Interim Report

Pine Cliff Energy Ltd.

For the Six Months
Ended June 30, 2005

Highlights

	Three Months Ended[2] June 30 2005	Six Months Ended[2] June 30 2005
FINANCIAL		
Revenue – oil and gas	$ 140,417	$ 140,417
Funds Flow From Operations[1]	$ 48,374	$ 24,198
Per Share - Basic	$ 0.00	$ 0.00
Per Share- Diluted	$ 0.00	$ 0.00
Net Loss	$ (44,553)	$ (68,729)
Per Share – Basic	$ (0.00)	$ (0.00)
Per Share - Diluted	$ (0.00)	$ (0.00)
Capital Expenditures and Acquisitions	$ 1,615,915	$ 1,615,915
Total Assets	–	$ 5,481,085
Shareholders' Equity	–	$ 5,308,028

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

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Management's Discussion and Analysis

The following report dated August 9, 2005 is a review of the operations and current financial position for the Company and should be read in conjunction with the unaudited financial statements for the three and six months ended June 30, 2005, including the notes related thereto, and the audited financial statement for the period ended December 31, 2004, together with the notes related thereto.

General

To date management's efforts have been directed towards establishing long range plans and in researching areas of interest for the Company. During the second half of 2005 the Company will be focusing on acquiring additional oil and gas properties and in commencing with the addition of professional staff to assist with services presently provided by Comstate Resources Ltd. ("Comstate").

Financial and Operational

Production

On April 8, 2005, with an effective date of January 1, 2005, the Company acquired interests in two natural gas properties for $1,000,000. The first property, the Sundance lands, located in West Central Alberta was the major property acquired. Pine Cliff now has a 14.4 percent working interest (subject to Crown royalty) in 4,960 acres in this area. There are two wells (0.308 net) on these lands that have been producing for approximately two years. The Company's current net production from these wells is approximately 90 MCF per day of natural gas plus 4 barrels of natural gas liquids per day.

Two additional multi-zone wells were drilled in 2005. The Company's interest in these wells is 15 and 3.8 percent. Production has commenced at one well (net .038) with daily production net to the Company averaging approximately 70 MCF per day plus 4 barrels per day of associated liquids. The other well (net .15) is still being tested.

Pine Cliff also acquired a 100 percent interest in a Crown lease of 256 hectares in the Auburndale area of East Central Alberta. The Company drilled a Devonian well for sweet natural gas during the second quarter. There is currently no production from this lease, nor are there any other wells located on these lands. The Company is currently testing the well for production capabilities and will release the results when the testing is completed.

<u>Revenue</u>

Revenue from petroleum and natural gas sales was $140,417 during the second quarter. As mentioned the Company commenced its oil and gas operations on April 8. Average price received for its natural gas was $8.20 per MCF and $56.92 per barrel for natural gas liquids.

<u>Royalties</u>

Royalties consist of Crown royalties ($19,447) paid to the Province of Alberta and gross overriding royalties ($3,782). The Company receives a partial rebate (currently 25%) on royalties paid to the Province of Alberta.

<u>Interest Income</u>

The Company maintains an investment account that pays interest at prime less 2.25 percent on the entire balance as long as the Company maintains a minimum balance of $1,500,000.

<u>Production Costs</u>

Production costs were $20,407 or $7.37 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. With production just commencing on the newly acquired exploration properties the level of production costs may increase or decrease depending on the level of drilling success experienced by the Company.

<u>General and Administrative</u>

Pine Cliff does not have any employees at the present time. Effective February 1, 2005, Pine Cliff entered into a management agreement with 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 $12,000, three percent of net earnings before

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income taxes, plus out of pocket costs. Total fees for the six months ended June 30, 2005 were $60,000 plus minimal out of pocket costs. The majority of the remaining general and administrative expenses consist of general start up costs of $16,458 and accounting and legal costs of $14,315 associated with continuous disclosure requirements.

Stock Based Compensation

The Company has a stock-based compensation plan. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. The Company issued on April 5, 2005, 1,732,000 stock options with the fair value estimated using the Black-Scholes option pricing model, assuming a weighted risk free interest rate of 3.6 percent, expected weighted average volatility of 88 percent, expected weighted average life of 3.5 years and no annual dividend rate. The total expense to be amortized over the vesting period of the options is $136,536 of which $28,186 was amortized during the second quarter.

Depletion, Depreciation and Amortization

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.

