Pine Cliff Energy Ltd.

2006 INTERIM REPORT

For the period ended

March 31, 2006

Highlights

For the three months ended	March 31 2006	December 31 2005	March 31 [3] 2005
Financial ($)			
Revenue – oil and gas	**292,070**	372,315	—
Fund Flow from Operations [1]	**77,700**	275,942	—
Per Share – Basic	**0.00**	0.01	—
Per Share – Diluted	**0.00**	0.01	—
Loss	**(67,139)**	(223,241)	(24,176)
Per Share – Basic	**(0.00)**	(0.01)	(0.00)
Per Share – Diluted	**(0.00)**	(0.01)	(0.00)
Capital Expenditures & Acquisitions [2]	**131,926**	160,809	—
Total Assets	**5,373,147**	5,267,988	192,458
Working Capital (Deficiency)	**3,625,133**	3,565,689	(185,983)
Shareholders' Equity	**5,093,951**	5,110,407	(24,175)
Operations			
Oil and NGL's			
Barrels Per Day	**9**	8	—
Average Price ($ per barrel)	**59.88**	64.19	—
Natural Gas			
MCF Per Day	**284**	279	—
Average Price ($ per MCF)	**9.62**	12.61	—
Total Barrels Per Day [2]	**56**	54	—

(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.

(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.

(3) The Company was incorporated in the Province of Alberta on November 10, 2004 and commenced operations on April 8, 2005.

Management's Discussion and Analysis

The following report dated May 9, 2006 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, 2006, including the notes related thereto, and the audited financial statement for the year ended December 31, 2005, together with the notes related thereto.

General

The Company is continuing to progress with its plans to implement an aggressive international operation, focused mainly in South America, to complement its Canadian operations. As previously announced the Company has been fortunate in being able to hire two senior officers for its international operations. These officers have extensive international experience and have many years experience in South America.

Pine Cliff's subsidiary, CanAmericas Energy Ltd. ("CanAmericas") has also entered into an operations/engineering contract with a South American company to provide services.

CanAmericas is continuing to assess producing and non-producing land opportunities and expects to finalize arrangements in the second and third quarters of 2006.

Financial and Operational

The Company was incorporated in the Province of Alberta on November 10, 2004 and commenced operations April 8, 2005. The Company, therefore, has no first quarter 2005 comparative operations to report. All discussions will compare first quarter of 2006 to fourth quarter of 2005.

Production

During the first quarter of 2006, the Company completed and tied in a fifth well (.038 net) in the Sundance area of Alberta. This brings the Companies total well count in the area to 5 gross (0.534 net) wells. Total production during the quarter was 284 MCF per day of natural gas and 9 barrels per day of natural gas liquids. The operators of the Sundance properties have plans for further infill drilling which Pine Cliff currently anticipates it will participate in.

Revenue

Revenue from petroleum and natural gas sales was $292,070 during the first quarter of 2006 compared to $372,315 for the fourth quarter of 2005. The decline of $80,245 from the fourth quarter of 2005 was due to lower natural gas prices. Natural gas prices realized by the Company dropped from just over $12 an MCF in January to approximately $8 per MCF by the end of the first quarter.

Royalties

Royalties consist of Crown royalties of $7,137 (Q4 2005 – ($11,922)) paid to the Province of Alberta and gross overriding royalties of $15,744 (Q4 2005 – $13,328). During the fourth quarter of 2005, the Company received approval for a Crown royalty holiday on certain of its wells. The result was a refund of previously paid Crown royalties. The Company receives a 25 percent rebate on Crown royalties paid to the Province of Alberta.

Foreign Exchange Gain

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 gain on foreign exchange of $20,870 relates to the depreciation of the Canadian dollar from the date of the above share issuance to March 31, 2006.

Subsequent to the end of the quarter, the Canadian dollar has strengthened significantly and as of the date of this report an approximate loss on exchange of $95,000 has occurred in relation to the U.S. funds held by CanAmericas.

