Pine Cliff Energy Ltd.

# 2007
## INTERIM REPORT

For the period ended March 31, 2007

## Highlights

| For the three months ended | March 31 2007 | December 31 2006 | March 31 2006 |
|---|---|---|---|
| **Financial ($)** | | | |
| Revenue – oil and gas | **198,515** | 170,231 | 292,070 |
| Fund Flow from Operations (1) | **(165,886)** | (51,833) | 77,700 |
| Per Share – Basic | **(0.00)** | (0.00) | 0.00 |
| Per Share – Diluted | **(0.00)** | (0.00) | 0.00 |
| Loss | **(270,109)** | (209,575) | (67,139) |
| Per Share – Basic | **(0.01)** | (0.01) | (0.00) |
| Per Share – Diluted | **(0.01)** | (0.01) | (0.00) |
| Capital Expenditures | **2,196,476** | 19,227 | 131,926 |
| Total Assets | **4,211,984** | 4,494,010 | 5,373,147 |
| Working Capital | **602,650** | 2,963,513 | 3,625,133 |
| Shareholders' Equity | **4,008,304** | 4,239,638 | 5,093,951 |
| **Operations** | | | |
| Oil and NGL's | | | |
| Barrels Per Day | **7** | 3 | 9 |
| Average Price ($ per barrel) | **58.91** | 62.99 | 59.88 |
| Natural Gas | | | |
| MCF Per Day | **226** | 226 | 284 |
| Average Price ($ per MCF) | **8.05** | 7.21 | 9.62 |
| Total Barrels Per Day (2) | **44** | 41 | 56 |

(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 excluding foreign exchange loss and asset retirement expenditures.

(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 May 11, 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 three months ended March 31, 2007, including the notes related thereto, and the audited financial statement 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

During the first quarter the Company has made substantial progress in its international operations in South America, as the Company has been successful in negotiating two separate farm–in agreements which will result in the acquisition of interests in 40 gross townships (912,810 acres) (net 24 townships (542,410 acres)) of land. These two transactions result in a large land base for a junior exploration company that provides the potential for a large number of undrilled locations. The Company is continuing with its pursuit of producing and non-producing properties internationally.

Pine Cliff is also pursuing various prospects in Canada. The recent change to the tax status of oil and gas trusts in Canada may result in fewer buyers for oil and gas assets possibly resulting in lower prices for such assets. Pine Cliff is presently negotiating financial arrangements to raise funds to finance its aggressive 2007 and 2008 capital programs.

## Financial and Operational

### Quarterly Financial and Operational Highlights

| | 2007 | 2006 | | | |
|---|---|---|---|---|---|
| | **1st** | 4th | 3rd | 2nd | 1st |
| Revenue - Oil and Gas | **198,515** | 170,231 | 90,386 | 108,413 | 292,070 |
| Funds Flow from Operations [1] | **(165,886)** | (51,833) | (113,095) | (337,020) | 77,700 |
| Per Share Basic | **(0.00)** | (0.00) | (0.00) | (0.01) | 0.00 |
| Per Share Diluted | **(0.00)** | (0.00) | (0.00) | (0.01) | 0.00 |
| Loss | **(270,109)** | (209,575) | (211,784) | (526,107) | (67,139) |
| Per Share Basic | **(0.01)** | (0.01) | (0.01) | (0.01) | (0.00) |
| Per Share Diluted | **(0.01)** | (0.01) | (0.01) | (0.01) | (0.00) |
| Capital Expenditures and Acquisitions | **2,196,476** | 19,227 | (3,463) | 124,236 | 131,926 |
| Total Assets | **4,211,984** | 4,494,010 | 4,700,305 | 4,892,079 | 5,373,147 |
| Working Capital | **602,650** | 2,963,513 | 3,030,822 | 3,175,577 | 3,625,133 |
| Shareholders' Equity | **4,008,304** | 4,239,638 | 4,411,915 | 4,589,015 | 5,093,951 |
| **Operations** | | | | | |
| Oil and Liquids (barrels per day) | **7** | 3 | 5 | 4 | 9 |
| Natural Gas (MCF per day) | **226** | 226 | 131 | 139 | 284 |

| | 2005 | | | |
|---|---|---|---|---|
| | 4th | 3rd | 2nd | 1st |
| Revenue - Oil and Gas | $ 372,315 | $ 121,141 | $ 140,417 | $ – |
| Funds Flow from Operations [1] | 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) |
| Net 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 | – |

### Production

Production was approximately 20% less in the first quarter of 2007 than the first quarter of 2006; 7 barrels per day of natural gas liquids (2006 – 9) and 226 MCF per day of natural gas (2006 – 284). The Q1 2006 production consisted of flush production from a new well that came on production late in 2005. The Company's production for the first quarter of 2007 compared to the last quarter of 2006 was approximately the same as there was no change in the number of wells on production or there relative rate of production.