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

	Rate of Utilization %		Amount
Undepreciated capital costs	25	$	118,802
Share issue costs	20		154,355
Canadian exploration expenses	100		355,091
Canadian development expenses	30		204,228
Canadian oil and gas expenses	10		804,313
Non-capital loss carryforward	100		119,961
		$	1,756,750

Net Loss

Pine Cliff is in the start up phase and as such anticipates incurring a certain amount of losses during its first months of operations. Production from its currently producing wells as well as exploration success at the remaining two wells (net 1.15) that have been drilled should result in positive net earnings in future quarters.

Liquidity and Capital Resources

As of June 30, 2005, Pine Cliff had positive working capital of approximately $3.7 million. These funds will be used to fund future development of existing property or to acquire additional oil and gas properties.

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:

	Shares		Amount
Balance, December 31, 2004	10	$	1
Issued pursuant to public offering	36,420,031		5,463,005
Share issue costs	-		(171,505)
Future tax adjustment on share issue costs	-		57,069
Balance, June 30, 2005	36,420,041	$	5,348,570

On April 7, 2005, the Company concluded its initial public offering of 36,420,031 Common Shares at $0.15 per share for gross proceeds of $5,463,005. Total expenses related to the initial public offering were $171,505. The Company granted 930,000 stock options to certain of its directors and officers, and an additional 802,000 stock options to other service providers at an exercise price of $0.15 per share. The Company commenced trading on the TSX Venture Exchange on April 11, 2005.

A summary of the status of the Company's stock option plan as of June 30, 2005 and December 31, 2004, and changes during the six month and from incorporation periods ending on those dates is presented below:

	June 30, 2005		December 31, 2004	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	-	$0.00	-	$0.00
Options granted	1,732,000	0.15	-	0.00
Options cancelled	(16,000)	0.15	-	0.00
Outstanding at end of period	1,716,000	$0.15	-	$0.00
Options exercisable at end of period	-	$0.00	-	$0.00

The 1,716,000 options that are outstanding as of June 30, 2005 are exercisable 50 percent on April 5, 2006 and the remaining 50 percent on April 5, 2007. The options all expire on January 31, 2010.

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.

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Pine Cliff Energy Ltd.

Statements of Loss and Deficit

For the periods ended June 30 (unaudited) (Note 1)	Three Months 2005	Six Months 2005
Revenue		
Oil and gas sales	$ 140,417	$ 140,417
Royalties	(23,229)	(23,229)
Alberta royalty tax credits	4,862	4,862
Interest income	20,354	20,354
	142,404	142,404
Expenses		
Production costs	20,407	20,407
General and administrative	73,623	97,799
Stock based compensation	28,186	28,186
Depletion, depreciation and accretion	91,948	91,948
	214,164	238,340
Loss Before Income Taxes	(71,760)	(95,936)
Income Taxes (Recovery)		
Current	–	–
Future	(27,207)	(27,207)
	(27,207)	(27,207)
Loss for the Period	(44,553)	(68,729)
Deficit, Beginning of Period	(24,176)	–
Deficit, End of Period	(68,729)	(68,729)
Loss Per Share – Basic	$ 0.00	$ 0.00
Loss Per Share – Diluted	$ 0.00	$ 0.00

Pine Cliff Energy Ltd.

Statements of Cash Flow

For the periods ended June 30 (unaudited) (Note 1)	Three Months 2005	Six Months 2005
Operating Activities		
Net loss for the period	$ (44,553)	$ (68,729)
Items not affecting cash		
Stock based compensation	28,186	28,186
Depletion, depreciation and accretion	91,948	91,948
Future income taxes	(27,207)	(27,207)
	48,374	24,198
Change in non-cash working capital		
Accounts receivable	(89,672)	(91,363)
Accounts payable and accrued liabilities	30,501	30,501
Due to related party (Note 5)	4,283	4,283
	(54,888)	(56,579)
Cash Used in Operating Activities	(6,514)	(32,381)
Financing Activities		
Proceeds received on initial public offering (Note 2)	5,463,005	5,463,005
Issue costs (Note 2)	(92,660)	(92,660)
Deferred charges (Note 3)	82,963	-
Change in non-cash working capital		
Accounts receivable	3,975	-
Accounts payable and accrued liabilities	(88,100)	(25,000)
Due to related party (Note 5)	(128,533)	(53,845)
Cash Provided by Financing Activities	5,240,650	5,291,500
Investing Activities		
Property and equipment expenditures	(1,615,915)	(1,615,915)
Change in non-cash working capital		
Due to related party (Note 5)	128,023	128,023
Cash Used in Investing Activities	(1,487,892)	(1,487,892)
Net Cash Inflow	3,746,244	3,771,227
Cash, Beginning of Period	24,984	1
Cash, End of Period	$ 3,771,228	$ 3,771,228

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Pine Cliff Energy Ltd.

