Q1 For the three months ended March 31, 2012

TSX Venture Exchange:
PNE
www.pinecliffenergy.com

Message to Shareholders:

It was an active and exciting start to the year for Pine Cliff Energy Ltd. and its shareholders as the Company took initial steps on its strategy to reposition itself as a growth-oriented, Canadian-based junior oil and gas producer. In the first quarter of 2012, Pine Cliff is pleased to report that it:

- Closed the purchase of certain oil and gas assets in the Carrot Creek area of Alberta in March 2012 for $22.5 million, subsequent to post-closing adjustments;
- Completed a rights offering and private placement for total gross proceeds of $2.9 million; and
- Arranged a credit facility of $15.0 million and a short-term financing from a related party for $7.0 million.

The acquisition of the Carrot Creek assets, in particular, was a key milestone in the renewed focus to build a strong Canadian asset portfolio for Pine Cliff. Carrot Creek is Pine Cliff's first core area and along with the historic production from our Sundance assets, Pine Cliff reported record sales of 1,015 barrels of oil equivalent (boe/d) for the month of March, weighted approximately 77 percent natural gas and 23 percent oil and natural gas liquids. Proved plus probable reserves at December 31, 2011, inclusive of the Carrot Creek assets, were 3,334 Mboe.

These assets will allow Pine Cliff to pursue drilling opportunities during the second half of this year to further increase sales volumes and its oil and liquids weighting. Pine Cliff currently anticipates drilling up to four gross (up to 0.84 net) wells prior to year end.

Pine Cliff continues to view the prolonged weakness in the natural gas price environment as an opportunity to acquire additional high-impact oil and gas assets for future growth through either asset or corporate acquisitions. There remain a significant number of junior producers trading at distressed share values, with high levels of debt and limited access to capital and therefore asset dispositions may be their only viable alternative to fund their operations. We remain confident that the record U.S. gas production and storage situation this summer will continue to allow us time to seek and secure additional core areas. In the long-term, lower rig counts, oil sands growth, coal to gas fuel switching and industry LNG export discussions are promising signals for the future recovery of natural gas prices.

Pine Cliff management continues to believe that it is well positioned to deliver upon its strategy of providing above industry average returns in the near term for short-term investors and high rates of return over time for long-term investors through prudent operational and financial management. Pine Cliff has significantly improved its asset base and financial strength during the first quarter of 2012 and looks forward to reporting back on both its fall drilling program and on potential future acquisitions.

We appreciate the support of our dedicated shareholders; your market confidence in our team and model continues to provide us with the tools we will need to deliver results. If you have any questions, please feel free to contact us.

Yours truly,

Phil Hodge
President and Chief Executive Officer
May 24, 2012

Please refer to the attached Management Discussion and Analysis for Reader Advisories regarding forward-looking information and oil and gas measurements. This Message to Shareholders should be read in conjunction with the unaudited condensed interim financial statements of Pine Cliff Energy Ltd. together with Management's Discussion and Analysis for the three months ended March 31, 2012 and 2011, which can be found on www.sedar.com and is subject to the same cautionary statements as set out therein.

($000s, unless otherwise indicated)	**Three months ended March 31, 2012** [1]	Three months ended March 31, 2011
FINANCIAL		
Oil and gas sales	**901**	246
Cash flow (deficiency) from operating activities	**(331)**	148
Funds flow (deficiency) from operations [2]	**(35)**	113
Basic per share ($/share)	**(0.00)**	0.00
Diluted per share ($/share)	**(0.00)**	0.00
Earnings (loss)	**713**	(33)
Basic per share ($/share)	**0.01**	(0.00)
Diluted per share ($/share)	**0.01**	(0.00)
Capital expenditures	**444**	6
Acquisition of the Carrot Creek Assets	**22,518**	-
Total assets	**29,186**	2,896
Bank debt	**12,790**	-
Related party note payable	**7,000**	-
Trade and other payables less trade and other receivables	**86**	166
Cash	**(11)**	(224)
Net debt [3]	**19,865**	(58)
Weighted-average common shares outstanding (000s)		
Basic	**57,248**	46,146
Diluted	**58,866**	46,146
OPERATIONS		
Production [4]		
Natural gas (mcf/d)	**1,927**	659
Crude oil (bbls/d)	**10**	-
Natural gas liquids (bbls/d)	**70**	1
Total (boe/d)	**401**	111
Commodity sales prices		
Natural gas ($/mcf)	**2.05**	4.03
Crude oil ($/bbl)	**75.08**	-
Natural gas liquids ($/bbl)	**74.93**	83.63
Combined ($/boe)	**24.71**	24.64
Netback ($/boe)		
Operating netback ($/boe) [5]	**13.11**	16.31

[1] The results of Q1-2012 include the results of the Carrot Creek Assets for the period of March 1 to March 31, 2012.
[2] Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital and changes in interest payable.
[3] Net debt is a non-IFRS measure calculated bank debt, related party note payable and trade and other payables less trade and other receivables and cash.
[4] The production for Q1-2012 includes the results of the Carrot Creek Assets for the period of March 1 to March 31, 2012, averaged over 91 days. Pine Cliff's sales for the month of March 2012 were approximately 1,015 boe/d, inclusive of 930 boe/d from the Carrot Creek Assets.
[5] Operating netback is a non-IFRS measure calculated as the average per boe of the Company's oil and gas sales, less royalties and operating expenses.

May 24, 2012

INTRODUCTION

The following Management Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the three months ended March 31, 2012 for Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") and should be read in conjunction with the unaudited condensed interim financial statements as at and for the three months ended March 31, 2012, together with the notes related thereto, and the audited consolidated financial statements as at and for the fiscal year ended December 31, 2011, together with the notes related thereto. Additional information relating to the Company may be found on www.sedar.com and by visiting Pine Cliff's website at www.pinecliffenergy.com.

Pine Cliff's head office is based in Calgary, Alberta, Canada. Common shares of the Company are listed and posted for trading on the Toronto Stock Exchange Venture under the symbol "PNE".

READER ADVISORIES

This MD&A contains non-International Financial Reporting Standards ("IFRS") financial measures and forward-looking statements. Readers are cautioned that the MD&A should be read in conjunction with the Company's disclosure under "Non-IFRS Measures" and "Forward-Looking Information" included at the end of the MD&A.

Other Measurements

All amounts herein are presented in Canadian dollars unless otherwise specified. All references to C$ or $ are to Canadian dollars and references to U.S.$ are to United States dollars.

Where amounts are expressed in a barrel of oil equivalent ("boe"), or daily equivalent ("boe/d"), natural gas volumes have been converted to barrels of oil equivalent on the basis that six thousand cubic feet of natural gas ("mcf" or daily equivalent of "mcf/d") is equal to one barrel of oil ("bbl" or daily equivalent of "bbl/d"). This conversion ratio is based on energy equivalence primarily at the burner tip and does not represent a value equivalency at the wellhead. The term boe may be misleading, particularly if used in isolation.