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 anticipates maintaining sufficient funds in the accounts to continue receiving the interest payments pending developments with its South American operations.

Production Costs

Production costs for the three months ended March 31, 2006 were $41,951 or $8.34 per BOE (Q4 2005 – $22,025 or $4.37 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 was due to an adjustment of approximately $8,000 related to Q4 2005 natural gas processing fees received in April and subsequent accrual for first quarter processing fees of an equal amount. Operating costs of approximately $6.50 to $7.50 per BOE are anticipated.

General and Administrative

General and administrative expense for the first three months of 2006 was $193,529 compared to $24,176 for the first three months of 2005 and $92,203 for the fourth quarter of 2005. The increase in Q1 2006 over Q4 2005 expenses was due to the Company incurring $43,900 in respect of administration costs related to its activities in South America, increased geological consulting fees of $8,340, additional audit and accounting costs related to the 2005 year end audit of $8,480, $17,300 related to engineering services pertaining to the Company's 2005 reserve report and $18,000 in additional management fees (see below).

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.

On April 14, 2006, the Company entered into an operations/engineering contract with a South American company to provide services in respect of properties CanAmericas is examining in South America. The contract provides for a monthly retainer of $30,000 U.S. until December 31, 2006. The contract amount is to be reviewed quarterly and adjusted by mutual consent of the parties. The contract is in effect until December 31, 2006 and thereafter may be terminated by either party by giving 60 days written notice. The contractor will also receive a five percent working interest of CanAmericas working interest in each project after CanAmericas has recovered 140 percent of all of its costs in the project including the retainer.

Pine Cliff also has a management agreement with Comstate Resources Ltd. (Comstate), a wholly owned subsidiary of Bonterra Energy Income Trust and a company with common directors and management, to have Comstate 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, 2006 were $54,000 (Q1 2005 - $24,000, Q4 2005 - $36,000) plus minimal out of pocket costs.

Stock Based Compensation

Stock based compensation for Q1 2006 was $52,281 (Q4 2005 - $28,606). The Company has a stock-based compensation plan for Pine Cliff as well as for CanAmericas. 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 1,000,000 stock options to Foreign Corp. in CanAmericas at a price of $0.25 U.S. The value of these options was estimated using the Black-Scholes option pricing model, assuming a risk free interest rate of 3.815 percent, expected average volatility of 85 percent, expected average life of 2.5 years and no annual dividend rate. The total value of these options to be amortized over the vesting period of the options is $149,588 (approximately $0.15 per option) of which $23,975 was amortized during the first quarter of 2006.

Depletion, Depreciation, and Amortization

During the first quarter of 2006 the Company provided for $84,592 (Q4 2005 - $12,796) related to depletion, depreciation and amortization of its property and equipment. The increase is related to a reduction in the 2005 fourth quarter provision due to increased petroleum reserves resulting from the Company's December 31, 2005 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	$ 212,013
Share issue costs	20	125,736
Canadian exploration expenditures	100	374,998
Canadian development expenditures	30	471,373
Canadian oil and gas expenditures	10	789,023
		$1,973,143

Non-Controlling Interest

As described above, Foreign Corp. owns seven percent of CanAmericas. The $2,981 of loss applicable to non-controlling interest relates to their share of revenues and costs associated with CanAmericas South American activities.

Net Loss

Net loss in the first quarter of 2006 declined by $156,102 to $69,139 from $223,241 in the fourth quarter of 2005. The 2005 fourth quarter loss was predominantly due to a write down of assets of $396,465 (net of future tax impact). The 2006 first quarter loss is due primarily to start up costs associated with the Company's South American operations. The Company is optimistic that current planned activity will result in improved results in the future.

Funds Flow From Operations

Funds flow from operations decreased to $77,700 in the first quarter of 2006 from $275,942 in quarter four of 2005. The decrease was due to lower natural gas prices as well as costs associated with the Company's activities in South America.

