,175,577
Shareholders' Equity			3,749,025	4,589,015
Operations				
Oil and NGL's				
Barrels Per Day	5	4	6	6
Average Price (\$ per barrel)	63.29	77.45	60.73	65.00
Natural Gas				
MCF Per Day	226	139	226	211
Average Price (\$ per MCF)	7.22	6.37	7.63	8.54
Total Barrels Per Day ⁽²⁾	41	27	42	41

- (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 August 18, 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 six months ended June 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 has continued to search for investment opportunities in South America and Canada and to date has been successful in completing three farm-out arrangements 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 \$13,000,000 U.S. over the next three years. Financing by a rights offering to existing shareholders is presently being proceeded with. Pine Cliff shareholders will receive rights to subscribe for one common share for each four shares presently held and will have an additional subscription privilege to subscribe for any common shares not taken up on the exercise of rights. Pricing and material terms are to be finalized with the applicable regulators. The Company will not be proceeding with the private placement financing which was announced on July 4, 2007. The general downturn in the market has made this type of a transaction difficult at acceptable pricing. For further details concerning the farm-out 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			2006		
	2nd	1st	4th	3rd	2nd	1st
Revenue - Oil and Gas	\$176,590	\$198,515	\$170,231	\$90,386	\$108,413	\$292,070
Funds Flow from Operations	(252,435)	(165,886)	(51,833)	(113,095)	(337,020)	77,700
Per Share Basic	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)	0.00
Per Share Diluted	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)	0.00
Loss	(354,846)	(270,109)	(209,575)	(211,784)	(526,107)	(67,139)
Per Share Basic	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)
Per Share Diluted	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)
Capital Expenditures and						
Acquisitions	233,648	2,196,476	19,227	(3,463)	124,236	131,926
Total Assets	3,946,888	4,211,984	4,494,010	4,700,305	4,892,079	5,373,147
Working Capital	182,319	602,650	2,963,513	3,030,822	3,175,577	3,625,133
Shareholders' Equity	3,749,025	4,008,304	4,239,638	4,411,915	4,589,015	5,093,951
Operations						
Oil and Liquids (barrels per day)	5	7	3	5	4	9
Natural Gas (MCF per day)	226	226	226	131	139	284

	2005			
	4th	3rd	2nd	1st
Revenue - Oil and Gas	\$ 372,315	\$ 121,141	\$ 140,417	\$ -
Funds Flow from Operations	275,942	68,119	48,374	(24,176)
Per Share Basic	0.01	0.00	0.00	(0.00)
Per Share Diluted	0.01	0.00	0.00	(0.00)
Loss	(223,241)	(37,092)	(44,553)	(24,176)
Per Share Basic	(0.01)	(0.00)	(0.00)	(0.00)
Per Share Diluted	(0.01)	(0.00)	(0.00)	(0.00)
Capital Expenditures				
and Acquisitions	160,809	321,206	1,615,915	-
Total Assets	5,267,988	5,609,386	5,481,085	192,458
Working Capital (Deficiency)	3,565,689	3,450,555	3,513,801	(185,983)
Shareholders' Equity	5,110,407	5,305,042	5,308,028	(24,175)
Operations				
Oil and Liquids (barrels per day)	8	4	6	-
Natural Gas (MCF per day)	279	116	153	-

South American Activities

In the second quarter, the Company completed its third farm-in agreement. Pine Cliff will earn an interest in 11 gross townships (252,048 acres) (net 3 townships (63,012 acres)) of land. The Company has now been successful in negotiating three separate farm-in agreements which has resulted in the acquisition of interests in 51 gross townships (1,164,858 acres) (net 27 townships (605,422 acres)) of land. These three transactions provide a large land base with the potential for a large number of drill locations. The Company is continuing with its pursuit of producing and non-producing properties internationally and domestically.