Financial Presentation

Certain prior period figures have been revised to conform to current period presentation categories with no impact to the loss for the period.

SENSITIVITIES

Pine Cliff's results are sensitive to changes in the business environment in which it operates. The following chart shows the Company's sensitivity to key commodity price variables and interest rates. The sensitivity calculations are performed independently showing the effect of the change of one variable; all other variables are held constant.

Business environment sensitivities		Impact on annual funds flow from operations [1]	
	Change	$000s	$ per share [3]
Crude oil price - Edmonton par ($/bbl) [2]	$1.00	70	0.00
Natural gas price - AECO ($/mcf) [2]	$0.10	140	0.00
Interest rate on variable rate debt	1.0%	130	0.00

[1] This analysis does not adjust for changes in working capital.
[2] Pine Cliff has prepared this analysis using its consolidated March production volumes, annualized for twelve months.
[3] Based on the Q1-2012 weighted average shares outstanding of 57,248,000.

PINE CLIFF'S STRATEGIC OBJECTIVES AND BUSINESS

Pine Cliff is actively engaged in the exploration, development and production of natural gas, crude oil and natural gas liquids ("liquids" or "NGLs"). The Company will look to acquire material asset positions in the Western Canadian Sedimentary Basin ("WCSB") to enlarge its Carrot Creek core area and create new core areas of production with significant reserves and drilling inventories, while accelerating current oil and liquids drilling and optimization opportunities.

On March 1, 2012, Pine Cliff purchased assets in the Carrot Creek area of Alberta (the "Carrot Creek Assets") for cash consideration of $23.5 million ($22.5 million after adjustments). The acquisition had an effective date of January 1, 2012 and provided Pine Cliff with its first core area in the WCSB. The results of the Carrot Creek Assets have been included in the financial results of the Company effective March 1, 2012.

The Carrot Creek Assets are located southeast of the town of Edson, Alberta, Canada. The Carrot Creek Assets produce liquids rich, tight natural gas as well as a small amount of oil. In addition to the producing assets, Pine Cliff acquired 15.3 net sections of prospective land, some of which has current vertical production. Pine Cliff has a 31% working interest in the Carrot Creek Assets and is the operator of approximately 93% of the Company's production in the area. Pine Cliff anticipates that the land has multi-zone potential which can be further exploited using horizontal drilling technology. Pine Cliff currently plans to drill up to four gross wells (up to 0.84 net wells) in the second half of 2012, including one planned well in the Rock Creek zone. Horizontal drilling in the Rock Creek formation has been ongoing since 2006 and there have been significant improvements in both the drilling and completions of these wells, resulting in higher reservoir contact, more effective stimulations and improved performance. There are also significant natural gas prospects (over 50 gross potential locations) which will be inventoried until natural gas prices recover.

The balance of Pine Cliff's production comes from non-operated properties in the Sundance area in northwest Alberta (the "Sundance Assets"), however the Company does not currently have a large enough land position to make it a significant core area.

Management is pleased with its progress to date and will remain steadfast to its strategic commitment to grow and will continue to aggressively pursue accretive business opportunities during the remainder of 2012 and beyond.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2012	2011				2010		
($000s, unless otherwise indicated)	**Q1** [1]	Q4	Q3	Q2	Q1	Q4	Q3 [2]	Q2 [2]
Average sales volumes (boe/d) [3]	**401**	88	100	103	111	129	152	235
Operating netback ($/boe) [4]	**13.11**	12.20	15.63	17.31	16.31	15.88	15.96	16.88
Oil and gas sales	**901**	164	220	236	246	280	324	548
Oil and gas sales, net of royalties	**750**	159	211	230	231	267	309	507
Cash flow (deficiency) from operating activities	**(331)**	(4)	120	69	148	39	243	311
Funds flow (deficiency) from operations [5]	**(35)**	55	83	102	113	119	123	295
Per share - basic ($/share)	**-**	-	-	-	-	-	-	0.01
Per share - diluted ($/share)	**-**	-	-	-	-	-	-	0.01
Earnings (loss)	**713**	(46)	(74)	(54)	(33)	(917)	(122)	(39)
Per share - basic ($/share)	**0.01**	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)	(0.00)	(0.00)
Per share - diluted ($/share)	**0.01**	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)	(0.00)	(0.00)

[1] The results of Q1-2012 include the results of the Carrot Creek Assets for the period of March 1 to March 31, 2012.

[2] Q3-2010 and Q2-2010 include the results of Pine Cliff's continuing operations. Pine Cliff's South American assets were classified as discontinued assets during these quarters and sold on September 24, 2010. The Q3-2010 and Q2-2010 cash flow (used) from total operations was $(547) and $229,000, respectively, and the Q3-2010 and Q2-2010 earnings (loss) from total operations was $616,000 and $(178,000), respectively.

[3] The production for Q1-2012 includes the results of the Carrot Creek Assets for the period of March 1 to March 31, 2012, averaged over 91 days. Pine Cliff's sales for the month of March 2012 were approximately 1,015 boe/d, inclusive of 930 boe/d from the Carrot Creek Assets.

[4] Operating netback is a non-IFRS measure calculated as the average per boe of the Company's oil and gas sales, less royalties and operating expenses.

[5] Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital and changes in interest payable.

Q1-2012 highlights

During the first quarter of 2012, Pine Cliff reported that it:

- Closed the acquisition of certain oil and natural gas assets in the Carrot Creek area of Alberta for $23.5 million, before adjustments;
- Attained record average daily sales volumes of 401 boe/d in Q1-2012, compared to 111 boe/d in Q1-2011. The increase is due to the acquisition of the Carrot Creek Assets on March 1, 2012;
- Reported quarterly funds flow deficiency from operations of $35,000 (Q1-2011 – funds flow from operations of $113,000), partially due to non-recurring transaction costs related to the acquisition of the Carrot Creek Assets;
- Achieved quarterly earnings of $713,000 in Q1-2012 (Q1-2011 – loss of $33,000), mainly resulting from higher revenues from increased sales volumes and the recognition of a deferred tax recovery, partially offset from lower natural gas prices;
- Set up a revolving demand credit facility of $15,000,000 with a Canadian chartered bank;
- Obtained short-term financing of $7,000,000 from a related party; and
- Issued 17,418,423 shares through a rights offering and a private placement for gross proceeds of $2,961,000.