Balance Sheets

As at June 30, 2005 (unaudited) and December 31, 2004 (Note 1)	2005	2004
Assets		
Current		
Cash	$ 3,771,228	$ 1
Accounts receivable	91,363	–
	3,862,591	1
Deferred Charges (Note 3)	–	78,845
Future Income Tax Asset	84,277	–
Property and Equipment (Note 4)		
Property and equipment	1,625,915	–
Accumulated depletion and depreciation	(91,698)	–
Net Property and Equipment	1,534,217	–
	$ 5,481,085	$ 78,846
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 30,501	$ 25,000
Due to related party (Note 5)	132,306	53,845
	162,807	78,845
Asset Retirement Obligations	10,250	–
	173,057	78,845
Shareholders' Equity		
Share capital (Note 2)	5,348,570	1
Contributed surplus	28,186	–
Deficit	(68,728)	–
	5,308,028	1
	$ 5,481,085	$ 78,846

Notes to the Financial Statements

Period ended June 30, 2005 (Note 1)

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 2004 annual financial statements. Due to the commencement of operations in the quarter the following additional accounting policies have been established. These interim financial statements do not include all disclosure required for annual financial statements. The interim financial statements as presented should be read in conjunction with the 2004 annual financial statements.

Commencement of Operations

The Company was incorporated in the Province of Alberta on November 10, 2004 and commenced operations April 8, 2005 (see Note 4).

Measurement Uncertainty

The amounts recorded for depletion and depreciation of petroleum and natural gas property and equipment and for asset retirement obligations are based on estimates of petroleum and natural gas reserves and future costs. By their nature, these estimates are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

Joint Interest Operations

Significant portions of the Company's oil and gas operations are conducted with other parties and accordingly the financial statements reflect only the Company's proportionate interest in such activities.

Loss Per Share

Basic loss per share is computed by dividing the loss by the weighted average number of shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if options to purchase common shares were exercised. The treasury stock method is used to determine the dilutive effect of common share options, whereby proceeds from the exercise of common share options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

The number of common shares used to calculate diluted loss per share for the period ended June 30, 2005 of 17,261,225 included the weighted average number of common shares outstanding of 16,700,908 plus 560,317 common shares related to the dilutive effect of common share options.

2 SHARE CAPITAL

<u>Authorized</u>

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, December 31, 2004	10	$ 1
Issued pursuant to public offering	36,420,031	5,463,005
Share issue costs	–	(171,505)
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The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. On April 5, 2005, the Company issued 1,732,000 stock options with the fair value of $136,536 ($0.08 per option) estimated using the Black-Scholes option pricing model, assuming a weighted risk free interest rate of 3.6 percent, expected weighted average volatility of 88 percent, expected weighted average life of 3.5 years and no annual dividend rate.

3. DEFERRED CHARGES

The Company incurred costs in respect of its initial public offering prior to both March 31, 2005 and December 31, 2004 reporting periods. These costs were originally recorded as deferred charges and then charged to share capital upon completion of the public offering.

4. PROPERTY AND EQUIPMENT

On April 8, 2005, the Company purchased its original properties from Bonterra Energy Income Trust ("Bonterra") (see Note 5), with an effective date of January 1, 2005. The properties included one producing property and some exploration lands formally held by Novitas Energy Ltd. ("Novitas") (see Note 5) for cost of approximately $1,000,000.

5. DUE TO RELATED PARTY

Bonterra, an organization with common directors and management and former parent of the Company, through its wholly owned subsidiaries Comstate Resources Ltd. ("Comstate"), Bonterra Energy Corp. and Novitas has provided working capital, management services and natural gas properties to the Company. As of June 30, 2005, the Company owed $132,306 to Bonterra and its wholly owned subsidiaries for these items.

6. COMMITMENTS

Commencing February 1, 2005, the Company entered into a management agreement with Comstate to 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 $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.

Pine Cliff
Energy Ltd.

901, 1015 – 4th ST SW
Calgary, Alberta T2R 1J4