Production

Production volumes increased in the first half of 2007 to 226 MCF per day from 211 MCF per day for the first half of 2006. During the second quarter of 2006 the operator of the gas plant, where approximately 80 percent of the Company's production is processed, performed an annual turnaround in May and June resulting in having to shut in wells which caused a reduction in production. Subsequent to the completion of the turnaround, capacity restrictions resulted in the continued shut-in of the Company's production. The Company's production for the second quarter of 2007 compared to the first quarter of 2007 was approximately the same as there was no change in the number of wells on production or their relative rate of production.

Revenue

Revenue from petroleum and natural gas sales was \$375,105 during the first half of 2007 compared to \$400,483 for the first half of 2006. The decline was due to an approximate 11% decline in commodity prices in the first six months of 2007 compared to the first half of 2006. Revenue from the second quarter of 2007 compared to the first quarter of 2007 decreased by \$21,925 due to lower commodity prices for natural gas.

Royalties

Royalties consist of Crown royalties of \$72,375 (2006 - \$9,794) paid to the Province of Alberta and gross overriding royalties of \$11,848 (2006 - \$19,136). Crown royalties are significantly higher in the first quarter of 2007 due to the expiry of the Crown royalty holiday. Gross overriding royalties are lower mainly because of the decline in commodity prices for natural gas. Royalties for Q2 2007 consist of Crown royalties of \$41,585 (Q1 2007 - \$30,790) and gross overriding royalties of \$5,296 (Q1 2007 - \$6,552). The increase in Crown royalties is due to the Company having a full quarter

of no Crown royalty holiday. Gross overriding royalties decreased mainly due to the decrease in natural gas commodity prices.

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 is currently earning interest at lower rates and on a reduced cash position. As fund balances are increased the rate will again increase.

Production Costs

Production costs for the six months ended June 30, 2007 were \$67,306 or \$8.93 per BOE (2006 – \$67,930 or \$9.05 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 reduction in Q2 production costs (\$26,350) from Q1 production costs (\$40,956) was due to lower gas compression and transportation charges.

General and Administrative

General and administrative expense for the first six months of 2007 was \$644,079 (\$349,160 in the second quarter) compared to \$569,198 for the first six months of 2006 and \$294,919 for the first quarter of 2007. The primary reason for the increase in expenses in the first half of 2007 over the first half of 2006 was due to the Company incurring additional professional fees related to its activities in South America and for continuous disclosure obligations. The increase in expenses of \$54,241 in the second quarter over the first quarter of 2007 was primarily due to increased 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. Pine Cliff's subsidiary CanAmericas Energy Ltd. ("CanAmericas") has also engaged the services of two individual professionals as senior management and officers of CanAmericas. One of these officers is a geologist and geophysicist and the other is a geologist and engineer.

Foreign Exchange Gain (Loss)

In February 2006, the Company 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 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. The loss on foreign exchange of \$19,648 for the first half of 2007 relates to the appreciation of the Canadian dollar from December 31, 2006 to June 30, 2007, which is less than the foreign exchange loss of \$54,905 in the first half of 2006 as the Company had less US funds on hand during 2007.

Stock Based Compensation

Stock based compensation for Q2 2007 was \$58,520 (2006 - \$112,099). 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 62,000 stock options in Pine Cliff during the first half of 2007. The Company estimated the stock options fair value at \$18,789 (\$0.30 per option) using the Black-Scholes option pricing model, assuming a weighted average risk free interest rate of 4.16 percent, weighted average expected average volatility of 60.4 percent, weighted average expected average life of 2.9 years and no annual dividend rate. The fair value of the options issued that were amortized in the first half of 2007 amounted to \$4,529.