SALES VOLUMES

Total sales volumes by product	**Three months ended March 31, 2012**	Three months ended March 31, 2011
Natural gas (mcf)	**175,399**	59,310
Crude oil (bbls)	**867**	-
NGLs (bbls)	**6,356**	79
Barrels of oil equivalent	**36,456**	9,964
Oil and liquids weighting	**20%**	1%

Average daily sales volumes by product	**Three months ended March 31, 2012**	Three months ended March 31, 2011
Natural gas (mcf/d)	**1,927**	659
Crude oil (bbls/d)	**10**	-
NGLs (bbls/d)	**70**	1
Total (boe/d)	**401**	111

Pine Cliff's Q1-2012 production of 401 boe/d was 261% higher than the same period of 2011. The significant increase was a result of the Carrot Creek Assets being included in the quarterly results for the month of March 2012, whereas in 2011 sales were only from the non-operated Sundance Assets. In March 2012, sales volumes from the Carrot Creek Assets were approximately 29,000 boe or 930 boe/d and Pine Cliff's total sales volumes during the month were approximately 31,480 boe or 1,015 boe/d. The Carrot Creek Assets produce liquids rich gas and oil, contributing to the increase in liquids weighting to 20% in Q1-2012, compared to just 1% in Q1-2011.

OPERATING NETBACKS

The components of the operating netback are summarized as follows:

($ per boe)	**Three months ended March 31, 2012**	Three months ended March 31, 2011
Oil and gas sales	**24.71**	24.64
Royalties	**4.17**	1.49
Operating expenses	**7.43**	6.84
Operating netback	**13.11**	16.31

Pine Cliff generated an operating netback of $13.11 per boe for the three months ended March 31, 2012, compared to $16.29 per boe for the three months ended March 31, 2011. In Q1-2012 compared to Q1-2011, Pine Cliff realized lower commodity prices, higher royalties per boe, and higher operating expenses per boe.

OIL AND GAS SALES

	Three months ended March 31, 2012		Three months ended March 31, 2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Natural gas [1]	**359**	**2.05**	239	4.03
Crude oil	**65**	**75.08**	-	-
NGLs	**477**	**74.93**	7	83.63
Total sales	**901**	**24.71**	246	24.64

[1] Per unit values are expressed in $ per mcf.

Oil and gas sales increased by 266% from $246,000 in Q1-2011 to $901,000 in Q1-2012, primarily as a result of the increased sales volumes in the quarter from the Carrot Creek Asset acquisition that closed on March 1, 2012. The increase in sales volumes was offset by a lower commodity price environment in 2012. Pine Cliff's realized price in Q1-2012 was $24.71 per boe, consistent with the same period in 2011, reflective of Pine Cliff's increased weighting towards oil and liquids offsetting the significant decrease in natural gas prices.

Commodity prices and foreign exchange rates

Pine Cliff's financial results are significantly influenced by fluctuations in commodity prices, including price differentials. The following table shows select market benchmark prices and foreign exchange rates in the last five quarters to assist in understanding volatility in prices and foreign exchange rates that have impacted Pine Cliff's business.

	Q1-2012	Q4-2011	Q3-2011	Q2-2011	Q1-2011
Natural gas					
NYMEX (U.S.$/mmbtu) [1]	**2.77**	3.61	4.19	4.36	4.07
AECO (C$/mcf)	**1.95**	2.90	3.31	3.50	3.29
Crude oil					
WTI (U.S.$/bbl)	**102.93**	94.06	89.76	102.56	94.10
Edmonton light (C$/bbl)	**92.70**	97.86	92.24	103.58	95.52
Foreign exchange					
C$/U.S.$	**1.0012**	1.0231	0.9802	0.9677	0.9893

[1] mmbtu is the abbreviation for millions of British thermal units. One mcf of natural gas is approximately 1.02 mmbtu.
[2] One mcf of natural gas is approximately 1.05 gigajoule (GJ).

NYMEX gas prices in the United States have decreased by 47% in Q1-2012 compared to Q1-2011, whereas benchmark AECO natural gas prices in Canada decreased by 69% in Q1-2012 compared to Q1-2011. NYMEX is linked to AECO through transportation tariffs from the respective hubs to common markets and through foreign exchange rates. The price differentials have increased substantially in 2012, due in part to storage level issues in Canada as a result of a warmer than average winter. Although the natural gas pricing environment has been steadily weakening, some recoveries are starting to be seen in Q2-2012. AECO prices averaged $1.95 per mcf for Q1-2012, while Pine Cliff's realized natural gas price was $2.05 per mcf.

WTI oil prices remained strong in Q1-2012, averaging $102.93 per bbl compared to $94.10 per bbl in Q1-2011. Canadian crude prices are based upon refiner postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate. Q1-2012 saw the price differentials between Edmonton light oil prices and WTI widen substantially, due in part to refinery outages and seasonal turnarounds as well as transportation capacity issues. In Q1-2012, the realized price of Pine Cliff's oil was $75.08 per bbl as a result of quality adjustments to the posted Edmonton light crude oil prices; a reduction of $27.85 from WTI.

Price differentials have the potential to remain volatile for the remainder of 2012 and Pine Cliff will watch the differentials closely in the coming months for opportunities to reduce the effect of the differentials. Pine Cliff may take advantage of these opportunities, such as alternative markets or risk management activities.

ROYALTIES

	Three months ended March 31, 2012		Three months ended March 31, 2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Total	**151**	**4.14**	15	1.49
% of oil and gas sales	**17%**		6%	

Royalties for the three months ended March 31, 2012 were $4.14 per boe, compared to $1.49 per boe for the three months ended March 31, 2011. As a percentage of oil and gas sales, royalties averaged 17% in the first quarter of 2012 compared to 6% in the first quarter of 2011. The increase in royalties on a per boe basis and as a percentage of oil and gas sales is due to the increased oil and liquids weighting and higher production volumes per well, resulting from the Carrot Creek Asset acquisition. Oil and liquids presently attract a higher royalty rate than natural gas dependent on production volumes per well and commodity prices.

OPERATING EXPENSES

	Three months ended March 31, 2012		Three months ended March 31, 2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Operating expenses	**271**	**7.43**	68	6.84
% of oil and gas sales	**30%**		28%	

Operating expenses per boe increased 9% to $7.43 per boe for the three months ended March 31, 2012, compared to the same period in 2011. The increase is primarily due to a different operating environment and product mix in the Carrot Creek Assets than the legacy Sundance Assets, such that oil production results in a higher average per boe cost to produce and transport to market. Pine Cliff is committed to increasing efficiencies in the field which should decrease the operating expenses per boe in future periods.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended March 31, 2012		Three months ended March 31, 2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Total	**407**	**11.16**	50	5.02
Less: non-recurring transaction costs	**164**	**4.50**	-	-
	243	**6.67**	50	5.02
% of oil and gas sales	**27%**		20%	

General and administrative expenses ("G&A") increased on a per boe basis to $6.67 per boe (excluding non-recurring transaction costs related to the Carrot Creek Asset acquisition) in the three months ended March 31, 2012, compared to $5.02 per boe in the three months ended March 31, 2011. On an absolute dollar basis, G&A has increased considerably as a reflection of the revitalized strategic focus of the Company which has, most notably, increased staffing costs. Going forward, G&A expenses should decrease on a per boe basis as sales volumes will increase in the second quarter with full quarter production from the Carrot Creek Assets.