### Revenue

Revenue from petroleum and natural gas sales was $198,515 during the first quarter of 2007 compared to $292,070 for the first quarter of 2006. The decrease is attributable to a decrease in production and a decrease in the price of natural gas. There was a modest increase in revenue of $28,284 over the fourth quarter of 2006 due to higher natural gas prices.

### Royalties

Royalties consist of Crown royalties of $30,790 (Q1 2006 – ($7,137) and Q4 2006 – ($2,490)) paid to (recovered from) the Province of Alberta and gross overriding royalties of $6,552 (Q1 2006 - $15,745 and Q4 2006 - $3,891). During the first quarter of 2007, the Company is no longer on Crown royalty holiday for any of its wells. This resulted in higher Crown royalties than the previous quarters. Lower gross overriding royalties in the first quarter of 2007 compared to the first quarter of 2006 was the result of lower production and price for natural gas. The increase in gross overriding royalties in the first quarter of 2007 compared to the last quarter of 2006 was due to a slight increase in production and price of natural gas and natural gas liquids.

### 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 also increase.

### Production Costs

Production costs for the three months ended March 31, 2007 were $40,956 or $10.31 per BOE versus $41,951 or $8.34 per BOE. Production costs per BOE are higher due to increased natural gas compression and processing costs. 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. Q4 2006 production costs of $41,280 or $10.90 per BOE were in line with the first quarter production costs.

### General and Administrative

General and administrative expense for the first three months of 2007 was $294,919 compared to $193,529 for the first three months of 2006 and $254,226 for the fourth quarter of 2006. An increase of $162,000 in consulting, legal and other related startup costs for Argentina operations in Q1 2007 over Q1 2006 was offset by a decrease in consulting fees of $47,000.

The increase of $41,000 in Q1 2007 from Q4 2006 was due primarily to additional legal fees with regards to negotiations for subsidiary CanAmericas Energy Ltd. ("CanAmericas") activities in South America and additional consulting fees with regard to Pine Cliff's reserve report.

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 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 an arm's length 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 $8,420 for the first quarter of 2007 relates to the appreciation of the Canadian dollar from December 31, 2006 to March 31, 2007, as apposed to a foreign exchange gain of $20,870 and $49,709 in the first and last quarter of 2006 respectively. The Canadian dollar depreciated over those periods.

### Stock Based Compensation

Stock based compensation for Q1 2007 was $37,276 and $52,281 for Q1 2006 (Q4 2006 – ($46,676)). 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 either Company. During the first quarter the Company issued 50,000 stock options in Pine Cliff. The value of these options was estimated using the Black-Scholes option pricing model, assuming a risk free interest rate of 4.04 percent, expected average volatility of 59 percent, expected average life of 3.0 years and no annual dividend rate. The total value of these options to be amortized over the vesting period of the options is $12,844 (approximately $0.26 per option) of which $2,006 was amortized during the first quarter of 2007.

### Depletion, Depreciation, and Accretion

During the first quarter of 2007 the Company expensed $79,606 (2006 - $84,592) for depletion, depreciation and accretion of its property and equipment. The decrease is related to reduced production volumes in the first quarter of 2007. The fourth quarter of 2006 had a slightly higher depletion, depreciation and accretion amount of $94,860 due to reserve adjustments relating to the Company's 2006 independent reserve report.

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.

### Income Taxes

The Company follows the liability method of accounting for income taxes under which the income tax provision is based on the temporary differences in the accounts calculated using income tax rates expected to apply in the year in which the temporary differences will reverse. The Company has sufficient tax pools such that it is not liable for current income tax.