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 half of 2007 the Company provided \$160,773 (2006 - \$129,008) for depletion, depreciation and accretion of its property and equipment. The increase is related to additional production volumes in 2007. Depletion, depreciation and accretion was relatively the same from the second quarter of 2007 compared to the first quarter of 2007 as there was no significant changes in 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	\$ 318,186
Foreign exploration expenditures	10	2,357,837
Share issue costs	20	83,824
Non-capital loss carry forward*	100	1,309,379
Canadian exploration expenditures	100	392,110
Canadian development expenditures	30	424,911
Canadian oil and gas expenditures	10	704,463
		\$ 5,590,710

* \$757,797 expires 2026 and \$551,582 expires 2027

Non-Controlling Interest

As described above, Foreign Corp. owns seven percent of CanAmericas. The first half loss applicable to non-controlling interest for 2007 of \$23,457 (2006 - \$25,746) and the Q2 2007 loss applicable to non-controlling interest of \$10,798 (Q1 2007 - \$12,659) relates to its share of revenues and costs associated with CanAmericas' South American activities.

Loss

The loss in the first six months of 2007 was \$616,383 (\$346,274 in the second quarter) compared to \$593,246 in the corresponding 2006 period and \$270,109 in the first quarter of 2007. The loss incurred in the first half of 2007 increased from the first

half 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 significant future tax adjustment in 2006. The increase in loss from Q2 2007 over Q1 2007 is due to higher general and administrative costs for the Company's South American operations as well as lower commodity prices for natural gas.

Funds Flow From Operations

Funds flow from operations decreased to negative \$418,321 in the first six months of 2007 from negative \$259,320 in first half of 2006. The decreases from 2006 were due to the increased activity in South America. The second quarter 2007 funds flow of (\$252,435) from the first quarter of 2007 of (\$165,886) was significantly higher due to further South America activities and decreased revenue from lower commodity prices for natural gas.

The following reconciliation compares funds flow for the first six 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	(\$378,004)	\$86,914
Items not affecting funds flow		
Accounts receivable	(87,854)	(287,057)
Prepaid expenses	2,535	603
Accounts payable and accrued liabilities	64,650	(4,875)
Foreign exchange loss	(19,648)	(54,905)
Funds flow for the period	(\$418,321)	(\$259,320)

Related Party Transactions

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 six months ended June 30, 2007 were \$108,000 (2006 - \$108,000) 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 June 30, 2007, Pine Cliff had positive working capital of \$182,319 (December 31, 2006 - \$2,963,513). These funds will be used to fund future exploration and development of Canadian and international properties.

Subsequent to June 30, 2007 the Company has commenced a rights offering. The Company shareholders will be granted the right to purchase one common share for every four common shares held with pricing and other material terms still to be finalized in negotiations with the applicable regulators. The additional funding will be used to complete commitments for the Argentina farm-ins (as discussed below) and for further activities in Canada. The previous private placement financing which was announced on July 4, 2007, will not be completed. The general downturn in the market has made this type of financing difficult at acceptable prices.

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

CanAmericas has committed to pay 100% of costs totaling \$5,500,000 US, including 21% Value Added Tax ("V.A.T."), for work to be conducted on the concession within two years to earn a 49% participating interest. Work in the first year includes conducting and interpreting a 75 square mile 3D seismic program and drilling three wells. In the second year of the commitment CanAmericas is committed to spend the remainder of the \$5,500,000 US on drilling. The gross acreage for this concession is 47,940 acres (net 23,490 acres).

As of June 30, 2007, the Company has expended \$2,391,223 CDN (\$2,052,393 US) including V.A.T of \$403,995 CDN (\$346,722 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

San Jorge Basin Permit

CanAmericas is committed to pay 100% of costs totaling \$4,620,000 US including V.A.T. to conduct an aero-magnetic and aero-gravity survey over the entire permit area, a 3D seismic survey over 39 square miles in the permit area and drill four wells to earn a 60% participating interest in the entire permit. The surveys are to be completed within one year of the effective date, the first two wells are to be drilled within two years of the effective date, and the remaining two wells are to be drilled within three years of the effective date. The costs for this project are recoverable from 100 percent of cash flow obtained from the wells drilled in this work program. As of June 30, 2007, no amounts have been expended on this permit.