On January 2, 2012, Philip Hodge was appointed President and Chief Executive Officer and became the first employee of the Company. Pine Cliff hired a Senior Geologist in the first quarter and a Controller subsequent to quarter-end. In 2011, Pine Cliff did not have any employees. To keep G&A at a low level, Pine Cliff continues to engage Bonterra Energy Corp. ("Bonterra"), a related party, to provide some executive, administrative and technical services. As Pine Cliff continues to grow, the Company expects to hire more staff as required.

SHARE-BASED PAYMENTS

	Three months ended March 31, 2012		Three months ended March 31, 2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Total	**127**	**3.48**	-	-
% of oil and gas sales	**14%**		0%	

The Company has an equity settled stock-based compensation plan. In the first quarter of 2012, Pine Cliff granted stock options to purchase 3,230,000 common shares of Pine Cliff at a weighted average exercise price of $0.40 per share to certain of its officers, directors, employees and service providers. In the three months ended March 31, 2012, Pine Cliff recorded share-based payment expense of $127,000 (March 31, 2011 – nil) related to the stock options issued.

DEPLETION AND DEPRECIATION

	Three months ended March 31, 2012		Three months ended March 31, 2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Oil and gas assets	**348**	**9.55**	154	15.46
Office furniture and equipment	**-**	**-**	-	-
Total	**348**	**9.55**	154	15.46
% of oil and gas sales	**39%**		63%	

Pine Cliff's depletion and depreciation expense decreased 38% on a boe basis in the three months ended March 31, 2012 compared to the same period in 2011. The reduction in depletion and depreciation expense in 2012 is due in part to an increase in oil and gas reserves as a result of the acquisition of the Carrot Creek Assets. Additionally, Pine Cliff prospectively began depleting all of its oil and gas properties and facilities using the unit-of-production method over their proved plus probable reserve life ("Proved plus Probable Method"); a change from the unit-of-production method over their proved developed reserve life for oil and gas properties and the straight-line method for production facilities. The change of estimate was due to Management believing that the Proved plus Probable Method provides a better reflection of the estimated service life of the related assets.

FINANCE EXPENSES

	Three months ended March 31, 2012		Three months ended March 31, 2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Unwinding of the discounted value of decommissioning liabilities	**6**	**0.16**	1	0.10
Interest and bank charges	**107**	**2.94**	-	-
Total	**113**	**3.10**	1	0.10
% of oil and gas sales	**13%**		0%	

In the three months ended March 31, 2012, Pine Cliff incurred finance expenses of $113,000 (March 31, 2011 – $1,000). The finance expenses predominately consist of interest on the related party note payable, interest on Pine Cliff's bank debt and bank charges incurred as a result of the implementation of the revolving demand credit facility.

INCOME TAXES

	Three months ended March 31, 2012		Three months ended March 31, 2011	
(000s, except per boe amounts)	**$**	**$ per boe**	$	$ per boe
Deferred tax recovery	**1,229**	**33.71**	9	0.90

Pine Cliff recognized a deferred income tax recovery of $1,229,000 in the three months ended March 31, 2012, compared to $9,000 in the three months ended March 31, 2011. The recovery is due in part to a future tax asset being recognized upon the acquisition of the Carrot Creek Assets, however the bulk of the recovery is due to the reversal of the benefit of the tax pools that was unrecorded in prior periods. Prior to the acquisition of the Carrot Creek Assets, it had been determined that it was not probable that the tax pools would be recovered. Given the increase in taxable earnings from the Carrot Creek Assets, it was considered probable that the tax pools will be recovered and a recovery of the benefit of the tax pools was recognized in the first quarter of 2012.

The Company has $30,610,000 in tax pools at March 31, 2012 (December 31, 2011 – $6,483,000) available for future use as deductions from taxable income. Included in these tax pools are estimated non-capital loss carry forwards of $5,265,000 (December 31, 2011 – $3,483,000) that expire between the years 2026 and 2032.

EARNINGS AND FUNDS FLOW (DEFICIENCY) FROM OPERATIONS

	Three months ended March 31, 2012	Three months ended March 31, 2011
($000s, except per boe amounts)		
Earnings (loss)	**713**	(33)
Adjustments for:		
Share-based payments	**127**	-
Depletion and depreciation	**348**	154
Unwinding of the discount on decommissioning liabilities	**6**	1
Deferred tax recovery	**(1,229)**	(9)
Funds flow (deficiency) from operations	**(35)**	113
Funds flow (deficiency) from operations ($/boe)	**(0.96)**	11.34

In the three months ended March 31, 2012, earnings increased by $746,000 to $713,000 compared the three months ended March 31, 2011. This is a function of the acquisition of the Carrot Creek Assets on March 1, 2012 which significantly increased oil and gas sales, royalties, operating expenses and created a deferred income tax recovery as it is probable that the benefit of the tax pools will be recognized in future periods. This was offset by increased general and administration expenses, finance expenses, share-based payments, and depletion and depreciation, predominately a result of the increased activity of the Company with the acquisition of the Carrot Creek Assets.

Funds flow from operations, which represents cash flow from operating activities before changes in non-cash working capital, was a $35,000 deficiency in the three months ended March 31, 2012, compared to $113,000 in the same period of 2011.

Other comprehensive income

Other comprehensive income relates entirely to the increase in fair value of Pine Cliff's investment in a publicly traded corporation, which was received in the first quarter of 2011 as part of the disposal of the South American operations. During the first three months of 2012, the market value of the investment increased by $65,000, net of deferred taxes (March 31, 2011 – $57,000).

SHARE CAPITAL

As at March 31, 2012, a total of 63,564,118 common shares are issued and outstanding.

Rights offering

Pine Cliff completed a four for one rights offering for all shareholders of record at the close of business on January 11, 2012. Each shareholder received one right for each common shares held. For every four rights, a shareholder was entitled to purchase one Pine Cliff common share at a subscription price of $0.17 per common share. A total of 11,536,423 common shares were issued as part of the rights offering for gross proceeds of $1,961,000.

Private placement
On February 4, 2012, Pine Cliff completed a non-brokered private placement and issued 5,882,000 common shares at a price of $0.17 for gross proceeds of $1,000,000. All of the common shares issued under the placement were subscribed to by Pine Cliff's President and Chief Executive Officer and his associates, and were subject to a four month holding period from the date of close.

CAPITAL ADDITIONS

($000s)	Three months ended March 31, 2012	Year ended December 31, 2011
Exploration and evaluation assets	**91**	-
Oil and gas assets	**353**	30
Furniture and office equipment	**-**	2
Acquistion of Carrot Creek Assets	**24,348**	-
Total	**24,792**	32

In the three months ended March 31, 2012, Pine Cliff added $24,792,000 in capital assets to its balance sheet compared to $32,000 in the year ended December 31, 2011. The acquisition of the Carrot Creek Assets included property and equipment of $23,841,000 and exploration and evaluation assets of $507,000. In addition to the purchase of the Carrot Creek Assets, Pine Cliff spent $91,000 at crown land sales to acquire prospective land and spent $353,000 on a recompletion of an existing wellbore.