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

| | Rate of Utilization % | Amount |
|---|---|---|
| Undepreciated capital costs | 25 | $ 271,157 |
| Foreign exploration expenditures | 10 | 2,158,205 |
| Share issue costs | 20 | 98,493 |
| Canadian exploration expenditures | 100 | 392,110 |
| Canadian development expenditures | 30 | 426,726 |
| Canadian oil and gas expenditures | 10 | 723,819 |
| Non-capital loss carry forward* | 100 | 967,188 |
| | | **$ 5,037,698** |

* $757,797 expires 2016 and $209,391 expires 2017

### Non-Controlling Interest

As described above, Foreign Corp. owns seven percent of CanAmericas. The Q1 2007 amount of $12,659 (Q1 2006 - $2,981 and Q4 2006 - $1,985) of loss applicable to non-controlling interest relates to their share of revenues and costs associated with CanAmericas South American activities.

### Loss

Loss in the first quarter of 2007 increased by $203,000 to $270,109 from $67,139 in the first quarter of 2006. The increase was due to lower production and prices for natural gas and natural gas liquids in the first quarter of 2007. Also, higher administrative costs in Q1 2007 over Q1 2006 are mainly due to the South American operations not starting until February 2006.

The increase in losses of $60,534 in Q1 2007 compared to the Q4 2006 loss was primarily due to higher royalties, higher general and administrative costs, and a foreign exchange loss instead of a foreign exchange gain as the Canadian dollar strengthened in the first quarter of 2007. These contributors to the increased loss in the first quarter of 2007 compared to the fourth quarter of 2006 were offset by higher revenue due to increased natural gas prices and no future tax provision.

### Funds Flow From Operations

Negative Funds flow from operations increased to ($165,886) in the first quarter of

2007 compared to ($51,833) for the last quarter of 2006 from a positive $77,700 in the first quarter of 2006. The decrease compared to Q1 2006 was due primarily to reduced production and natural gas and natural gas liquids sales prices as well as an increase in general and administrative costs associated with the Company's activities in South America as these activities did not start until February 2006.

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

| For the three month periods ending March 31, | **2007** | 2006 |
|---|---|---|
| Cash flow from operating activities | **($115,860)** | $158,945 |
| Items not affecting funds flow | | |
| Accounts receivable | **(85,858)** | (186,351) |
| Prepaid expenses | **5,716** | 3,825 |
| Accounts payable and accrued liabilities | **38,536** | 80,411 |
| Foreign exchange gain (loss) | **(8,420)** | 20,870 |
| Funds flow for the period | **($165,886)** | $77,700 |

## 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, plus out of pocket costs. Total fees for the three months ended March 31, 2007 were $54,000 (Q1 2006 - $54,000, Q4 2006 - $54,000) plus minimal out of pocket costs.

## Liquidity and Capital Resources

As of March 31, 2007, Pine Cliff had positive working capital of $602,650 (December 31, 2006 - $2,963,513). These funds will be used to fund future exploration and development of Canadian and international properties.

Additional funding will be required to complete commitments for the Argentina farm-ins and for further activities in Canada as well as in South America. Pine Cliff is presently reviewing financing alternatives and expects to complete a financing transaction during Q2 2007.

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

| Issued | Number | Amount |
|---|---|---|
| Common Shares | | |
| Balance, January 1, 2007 | 36,523,041 | $5,377,343 |
| Issued on exercise of options | 10,000 | 1,500 |
| Transfer of contributed surplus to share capital | – | 988 |
| Balance, March 31, 2007 | 36,533,041 | $5,379,831 |

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

| | March 31, 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 | 50,000 | 0.60 | 895,000 | 0.52 |
| Options exercised | (10,000) | 0.15 | (103,000) | 0.15 |
| Options cancelled | (10,000) | 0.15 | (58,000) | 0.21 |
| Outstanding at end of period | 2,450,000 | $0.30 | 2,420,000 | $0.29 |
| Options exercisable at end of period | 730,000 | $0.16 | 740,000 | $0.16 |

The following table summarizes information about stock options outstanding at March 31, 2007:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding At 3/31/07 | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable At 3/31/07 | Weighted-Average Exercise Price |
| $0.15 | 1,495,000 | 2.8 years | $0.15 | 720,000 | $0.15 |
| 0.50 - 0.60 | 875,000 | 2.8 years | 0.51 | 10,000 | 0.59 |
| 0.70 - 0.75 | 80,000 | 2.8 years | 0.72 | – | – |
| $0.15-$0.75 | 2,450,000 | 2.8 years | $0.30 | 730,000 | $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.

The Company has entered into commitments in relation to its farm-ins on two 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.