The administration of the Colhue Huapi concession has recently been transferred from the Federal government to the Province of Chubut. Therefore, award of title and all future concession oversight will be conducted by the Chubut Province. Since this is a new situation for the Province there is no prior standard by which to make a prediction of the length of time that the award will take. The Province is extremely busy with the transfer of responsibility for hydrocarbons from the Federal Government. Discussions with the Chubut Provincial authorities have been very positive and encouraging and indications have been given that they are likely to assign the concession to us within the next several months. The gross acreage for this concession is 864,870 acres (net 518,920 acres).

Commitment by Year (\$000's US)

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

Laguna de Piedra Concession

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 June 30, 2007,

no amounts have been expended on this permit. The gross acreage for this concession is 252,048 acres (net 63,012 acres).

Commitment by Year (\$000's US)

Year	Amount
2007	310
2008	810
	1,120

The Company is authorized to issue an unlimited number of common shares without nominal or par value. Equity transactions during the past six 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	390,000	67,250
Transfer of contributed surplus to share capital	–	38,728
Balance, June 30, 2007	36,913,041	\$5,483,321

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

	June 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	62,000	0.71	895,000	0.52
Options exercised	(390,000)	0.15	(103,000)	0.15
Options cancelled	(35,000)	0.40	(58,000)	0.21
Outstanding at end				
of period	2,057,000	\$0.33	2,420,000	\$0.29
Options exercisable				
at end of period	1,177,500	\$0.16	740,000	\$0.16

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

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding At 6/30/07	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 6/30/07	Weighted-Average Exercise Price
\$0.15	1,115,000	2.5 years	\$0.15	1,140,000	\$0.15
0.50 - 0.60	850,000	2.5 years	0.51	22,500	0.54
0.70 - 0.80	80,000	2.5 years	0.72	15,000	0.70
1.15	12,000	2.5 years	1.15	–	–
\$0.15 - \$1.15	2,057,000	2.5 years	\$0.33	1,177,500	\$0.16

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.

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 June 30, 2007 (unaudited)
and December 31, 2006

	2007	2006
Assets		
Current		
Cash	\$ 182,861	\$2,915,020
Accounts receivable	97,147	185,001
Prepaid expenditures	5,189	2,654
	285,197	3,102,675
Property and Equipment (Note 4)		
Property and equipment	4,279,010	1,848,887
Accumulated depletion and depreciation	(617,319)	(457,552)
Net Property and Equipment	3,661,691	1,391,335
	\$3,946,888	\$4,494,010
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 102,878	\$ 139,162
Asset Retirement Obligations	41,246	40,240
Non-controlling Interests (Note 3)	51,513	74,970
	195,637	254,372
Shareholders' Equity		
Share capital (Note 5)	5,483,321	5,377,343
Contributed surplus	225,754	205,962
Deficit	(1,960,050)	(1,343,667)
Accumulated other comprehensive income (Note 1)	-	-
	3,749,025	4,239,638
	\$3,946,888	\$4,494,010

Consolidated Statements of Loss and Deficit

For the periods ended June 30 (unaudited)	Three Months		Six Months	
	2007	2006	2007	2006
Revenue				
Oil and gas sales	176,590	108,413	\$375,105	\$400,483
Royalties	(46,881)	(5,385)	(84,223)	(26,482)
Interest income	4,594	37,375	21,830	58,712
	134,303	140,403	312,712	432,713
Expenses				
Production costs	26,350	25,979	67,306	67,930
General and administrative	349,160	375,669	644,079	569,198
Foreign exchange loss	11,228	75,775	19,648	54,905
Stock based compensation	21,244	59,818	58,520	112,099
Dry hole costs	–	5,550	–	5,550
Depletion, depreciation and accretion	81,167	44,416	160,773	129,008
	489,149	587,207	950,326	938,690
Loss Before Taxes and Non-controlling				
Interests	(354,846)	(446,804)	(637,614)	(505,977)
Income Taxes (Recovery)				
Current	–	–	–	–
Future	–	102,068	–	113,015
	–	102,068	–	113,015
Loss before Non-controlling Interests	(354,846)	(548,872)	(637,614)	(618,992)
Loss applicable to non-controlling interests (Note 3)	8,572	22,765	21,231	25,746
Loss and Comprehensive Income for the Period	(346,274)	(526,107)	(616,383)	(593,246)
Deficit, Beginning of Period	(1,613,776)	(396,201)	(1,343,667)	(329,062)
Deficit, End of Period	(1,960,050)	(922,308)	(1,960,050)	(922,308)
Loss Per Share - Basic and Diluted (Note 5)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.02)