RELATED PARTY TRANSACTIONS

Related party note payable
On February 28, 2012, the Company's Executive Chairman of the Board and major shareholder loaned the Company $7,000,000. The promissory note bears interest at 5% per annum and is repayable on August 31, 2012 or at any time prior to that date, without penalty. Security under the promissory note is over all of the Company's assets and is subordinated to any and all claims in favour of the lender providing a credit facility to the Company. As at March 31, 2012, the full amount of the promissory note was outstanding (December 31, 2011 – nil). Interest paid on this note during the first quarter of 2012 was $32,000 (March 31, 2011 – nil). The Company has the option to extend the repayment date of the promissory note up to one year from August 31, 2012 under the same terms and conditions.

Management services agreement
Pine Cliff has a management services agreement with Bonterra, an oil and gas corporation that is publicly traded on the Toronto Stock Exchange with some common directors and management, to provide executive services, technical services, accounting services, oil and gas administration and office administration for Pine Cliff. Total fees for the three months ended March 31, 2012 were $15,000 (March 31, 2011 - $15,000), plus minimal administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As of March 31, 2012, Pine Cliff owed Bonterra $1,400 (December 31, 2010 - $3,800).

Other
Geomark Exploration Ltd. ("Geomark") is a publicly traded company listed on the TSX-Venture with some common directors and some common management with Pine Cliff. As of March 31, 2012, Geomark owns 432,812 common shares of Pine Cliff (December 31, 2011 – 346,250) which represents less than one percent of the total issued and outstanding common shares of Pine Cliff. There were no other transactions between Pine Cliff and Geomark for the periods ended March 31, 2012 and December 31, 2011.

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

LIQUIDITY

Liquidity describes a company's ability to access cash. Companies operating in the upstream oil and gas business, such as Pine Cliff, require sufficient cash to fund exploration and development projects, to increase production and reserves, to acquire strategic oil and gas assets and to repay debt.

The following table highlights Pine Cliff's sources and uses of cash for the three months ended March 31, 2012 and 2011:

($000's)	**Three months ended March 31, 2012**	Three months ended March 31, 2011
Funds flow (deficiency) from operations	**(35)**	113
Bank debt proceeds	**12,790**	-
Related party note payable proceeds	**7,000**	
Issuance of common shares, net of share issue costs	**2,885**	-
Interest payable	**45**	-
Changes in non-cash working capital	**11**	10
Decrease (increase) in cash	**266**	(117)
Capital expenditures including acquisitions	**22,962**	6

In the first quarter of 2012, Pine Cliff raised $2,885,000 (net of share issue costs) through a rights offering and a private placement, set up a revolving demand credit facility and obtained $7,000,000 in short-term financing from a related party. The existing banking arrangements at March 31, 2012 are comprised of a revolving demand credit facility in the amount of $15,000,000, of which $12,790,000 is drawn at March 31, 2012. The current revolving period will end on May 31, 2013 and if the revolving demand credit facility is not renewed it will become payable in full on demand. Funds flow and the unused portion of the credit facility will allow Pine Cliff to meet its financial liabilities, as well as future capital requirements, at a reasonable cost. The Company believes it has sufficient funding and access to capital to meet its obligations as they come due and, if required, will consider additional short-term financing or issuing equity in order to meet its future liabilities.

Working capital is calculated as current assets minus current liabilities and represents the ability of a Company to satisfy both maturing short-term debt and upcoming operational expenses. The capital intensive nature of the oil and gas business may result in working capital deficiencies from time to time. Pine Cliff manages its working capital ratio to ensure that it has sufficient unused funds under its credit facility and access to capital to accommodate such circumstances. Additionally, the revolving demand credit facility requires Pine Cliff to maintain a working capital ratio, excluding the related party note payable and inclusive of unused funds under the credit facility, of greater than 1:1. The Company was in compliance with its bank debt covenants during the period ended March 31, 2012 and will take steps to ensure that it remains in compliance with this covenant in future periods. As at March 31, 2012, the Company had a working capital deficiency of $6,760,000 (December 31, 2011 – working capital of $482,000), mainly as a result of the related party note payable of $7,000,000 that is considered a current liability. It is Pine Cliff's intention to repay the related party note payable in the short-term, however the Company has the option to extend the repayment date of the related party note payable up to one year from August 31, 2012 under the same terms and conditions.

COMMITMENTS AND CONTINGENCIES

In the normal course of business, Pine Cliff has entered into arrangements and incurred obligations that will impact the Company's future operations and liquidity. The maturity dates of the Company's commitments are as follows:

($000s)	Total	< 6 months	6 - 12 months	> 12 months
Trade and other payables	1,130	1,130	-	-
Related party note payable - principal	7,000	7,000	-	-
Related party note payable - future interest	146	146	-	-
Bank loan - principal	12,790	-	-	12,790
Bank loan - future interest	560	240	240	80
	21,626	8,516	240	12,870

Upon disposal of the South American properties in 2010, the Company received a contingent consideration whereby Pine Cliff will be entitled to $200,000 (payable in cash or shares from the purchaser corporation) if by September 24, 2012 the purchaser, or an affiliate to the purchaser, is successful in obtaining a drilling permit followed by the drilling of a well on the Laguna de Piedra concession block in the Rio Negro Province of Argentina or the local permitting authority in the province grants a concession to substitute for the Laguna de Piedra concession and the purchaser or affiliate entity drills a well on the substitute concession. The purchaser has announced they plan to drill on the concession in the first half of 2012. However, collection of this receivable is not determinable at this time and therefore has not been recorded by the Company.

NON-IFRS MEASURES

This MD&A uses the terms "funds flow from operations", "operating netbacks" and "net debt" which are not recognized under IFRS and may not be comparable to similar measures presented by other companies. The Company uses these measures to evaluate its performance, leverage and liquidity, as well as to assess potential acquisitions.

The Company considers funds flow from operations a key performance measure as it demonstrates the Company's ability to generate the funds necessary to repay debt and fund future growth through capital investment. Funds flow from operations and funds flow from operations per share should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as per the statement of cash flows which is considered the most directly comparable measure under IFRS. Funds flow from operations is calculated as cash flow from operating activities before changes in non-cash working capital and changes in interest payable. Funds flow from operations per share is calculated using the same weighted average number of shares outstanding as in the case of the earnings per share calculation for a reporting period.

	Three months ended March 31, 2012	Three months ended March 31, 2011
($000s)		
Cash flow (deficiency) from operating activities	**(331)**	148
Less:		
Change in non-cash working capital	**(341)**	35
Change in interest payable	**45**	-
Funds flow (deficiency) from operations	**(35)**	113

The Company considers operating netback to be a key indicator of profitability relative to current commodity prices. Operating netback and operating netback per boe are calculated as oil and gas sales, less royalties and operating expenses on an absolute and a per boe basis, respectively.