As of March 31, 2007, the Company has expended $2,158,205 CDN ($1,839,368 US) including V.A.T of $374,565 CDN ($319,230 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 March 31, 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 |
| | 4,620 |

The Company has entered into a management agreement with Bonterra Corp. The management agreement consists of a fee of $18,000 (2006 - $18,000) per month plus out of pocket costs, a fee of three percent of net earnings before income taxes, $250 per month per operated producing well and $150 per month per water injector well. This agreement can be cancelled by either party by giving 90 day's notice.

### 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, the 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 of certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying financial statements.

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

The 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 March 31, 2007 (unaudited) and December 31, 2006**

| | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash | **$ 595,764** | $2,915,020 |
| Accounts receivable | **99,143** | 185,001 |
| Prepaid expenditures | **8,370** | 2,654 |
| | **703,277** | 3,102,675 |
| **Property and Equipment (Note 4)** | | |
| Property and equipment | **4,045,362** | 1,848,887 |
| Accumulated depletion and depreciation | **(536,655)** | (457,552) |
| **Net Property and Equipment** | **3,508,707** | 1,391,335 |
| | **$4,211,984** | $4,494,010 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **$ 100,627** | $ 139,162 |
| **Asset Retirement Obligations** | **40,743** | 40,240 |
| **Non-Controlling Interests (Note 3)** | **62,310** | 74,970 |
| | **203,680** | 254,372 |
| **Commitments (Note 7)** | | |
| **Shareholders' Equity** | | |
| Share capital (Note 5) | **5,379,831** | 5,377,343 |
| Contributed surplus | **242,249** | 205,962 |
| Deficit | **(1,613,776)** | (1,343,667) |
| Accumulated other comprehensive income (Note 1) | **–** | – |
| | **4,008,304** | 4,239,638 |
| | **$4,211,984** | $4,494,010 |

## Consolidated Statements of Loss, Comprehensive Loss and Deficit

| For the three months ended March 31 (unaudited) | 2007 | 2006 |
|---|---|---|
| **Revenue** | | |
| Oil and gas sales | **$198,515** | $292,070 |
| Royalties | **(37,342)** | (21,097) |
| Interest income | **17,236** | 21,337 |
| | **178,409** | 292,310 |
| **Expenses** | | |
| Production costs | **40,956** | 41,951 |
| General and administrative | **294,919** | 193,529 |
| Foreign exchange loss (gain) | **8,420** | (20,870) |
| Stock based compensation | **37,276** | 52,281 |
| Depletion, depreciation and accretion | **79,606** | 84,592 |
| | **461,177** | 351,483 |
| **Loss Before Taxes and Non-Controlling Interests** | **(282,768)** | (59,173) |
| **Income Taxes** | | |
| Current | – | – |
| Future | – | 10,947 |
| | – | 10,947 |
| **Loss before Non-Controlling Interests** | **(282,768)** | (70,120) |
| Loss applicable to non-controlling interests (Note 3) | **12,659** | 2,981 |
| **Loss and Comprehensive Loss for the Period** | **(270,109)** | (67,139) |
| Deficit, Beginning of Period | **(1,343,667)** | (329,062) |
| **Deficit, End of Period** | **($1,613,776)** | ($396,201) |
| **Loss Per Share - Basic and Diluted** | **($0.01)** | ($0.00) |
| **Weighted Average Common Shares** | | |
| **Basic** | **36,532,219** | 36,420,041 |
| **Diluted** | **37,701,514** | 37,624,892 |

## Consolidated Statements of Cash Flow

| For the three months ended March 31 (unaudited) | 2007 | 2006 |
|---|---|---|
| **Operating Activities** | | |
| Loss for the period | **($270,109)** | ($67,139) |
| Items not affecting cash | | |
| Stock based compensation | **37,276** | 52,281 |
| Depletion, depreciation and accretion | **79,606** | 84,592 |
| Foreign exchange loss (gain) | **8,420** | (20,870) |
| Future income taxes | **–** | 10,947 |
| Loss applicable to non-controlling interests | **(12,659)** | (2,981) |
| | **(157,466)** | 56,830 |
| Change in non-cash working capital | | |
| Accounts receivable | **85,858** | 186,351 |
| Prepaid expenditures | **(5,716)** | (3,825) |
| Accounts payable and accrued liabilities | **(38,536)** | (80,411) |
| | **41,606** | 102,115 |
| **Cash Provided by (Used in) Operating Activities** | **(115,860)** | 158,945 |
| **Financing Activities** | | |
| Issue of shares by subsidiary | **–** | 113,670 |
| Issue of shares under stock option plan | **1,500** | – |
| **Cash Provided by Financing Activities** | **1,500** | 113,670 |
| **Investing Activities** | | |
| Property and equipment expenditures | **(2,196,476)** | (131,926) |
| Change in non-cash working capital | | |
| Accounts payable and accrued liabilities | **–** | 89,370 |
| **Cash Used in Investing Activities** | **(2,196,476)** | (42,556) |
| **Foreign Exchange (Loss) Gain on Cash Held in Foreign Currency** | **(8,420)** | 20,870 |
| **Net Cash Inflow (Outflow)** | **(2,319,256)** | 250,929 |
| **Cash, Beginning of Period** | **2,915,020** | 3,334,961 |
| **Cash, End of Period** | **$ 595,764** | $3,585,890 |
| **Cash interest paid** | **$ –** | $ – |
| **Cash taxes paid** | **$ –** | $ – |