Consolidated Statements of Cash Flow

For the periods ended June 30 (unaudited)	Three Months		Six Months	
	2007	2006	2007	2006
Operating Activities				
Loss for the period	(\$346,274)	(\$526,107)	(\$616,383)	(\$593,246)
Items not affecting cash				
Stock based compensation	21,244	59,818	58,520	112,099
Dry hole costs	–	5,550	–	5,550
Depletion, depreciation and accretion	81,167	44,416	160,773	129,008
Future income taxes	–	102,068	–	113,015
Foreign exchange loss	11,228	75,775	19,648	54,905
Loss applicable to non-controlling interests	(8,572)	(22,765)	(21,231)	(25,746)
	(241,207)	(261,245)	(398,673)	(204,415)
Change in non-cash working capital				
Accounts receivable	1,996	100,706	87,854	287,057
Prepaid expenditures	2,291	3,222	(2,535)	(603)
Accounts payable and accrued liabilities	(26,114)	85,286	(64,650)	4,875
	(20,937)	189,214	20,669	291,329
Cash Provided by (Used in)				
Operating Activities	(262,144)	(72,031)	(378,004)	86,914
Financing Activities				
Issue of shares under stock option plan	65,750	11,700	67,250	11,700
Issue of shares by subsidiary	–	–	–	113,670
Cash Provided by Financing Activities	65,750	11,700	67,250	125,370
Investing Activities				
Property and equipment expenditures	(233,648)	(124,236)	(2,430,124)	(256,162)
Change in non-cash working capital				
Accounts payable and accrued liabilities	28,367	(89,370)	28,367	–
Cash Used in Investing Activities	(205,281)	(213,606)	(2,401,757)	(256,162)
Foreign Exchange Loss on				
Cash Held in Foreign Currency	(11,228)	(75,775)	(19,648)	(54,905)
Net Cash Outflow	(412,903)	(349,712)	(2,732,159)	(98,783)
Cash, Beginning of Period	595,764	3,585,890	2,915,020	3,334,961
Cash, End of Period	\$ 182,861	\$3,236,178	\$ 182,861	\$3,236,178
Cash Interest Paid	\$ –	\$ –	\$ –	\$ –
Cash Taxes Paid	\$ –	\$ –	\$ –	\$ –

Notes to the Consolidated Financial Statements

Periods ended June 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 Accountants' ("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 June 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. RELATED PARTY TRANSACTIONS

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 six month period were \$108,000 (2006 - \$108,000) plus minimal out of pocket costs.

3. NON-CONTROLLING INTERESTS

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

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.

4. PROPERTY AND EQUIPMENT

	June 30, 2007		December 31, 2006	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Petroleum and natural gas properties and related equipment	\$1,841,830	\$605,824	\$1,803,124	\$450,365
Seismic	2,391,223	-	-	-
Furniture, equipment and other	45,957	11,495	45,763	7,187
	\$4,279,010	\$617,319	\$1,848,887	\$457,552

As of June 30, 2007, the Company spent \$2,391,223 for Seismic activities for the Canadon Ramirez Concession as discussed in Note 7. These costs presently have been excluded from costs subject to depletion and depreciation.