Net debt is a term used in the context of liquidity in this MD&A. Net debt is the total of bank debt, related party note payable and trade and other payables, less trade and other receivables and cash. There is no IFRS measure that is reasonably comparable to net debt.

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 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; 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: 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 there from. 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 in this MD&A is expressly qualified by this cautionary statement.

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 judgments 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 have approved the financial statements as presented in this interim report.

CONDENSED STATEMENTS OF FINANCIAL POSITION
(Canadian dollars, 000s)
(unaudited)

	Note	**As at March 31, 2012**	As at December 31, 2011
ASSETS			
Current assets			
Cash		**11**	277
Trade and other receivables		**1,044**	109
Prepaid expenses and deposits		**68**	23
Investment		**247**	172
		1,370	581
Exploration and evaluation assets	4	**598**	-
Property and equipment	5	**25,652**	1,806
Deferred taxes	6	**1,566**	-
Total assets		**29,186**	2,387
LIABILITIES			
Current liabilities			
Trade and other payables		**1,130**	99
Related party note payable	7	**7,000**	-
		8,130	99
Bank debt	8	**12,790**	-
Decommissioning liabilities	3	**2,270**	82
Total liabilities		**23,190**	181
SHAREHOLDERS' EQUITY			
Share capital	9	**17,704**	14,819
Contributed surplus		**893**	766
Accumulated other comprehensive loss		**(72)**	(137)
Deficit		**(12,529)**	(13,242)
Total shareholders' equity		**5,996**	2,206
Total liabilities and shareholders' equity		**29,186**	2,387

The accompanying notes are an integral part of these condensed interim financial statements.

CONDENSED STATEMENTS OF EARNINGS (LOSS)
(Canadian dollars, 000s except per share data)
(unaudited)

	Note	Three months ended March 31, 2012	March 31, 2011
Oil and gas sales		**901**	246
Royalties		**(151)**	(15)
REVENUE		**750**	231
EXPENSES			
Operating		**271**	68
General and administration		**407**	50
Depletion and depreciation	5	**348**	154
Share-based payments	9	**127**	-
Finance expenses	10	**113**	1
Total expenses		**1,266**	273
Loss before income taxes		**(516)**	(42)
Deferred tax recovery	6	**(1,229)**	(9)
EARNINGS (LOSS) FOR THE PERIOD		**713**	(33)
Earnings (loss) per share ($)	9		
Basic		**0.01**	(0.00)
Diluted		**0.01**	(0.00)

The accompanying notes are an integral part of these condensed interim financial statements.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Canadian dollars, 000s)
(unaudited)

	Note	Three months ended March 31, 2012	March 31, 2011
Earnings (loss) for the period		**713**	(33)
OTHER COMPREHENSIVE INCOME			
Unrealized gain on investment		**75**	66
Deferred taxes on unrealized gain on investment		**(10)**	(9)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**778**	24

The accompanying notes are an integral part of these condensed interim financial statements.

CONDENSED STATEMENTS OF CASH FLOWS
(Canadian dollars, 000s)
(unaudited)

	Note	Three months ended March 31, 2012	March 31, 2011
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Earnings (loss) for the period		**713**	(33)
Items not affecting cash:			
Share-based payments		**127**	-
Depletion and depreciation		**348**	154
Finance expenses		**113**	1
Deferred tax recovery		**(1,229)**	(9)
Changes in non-cash working capital	11	**(341)**	35
Interest paid		**(62)**	-
Cash provided by (used in) operating activities		**(331)**	148
INVESTING ACTIVITIES			
Expenditures on property and equipment	5	**(353)**	(6)
Expenditures on exploration and evaluation assets	4	**(91)**	-
Acquisitions	3	**(22,518)**	-
Changes in non-cash working capital	11	**352**	(25)
Cash used in investing activities		**(22,610)**	(31)
FINANCING ACTIVITIES			
Issuance of common shares, net of share issue costs		**2,885**	-
Related party note payable	7	**7,000**	-
Bank debt		**12,790**	-
Cash provided by financing activities		**22,675**	-
Increase (decrease) in cash		**(266)**	117
Cash - beginning of period		**277**	108
CASH - END OF PERIOD		**11**	225

The accompanying notes are an integral part of these condensed interim financial statements.

CONDENSED STATEMENTS OF CHANGES IN EQUITY
(Canadian dollars, 000s)
(unaudited)

	Note	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
BALANCE AT JANUARY 1, 2011		14,819	766	-	(13,035)	2,550
Comprehensive income for the period		-	-	57	(33)	24
BALANCE AT MARCH 31, 2011		**14,819**	**766**	**57**	**(13,068)**	**2,574**
Comprehensive loss for the period		-	-	(194)	(174)	(368)
BALANCE AT DECEMBER 31, 2011		14,819	766	(137)	(13,242)	2,206
Shares issued pursuant to a rights offering	9	1,961	-	-	-	1,961
Shares issued pursuant to a private placement	9	1,000	-	-	-	1,000
Share issue costs	9	(76)	-	-	-	(76)
Comprehensive income for the period		-	-	65	713	778
Share-based payments	9	-	127	-	-	127
BALANCE AT MARCH 31, 2012		**17,704**	**893**	**(72)**	**(12,529)**	**5,996**

The accompanying notes are an integral part of these condensed interim financial statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
As at March 31, 2012 and December 31, 2011 and for the three month periods ended March 31, 2012 and 2011 (unaudited)
(all tabular amounts in Canadian dollars 000s, unless otherwise indicated)

1. NATURE OF BUSINESS

Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") is a public company listed on the TSX Venture Exchange and incorporated under the Business Corporations Act (Alberta). The address of the Company's registered office is Suite 901, 1015 4th Street SW, Calgary, Alberta, T2R 1J4.

Pine Cliff is engaged in the exploration for, and development and production of, oil and natural gas in the Western Canadian Sedimentary Basin and conducts many of its activities jointly with others; these condensed interim financial statements (the "financial statements") reflect only the Company's proportionate interest in such activities.

2. BASIS OF PREPARATION

a) Statement of Compliance
The financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The accounting policies and method of computation followed in the preparation of the financial statements are the same as those followed in the preparation of Pine Cliff's annual consolidated financial statements for the year ended December 31, 2011, except as described below. The financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2011.