The following reconciliation compares funds flow for the first three months of 2006 and the fourth quarter of 2005 to the Company's net earnings as calculated according to Canadian generally accepted accounting principles:

	2006	2005
Net loss for the period	($67,139)	($223,241)
Items not affecting cash		
Stock based compensation	52,281	28,606
Write-down of assets	–	588,256
Depletion, depreciation and accretion	84,592	12,796
Future income taxes	10,947	(130,475)
Loss applicable to non-controlling interests	(2,981)	–
Funds flow for the period	$77,700	$275,942

Liquidity and Capital Resources

As of March 31, 2006, Pine Cliff had positive working capital of $3,625,133 (December 31, 2005 - $3,565,689). These funds will be used to fund future exploration and development of Canadian and international properties.

The Company is authorized to issue an unlimited number of common shares without nominal or par value. There were no equity transactions during the past three months.

A summary of the status of the Company's stock option plan as of March 31, 2006 and December 31, 2005, and changes during the three month and twelve month periods ending on those dates is presented below:

	March 31, 2006		December 31, 2005	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	1,686,000	$ 0.16	–	$ –
Options granted	–	–	1,752,000	0.16
Options cancelled	–	–	(66,000)	0.15
Outstanding at end of period	1,686,000	$ 0.16	1,686,000	$ 0.16
Options exercisable at end of period	–	$ –	–	$ –

On April 10, 2006, the Company granted 815,000 stock options with an exercise price of $0.50. Of the stock options issued, 740,000 options vest April 10, 2007 and the remaining 75,000 vest 50 percent April 10, 2007 and the remaining 50 percent on April 10, 2008. The Company estimated the stock options fair value at $171,707 ($0.21 per option) using the Black-Scholes option pricing model, assuming a risk free interest rate of 4.14 percent, expected average volatility of 65 percent, expected average life of 2.5 years and no annual dividend rate.

The following table summarizes information about stock options outstanding at March 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At 3/31/06	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 3/31/06	Weighted-Average Exercise Price
$0.15	1,666,000	0.8 years	$0.15	–	–
$0.59	20,000	3.0 years	0.59	–	–
$0.15-$0.59	1,686,000	2.6 years	$0.16	–	$ –

The Company's subsidiary CanAmericas adopted a stock option plan during the first quarter of 2006. Options issued during the first quarter are as follows:

	March 31, 2006	
	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	–	$ –
Options granted	1,000,000	$ 0.25 U.S.
Options cancelled	–	–
Outstanding at end of period	1,000,000	$ 0.25 U.S.
Options exercisable at end of period	–	$ –

The options vest 50 percent each on January 13, 2007 and January 13, 2008.

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.

STATEMENTS OF EARNINGS AND DEFICIT

For the three months ended March 31 (unaudited)	**2006**	2005
Revenue		
Oil and gas sales	**$292,070**	$ –
Royalties	**(22,881)**	–
Alberta royalty tax credits	**1,784**	–
Foreign exchange gain	**20,870**	–
Interest income	**21,337**	–
	313,180	–
Expenses		
Production costs	**41,951**	–
General and administrative	**193,529**	24,176
Stock based compensation	**52,281**	–
Depletion, depreciation and accretion	**84,592**	–
	372,353	24,176
Loss Before Taxes and Non-Controlling Interests	**(59,173)**	(24,176)
Income Taxes (Recovery)		
Current	–	–
Future	**10,947**	–
	10,947	–
Loss before Non-Controlling Interests	**(70,120)**	(24,176)
Loss applicable to non-controlling interests (Note 3)	**2,981**	–
Loss for the Period	**(67,139)**	(24,176)
Deficit, Beginning of Period	**(329,062)**	–
Deficit, End of Period	**($396,201)**	($24,176)
Earnings (Loss) Per Share - Basic	**($0.00)**	($0.00)
Earnings (Loss) Per Share - Diluted	**($0.00)**	($0.00)