## Notes to the Consolidated Financial Statements

Periods ended March 31, 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 those 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 deficit as of January 1, 2007 and March 31, 2007.

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 three month period were $54,000 (2006 - $54,000) 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

| | March 31, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| | Cost | Accumulated Depletion and Depreciation | Cost | Accumulated Depletion and Depreciation |
| Petroleum and natural gas properties and related equipment | $1,841,394 | $527,326 | $1,803,124 | $450,365 |
| Seismic | 2,158,205 | – | – | – |
| Furniture, equipment and other | 45,763 | 9,329 | 45,763 | 7,187 |
| | $4,045,362 | $536,655 | $1,848,887 | $457,552 |

As of March 31, 2007, the Company spent $2,158,205 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 |
| Issued on exercise of options | 10,000 | 1,500 |
| Transfer of contributed surplus to share capital | – | 988 |
| Balance, March 31, 2007 | 36,533,041 | $5,379,831 |

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

| | March 31, 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 | 50,000 | 0.60 | 895,000 | 0.52 |
| Options exercised | (10,000) | 0.15 | (103,000) | 0.15 |
| Options cancelled | (10,000) | 0.15 | (58,000) | 0.21 |
| Outstanding at end of period | 2,450,000 | $0.30 | 2,420,000 | $0.29 |
| Options exercisable at end of period | 730,000 | $0.16 | 740,000 | $0.16 |

The following table summarizes information about stock options outstanding at March 31, 2007:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding At 3/31/07 | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable At 3/31/07 | Weighted-Average Exercise Price |
| $0.15 | 1,495,000 | 2.8 years | $0.15 | 720,000 | $0.15 |
| 0.50 – 0.60 | 875,000 | 2.8 years | 0.51 | 10,000 | 0.59 |
| 0.70 – 0.75 | 80,000 | 2.8 years | 0.72 | – | – |
| $0.15-$0.75 | 2,450,000 | 2.8 years | $0.30 | 730,000 | $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 March 31, 2007 vest 862,500 in 2007, 832,500 in 2008 and 25,000 in 2009.

The Company issued 50,000 stock options with an estimated fair value of $12,844 ($0.26 per option) using the Black-Scholes option pricing model with the following key assumptions in 2007:

| | |
|---|---|
| Weighted-average risk free interest rate (%) | 4.04 |
| Dividend yield (%) | 0.00 |
| Expected life (years) | 3.0 |
| Weighted-average volatility (%) | 59.1 |

## 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, including non-controlling interests:

| ($) | Canada | South America | Total |
|---|---|---|---|
| **March 31, 2007** | | | |
| Revenue, gross | 187,878 | 27,873 | 215,751 |
| Loss | 92,881 | 189,887 | 282,768 |
| Capital expenditures | 38,271 | 2,158,205 | 2,196,476 |
| Property and equipment | 1,314,337 | 2,194,370 | 3,508,707 |
| Total assets | 1,796,108 | 2,415,876 | 4,211,984 |
| **March 31, 2006** | | | |
| Revenue, gross | 311,122 | 23,155 | 334,277 |
| Loss | 25,399 | 44,721 | 70,120 |
| Capital expenditures | 131,926 | – | 131,926 |
| **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 two 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 March 31, 2007, the Company has expended $2,158,205 CDN ($1,839,368 US) including V.A.T of $374,565 CDN ($319,230 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**

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 March 31, 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 |
| | 4,620 |

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.


21

Pine Cliff Energy Ltd.

901, 1015 – 4TH STREET SW
CALGARY, ALBERTA T2R 1J4
www.pinecliffenergy.com