These financial statements were authorized for issued by the Company's Board of Directors on May 24, 2012.

b) Changes to Accounting Estimate
Property and equipment
On January 1, 2012, the Company prospectively began depleting all oil and gas properties and facilities and its decommissioning asset using the unit-of-production method over their proved plus probable reserve life ("Proved plus Probable Method"); a change from the unit–of-production method over their proved developed reserve life ("Proved Developed Method") for oil and gas properties and the straight-line method for production facilities. The change of estimate was due to the Proved plus Probable Method providing a better reflection of the estimated service life of the related assets. For the first three months of 2012, the Company recorded $250,000 less depletion and depreciation under the Proved plus Probable Method, compared to what would have been recorded using the Proved Developed Method. The Company believes it is not practical to estimate the effect on depletion and depreciation expense for future periods.

c) New Accounting Policy
Finance income and expense
Finance expenses are comprised of interest expenses and bank charges on borrowings and the unwinding of the discount on provisions. Interest expenses and bank charges are considered financing expenses on the statement of cash flows. Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. Qualifying assets are those assets that necessarily take a substantial period of time to get ready for their intended use. All other borrowing costs are recognized in profit or loss. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Interest income is recognized as the interest accrues, using the effective interest method. The effective interest method uses the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

3. ACQUISITION

Carrot Creek Assets
On March 1, 2012, Pine Cliff acquired certain oil and natural gas assets in the Carrot Creek area of Alberta (the "Carrot Creek Assets") for cash consideration of $22,518,000. The results of the Carrot Creek Assets have been included in the financial statements since that date. The Carrot Creek Assets contributed oil and gas sales, net of royalties, of $563,000 and operating expenses of $232,000 for the period from March 1, 2012 to March 31, 2012. If the acquisition had occurred on January 1, 2012, total oil and gas sales, net of royalties, would have been approximately $2,265,000 and total operating expenses would have been approximately $845,000 for the three months ended March 31, 2012. Pine Cliff does not believe it is practical to estimate the effect on future periods.

The acquisition has been accounted for using the acquisition method, and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	
Property and equipment	23,841
Exploration and evaluation assets	507
Decommissioning provision	(2,182)
Working capital	26
Deferred income tax asset	326
Total net assets acquired	22,518

Consideration:	
Cash	22,518
Total purchase price	22,518

4. EXPLORATION AND EVALUATION ASSETS

The following table reconciles Pine Cliff's exploration and evaluation assets:

Cost:	
Balance at December 31, 2010	-
Additions	-
Balance at December 31, 2011	-
Additions	91
Acquisitions	507
Balance at March 31, 2012	**598**

5. PROPERTY AND EQUIPMENT

The following table reconciles Pine Cliff's property and equipment assets:

Cost:	Oil and gas properties	Office equipment	Total
Balance at December 31, 2010	4,570	-	4,570
Additions	30	2	32
Balance at December 31, 2011	4,600	2	4,602
Additions	353	-	353
Acquisitions	23,841	-	23,841
Balance at March 31, 2012	**28,794**	**2**	**28,796**

Accumulated depletion and depreciation:	Oil and gas properties	Office equipment	Total
Balance at December 31, 2010	(2,259)	-	(2,259)
Depletion and depreciation for the period	(537)	-	(537)
Balance at December 31, 2011	(2,796)	-	(2,796)
Depletion and depreciation for the period	(348)	-	(348)
Balance at March 31, 2012	**(3,144)**	**-**	**(3,144)**

Carrying value at:	Oil and gas properties	Office equipment	Total
December 31, 2011	1,804	2	1,806
March 31, 2012	**25,650**	**2**	**25,652**

Impairment
The impairment of property and equipment assets and any subsequent reversal of such impairment losses are recognized in the statement of earnings (loss). There were no impairment losses recorded in the statement of earnings (loss) for the three months ended March 31, 2012 and 2011.

6. DEFERRED TAXES

The Company has recorded a deferred tax asset related to the benefit of tax pools, as it is probable that they will be recovered.

	March 31, 2012	December 31, 2011
Deferred income tax assets (liabilities):		
Share issue costs	**18**	-
Investment	**10**	20
Decommissioning provision	**30**	20
Property and equipment	-	91
Future tax assets acquired through acquisition	**326**	-
Capital loss carry forward	**102**	104
Non-capital losses carry forward	**1,317**	871
Unrecorded benefit of tax pools	**-**	(1,106)
Exploration and evaluation assets	**(150)**	-
Property, plant and equipment	**(87)**	-
Net deferred income tax asset	**1,566**	-

Deferred income tax recovery varies from the amount that would be computed by applying federal and provincial income tax rates as follows:

	March 31, 2012	March 31, 2011
Loss before income taxes	**(516)**	(42)
Corporate income tax rate	**25.0%**	26.5%
Computed income tax recovery	**(129)**	(11)
Increase (decrease) resulting from:		
Non-deductible compensation expense	**32**	-
Permanent differences	**-**	-
Changes in the unrecorded benefit of tax pools	**(1,106)**	2
Changes in tax rates and other	**(26)**	-
Deferred income tax recovery	**(1,229)**	(9)

Pine Cliff has approximately $30,610,000 in tax pools at March 31, 2012 (December 31, 2011 – $6,483,000) available for future use as deductions from taxable income. Included in these pools are estimated non-capital loss carry forwards of $5,265,000 (December 31, 2011 – $3,483,000) that expire between the years 2026 and 2032.

7. TRANSACTIONS WITH RELATED PARTIES

Related party note payable
On February 28, 2012, the Company's Executive Chairman of the Board and major shareholder loaned the Company $7,000,000. The promissory note bears interest at 5% per annum and is repayable on August 31, 2012 or at any time prior to that without penalty. Security under the promissory note is over all of the Company's assets and is subordinated to any and all claims in favour of the lender providing a credit facility to the Company. As at March 31, 2012, the full amount of the promissory note was outstanding (December 31, 2011 – nil). Interest paid on this note during the first quarter of 2012 was $32,000 (March 31, 2011 – nil).

The Company has the option to extend the repayment date of the promissory note up to one year from August 31, 2012 under the same terms and conditions.

Management services agreement
Pine Cliff has a management services agreement with Bonterra Energy Corp. ("Bonterra"), an oil and gas corporation that is publicly traded on the Toronto Stock Exchange with some common directors and management, to provide executive services, technical services, accounting services, oil and gas administration and office administration for Pine Cliff. Total fees for the period were $15,000 (2011 - $15,000) plus minimal administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As of March 31, 2012, Pine Cliff owed Bonterra $1,400 (December 31, 2010 - $3,800).

Other
Geomark Exploration Ltd. ("Geomark") is a publicly traded company listed on the TSX-Venture with some common directors at March 31, 2012 and some common management with Pine Cliff. As of March 31, 2012, Geomark owns 432,812 common shares of Pine Cliff (December 31, 2011 – 346,250) which represents less than one percent of the total issued and outstanding common shares of Pine Cliff. There were no other transactions between Pine Cliff and Geomark for the periods ended March 31, 2012 and December 31, 2011.

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

8. BANK DEBT

On March 1, 2012, Pine Cliff set up a $15,000,000 revolving demand credit facility with a Canadian chartered bank, of which $12,790,000 is drawn at March 31, 2012. The current revolving period will end on May 31, 2013 and if the revolving demand credit facility is not renewed it will become payable in full on demand. Amounts drawn under this facility are in the form of Canadian prime lending rate based loans, guaranteed notes or letters of credit. The facility bears interest at the prime lending rate plus 0.75% per annum. Pine Cliff realized an effective interest rate of 3.75% for the three months ended March 31, 2012. The facility is secured by a first priority security interest on all present and after acquired property of the Company.