STATEMENTS OF CASH FLOW

For the three months ended March 31 (unaudited)	**2006**	2005
Operating Activities		
Net Earnings for the period	**($67,139)**	($24,176)
Items not affecting cash		
Stock based compensation	**52,281**	–
Depletion, depreciation and accretion	**84,592**	–
Future income taxes	**10,947**	–
Loss applicable to non-controlling interests	**(2,981)**	–
	77,700	(24,176)
Change in non-cash working capital		
Due from related party	**16,006**	–
Accounts receivable	**170,345**	(1,691)
Prepaid expenditures	**(3,825)**	–
Accounts payable and accrued liabilities	**(80,246)**	–
Due to related party	**(165)**	25,849
	102,115	24,158
Cash Provided by (Used in) Operating Activities	**179,815**	(18)
Financing Activities		
Issue of shares by subsidiary (Note 3)	**113,670**	–
Deferred charges	–	(82,963)
Change in non-cash working capital		
Accounts receivable	–	(3,975)
Accounts payable and accrued liabilities	–	63,100
Due to related party	–	48,839
Cash Provided by Financing Activities	**113,670**	25,001
Investing Activities		
Property and equipment expenditures	**(131,926)**	–
Change in non-cash working capital		
Accounts payable and accrued liabilities	**89,370**	–
Cash Used in Investing Activities	**(42,556)**	–
Net Cash Inflow	**250,929**	24,983
Cash, Beginning of Period	**3,334,961**	1
Cash, End of Period	**$3,585,890**	$24,984

BALANCE SHEETS

As at March 31, 2006 (unaudited) and December 31, 2005	**2006**	2005
Assets		
Current		
Cash	**$3,585,890**	$3,334,961
Due from related party (Note 2)	**–**	16,006
Accounts receivable	**168,985**	339,330
Prepaid expenditures	**7,285**	3,460
	3,762,160	3,693,757
Future Income Tax Asset	**205,307**	216,254
Property and Equipment		
Property and equipment	**1,665,185**	1,538,809
Accumulated depletion and depreciation	**(259,505)**	(180,832)
Net Property and Equipment	**1,405,680**	1,357,977
	$5,373,147	$5,267,988
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 137,027**	$ 127,903
Due to related party (Note 2)	**–**	165
	137,027	128,068
Asset Retirement Obligations	**29,882**	29,513
Non-Controlling Interests (Note 3)	**112,287**	–
	279,196	157,581
Shareholders' Equity		
Share capital (Note 4)	**5,352,428**	5,352,428
Contributed surplus	**137,724**	87,041
Deficit	**(396,201)**	(329,062)
	5,093,951	5,110,407
	$5,373,147	$5,267,988

Notes to the Financial Statements

Periods ended March 31, 2006 and 2005 unaudited

1. SIGNIFICANT ACCOUNTING POLICIES

   The accounting policies and methods of application followed in the preparation of the interim financial statements are the same as those followed in the preparation of the Company's 2005 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 2005 annual financial statements.

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 Comstate Resources Ltd. ("Comstate") provides management services and office administration to the Company. The management fee consists of a monthly fee of $18,000 (2005 - $12,000) 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. As of March 31, 2006, the Company had no balances owing to Comstate.

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 investment 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. This option vests at a rate of 50 percent per year over a two year period.

4. 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, 2006	36,420,041	$5,352,428
Balance, March 31, 2006	36,420,041	$5,352,428

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$0.59	20,000	3.0 years	0.59	–	–
$0.15-$0.59	1,686,000	2.6 years	$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.

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5. 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, 2006			
Revenue, gross	311,122	23,155	334,277
Loss	25,399	44,721	70,120
Property and equipment	1,405,680	–	1,405,680
Capital expenditures	131,926	–	131,926
Total assets	3,663,223	1,709,924	5,373,147

Pine Cliff Energy Ltd.

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