5. 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	390,000	67,250
Transfer of contributed surplus to share capital	-	38,728
Balance, June 30, 2007	36,913,041	\$5,483,321

The number of common shares used to calculate diluted loss per share for the period ended June 30, 2007 of 38,038,607 (2006 – 37,760,773) included the basic weighted average number of shares outstanding of 36,783,109 (2006 – 36,473,441) plus 1,255,498 (2006 – 1,287,332) shares related to the dilutive effect of share options.

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

	June 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	62,000	0.71	895,000	0.52
Options exercised	(390,000)	0.15	(103,000)	0.15
Options cancelled	(35,000)	0.40	(58,000)	0.21
Outstanding at end of period	2,057,000	\$0.33	2,420,000	\$0.29
Options exercisable at end of period	1,177,500	\$0.16	740,000	\$0.16

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

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding At 6/30/07	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 6/30/07	Weighted-Average Exercise Price
\$0.15	1,115,000	2.5 years	\$0.15	1,140,000	\$0.15
0.50 – 0.60	850,000	2.5 years	0.51	22,500	0.54
0.70 – 0.80	80,000	2.5 years	0.72	15,000	0.70
1.15	12,000	2.5 years	1.15	–	–
\$0.15 – \$1.15	2,057,000	2.5 years	\$0.33	1,177,500	\$0.16

The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. Unvested options as of June 30, 2007 vest 35,000 in 2007, 813,500 in 2008 and 31,000 in 2009.

The Company issued 62,000 stock options with an estimated fair value of \$18,789 (\$0.30 per option) using the Black-Scholes option pricing model with the following key assumptions in 2007:

Weighted-average risk free interest rate (%)	4.16
Dividend yield (%)	0.00
Expected life (years)	2.9
Weighted-average volatility (%)	60.4

6. 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 June 30, 2007			
Revenue, gross	178,704	2,480	181,184
Loss before non-controlling interest	120,396	234,450	354,846
Capital expenditures	630	233,018	233,648
Six Months Ended June 30, 2007			
Revenue, gross	383,055	13,880	396,935
Loss before non-controlling interest	213,277	424,337	637,614
Capital expenditures	38,901	2,391,223	2,430,124
Property and equipment	1,236,006	2,425,685	3,661,691
Total assets	1,497,998	2,448,890	3,946,888
Three Months Ended June 30, 2006			
Revenue, gross	144,385	1,403	145,788
Loss before non-controlling interest	207,408	341,464	548,872
Capital expenditures	99,124	25,112	124,236
Six Months Ended June 30, 2006			
Revenue, gross	435,636	23,559	459,195
Loss before non-controlling interest	232,807	386,185	618,992
Capital expenditures	230,050	25,112	256,162
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

7. COMMITMENTS

The Company 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 June 30, 2007, the Company has expended \$2,391,223 CDN (\$2,052,393 US) including V.A.T of \$403,995 CDN (\$346,722 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
	<u>5,500</u>

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 June 30, 2007, no amounts have been expended on this permit.

Commitment by Year (\$000's US)

Year	Amount
2007	300
2008	2,595
2009	1,725
	<u>4,620</u>

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 June 30, 2007, no amounts have been expended on this permit.

Commitment by Year (\$000's US)

<u>Year</u>	<u>Amount</u>
2007	310
2008	810
	<u>1,120</u>


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.

8. SUBSEQUENT EVENT – SHARE ISSUANCE

Subsequent to June 30, 2007 the Company has commenced a rights offering. The Company shareholders will be granted the right to purchase one common share for every four common shares held with pricing and other material terms still to be finalized in negotiations with the applicable regulators.



**Pine Cliff
Energy Ltd.**

A large, stylized graphic element in the bottom right corner, consisting of a thick, olive-green line that forms a large 'V' shape, with a horizontal bar extending to the right from the top right of the 'V'.

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