The revolving demand credit facility requires Pine Cliff to maintain a working capital ratio, excluding the related party note payable and inclusive of unused funds under the credit facility, of greater than 1:1. The Company was in compliance with its bank debt covenants during the period ended March 31, 2012.

9. SHARE CAPITAL

Authorized
The Company is authorized to issue an unlimited number of Common Shares without nominal or par value. The Company is also authorized to issue, in one or more series, an unlimited number of Class B Preferred Shares without nominal or par value.

Issued

Issued and outstanding share capital continuity:	Common shares (000s)	Share capital
Balance, January 1, 2011	46,146	14,819
Balance, December 31, 2011	46,146	14,819
Shares issued pursuant to a rights offering	11,536	1,961
Shares issued pursuant to a private placement	5,882	1,000
Share issue costs	-	(76)
Balance, March 31, 2012	**63,564**	**17,704**

The shares issued pursuant to a private placement in the three months ended March 31, 2012 were issued to the President and Chief Executive Officer and his associates.

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding. In calculating the weighted average number of diluted shares outstanding for the three months ended March 31, 2012, the Company excluded 255,000 options (March 31, 2011 – all options as there was a loss in the period), as their effect is anti-dilutive.

	Three months ended	
Loss per share calculation:	**March 31, 2012**	March 31, 2011
Numerator		
Earnings (loss) for the period	**713**	(33)
Denominator		
Weighted-average common shares outstanding - basic (000s)	**57,248**	46,146
Effect of options outstanding	**1,618**	-
Weighted-average common shares outstanding - diluted (000s)	**58,866**	46,146
Earnings (loss) per share - basic ($)	**0.01**	(0.00)
Earnings (loss) per share - diluted ($)	**0.01**	(0.00)

Share-based payments

The Company provides an equity settled stock option plan (the "Option Plan") for its directors, employees and consultants. Under the Option Plan, the Company may grant options for up to 10% of outstanding common shares at March 31, 2012 (December 31, 2011 – fixed amount of 4,527,569). The term and vesting period of the options granted are determined at the discretion of the Board of Directors. The exercise price of each option granted equals the market price of the Company's stock based on the market price immediately preceding the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as of March 31, 2012 and changes during the three month period then ended is presented below:

Stock options issued and outstanding:	Options (000s)	Weighted-average exercise price ($ per share)
Outstanding at December 31, 2011	-	-
Granted	3,230	0.40
Outstanding at March 31, 2012	**3,230**	**0.40**
Exercisable at March 31, 2012	**-**	**-**

The following table summarizes information about stock options outstanding at March 31, 2012:

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
$0.38	2,975	3.8	-	-
$0.68	255	3.7	-	-
	3,230	3.8	-	-

The Company records share-based payment expense over the vesting period, which ranges between one to three years, based on the fair value of the options granted to employees, directors and consultants. In the three months ended March 31, 2012, the Company granted 3,230,000 stock options with an estimated fair value of $1,118,000 or $0.34 per option using the Black-Scholes option pricing model with the following key assumptions (weighted-average):

Assumptions:	Three months ended March 31, 2012
Exercise price ($)	0.40
Estimated volatility of underlying common shares (%)	128
Weighted average expected life (years)	3.8
Risk-free rate (%)	1.2
Forfeiture rate (%)	0.0
Expected dividend yield (%)	0.0

10. FINANCE EXPENSES

Finance expenses are comprised of:

Finance expenses:	**March 31, 2012**	March 31, 2011
Interest and bank charges	**107**	-
Unwinding of the discount on decommissioning liabilities	**6**	1
	113	1

11. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended	
	March 31, 2012	March 31, 2011
Operating activities		
Changes in non-cash working capital:		
Trade and other receivables	**(935)**	68
Prepaid expenses and deposits	**(46)**	(4)
Trade and other payables and accrued liabilities	**640**	(29)
	(341)	35
Investing activities		
Changes in non-cash working capital:		
Trade and other receivables	**-**	5
Trade and other payables and accrued liabilities	**352**	(30)
	352	(25)

12. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement
Financial instruments of the Company consist of cash, trade and other receivables, investment, trade and other payables, related party note payable and bank debt. The carrying values of the financial instruments presented in the financial statements approximate their respective fair values.

The following table sets out the Company's classification, carrying value and fair value of financial assets and liabilities as at March 31, 2012 and December 31, 2011:

		March 31, 2012		December 31, 2011	
Description: [1]	Level	**Carrying value**	**Fair value**	Carrying value	Fair value
Cash	1	**11**	**11**	277	277
Trade and other receivables		**1,044**	**1,044**	109	109
Investment	1	**247**	**247**	172	172
Trade and other payables		**(1,130)**	**(1,130)**	(99)	(99)
Related party note payable		**(7,000)**	**(7,000)**	-	-
Bank debt		**(12,790)**	**(12,790)**	-	-

[1] Cash is classified as fair-value through profit or loss. Trade and other receivables are classified as loans and receivables which are measured at amortized cost. The investment is classified as available-for-sale which is measured at fair value and any gains or losses are recognized in other comprehensive income (loss) in the period they occur. Trade and other payables, related party note payable and bank debt are classified as financial liabilities and are measured at amortized cost.

Commitments
The Company believes it has sufficient funding and access to capital to meet its obligations as they come due. The maturity dates of the Company's financial liabilities are as follows:

Maturity dates of financial liabilities	Recognized in Financial Statements	Total	< 6 months	6 - 12 months	> 12 months
Trade and other payables	Yes - Liability	1,130	1,130	-	-
Related party note payable - principal	Yes - Liability	7,000	7,000	-	-
Related party note payable - future interest	No	146	146	-	-
Bank loan - principal	Yes - Liability	12,790	-	-	12,790
Bank loan - future interest	No	560	240	240	80
		21,626	8,516	240	12,870

13. SUBSEQUENT EVENT

On April 23, 2012, 255,000 share options were granted to an employee with an exercise price of $0.50, based on the market price immediately preceding the date of grant. The options expire on January 10, 2016.

BOARD OF DIRECTORS

Gary J. Drummond
George F. Fink
Philip B. Hodge
Randy M. Jarock
Carl R. Jonsson
F. William Woodward

OFFICERS

George F. Fink
Executive Chairman of the Board

Philip B. Hodge
President and Chief Executive Officer

Randy M. Jarock
Chief Operating Officer

Robb D. Thompson
Chief Financial Officer and Secretary

HEAD OFFICE

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REGISTRAR AND TRANSFER AGENT

Olympia Trust Company
Calgary, Alberta

AUDITORS

Deloitte & Touche LLP
Calgary, Alberta

SOLICITORS

Borden Ladner Gervais LLP
Calgary, Alberta

BANKERS

Alberta Treasury Branch
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: PNE

WEBSITE

www.pinecliffenergy.com