

## THIRD QUARTER 2012

TSX Venture Exchange: **PNE** [www.pinecliffenergy.com](http://www.pinecliffenergy.com)

### Message to Shareholders:

Pine Cliff Energy Ltd. is pleased to report its third quarter of 2012. Highlights of the third quarter report are as follows:

- Achieved quarterly sales volumes of 895 boe/d, as compared to 100 boe/d in the third quarter of 2011, weighted approximately 79 percent natural gas and 21 percent oil and natural gas liquids;
- Realized funds flow from operations of \$442,000 as compared to \$82,000 in the same period of 2011;
- Recognized an operating netback of \$13.36 per boe as compared to \$15.63 per boe in the third quarter of 2011;
- Combined operations, subsequent to quarter end, with Geomark Exploration Ltd.; and
- Announced, subsequent to quarter end, the purchase from a Canadian financial institution of all the indebtedness of Skope Energy Partners.

Overall, Pine Cliff recorded funds flow from operations of \$422,000 and quarterly sales volumes of 895 boe/d in the third quarter of 2012. Funds flow from operations was positively impacted in the third quarter of 2012 as a result of recent recoveries in the natural gas pricing environment, with the average AECO price for natural gas being more than 40% higher in September than April. Quarterly production decreased from 972 boe/d in the second quarter of 2012 to 895 boe/d in the third quarter of 2012 as a result of unscheduled third-party plant outages which impacted Pine Cliff's sour gas production in July and September. Pine Cliff's sour gas began flowing back on October 3, 2012 and although the third quarter production was impacted significantly, the production was not lost, but only deferred to future periods.

In the third quarter of 2012, we announced the planned combination of Pine Cliff's operations with those of Geomark Exploration Ltd. This transaction closed on October 19, 2012, allowing Pine Cliff to repay both its bank and related party debts in their entirety with the funds acquired from Geomark. In addition to Geomark's strong working capital position, it holds non-operated oil and gas interests in Alberta, primarily in the Harmattan area, and mineral properties in Utah, Ontario, Nunavut and the Northwest Territories. The combined entity had no debt, cash and cash equivalents of approximately \$22 million, highly liquid securities of approximately \$9 million and production capability of approximately 1,100 boe/d.

On November 12, 2012, we announced a unique transaction whereby Pine Cliff completed the purchase from a Canadian financial institution of all of the outstanding indebtedness and liabilities owing to the financial institution by Skope Energy Partners, as well as the related security documents, for cash consideration of \$28 million. Pine Cliff intends to make an application to the court to appoint a receiver to realize on its security. Skope owns an 80% working interest in a package of high-quality, producing, shallow gas assets in southeast Alberta and southwest Saskatchewan. Skope's current production of approximately 3,500 boe/d, weighted 100% towards natural gas, is expected to provide Pine Cliff with increased cash flow and shareholders with considerable upside should natural gas prices recover and if Pine Cliff is successful in realizing on its security. Concurrently, Pine Cliff announced plans for a brokered private placement of 8.9 million common shares at \$0.73 per share for gross proceeds of \$6.5 million.

Looking forward to the remainder of the fourth quarter of 2012, we are excited to embark upon our winter drilling program in the Carrot Creek area, which will commence with the planned December spudding of one well (0.30 net) targeting the Rock Creek zone which we anticipate will further increase sales volumes and the company's oil and liquids weighting. Pine Cliff and its partners were able to obtain an extension on a highly-prospective expiring lease and plan to drill a well (0.25 net) on that location in 2013 after completing further technical analysis. We are also continuing Geomark's drilling program on the Kings Canyon project in Utah for which encouraging initial gold results were announced by Geomark in September 2012. We expect additional results from the drilling program to be available in early 2013.

We remain focused on innovatively pursuing additional opportunities to add value for our shareholders by acquiring high-impact assets for future growth through asset or corporate acquisitions, farm-ins or joint ventures. We believe that Pine Cliff's strong balance sheet and access to capital will allow it to act quickly and take advantage of such opportunities.

It has been a busy few months and we do not anticipate slowing our pace. Thank you for your continued support. We really appreciate it.

Yours truly,



Phil Hodge  
President and Chief Executive Officer  
November 13, 2012

FINANCIAL AND OPERATIONS HIGHLIGHTS | Q3-2012

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012 <sup>1</sup>	2011
(\$000s, unless otherwise indicated)				
<b>FINANCIAL</b>				
<b>Oil and gas sales</b>	<b>2,197</b>	220	<b>5,228</b>	702
<b>Cash flow from operating activities</b>	<b>246</b>	120	<b>1,113</b>	337
<b>Funds flow from operations</b> <sup>2</sup>	<b>442</b>	82	<b>927</b>	298
Basic per share (\$/share)	<b>0.01</b>	0.00	<b>0.02</b>	0.01
Diluted per share (\$/share)	<b>0.01</b>	0.00	<b>0.02</b>	0.01
<b>Earnings (loss)</b>	<b>(472)</b>	(74)	<b>(209)</b>	(160)
Basic per share (\$/share)	<b>(0.01)</b>	(0.00)	<b>(0.00)</b>	(0.00)
Diluted per share (\$/share)	<b>(0.01)</b>	(0.00)	<b>(0.00)</b>	(0.00)
<b>Capital expenditures</b>	<b>14</b>	13	<b>630</b>	22
Bank debt	<b>11,918</b>	-	<b>11,918</b>	-
Related party note payable	<b>7,000</b>	-	<b>7,000</b>	-
Trade and other receivables less trade and other payables	<b>(243)</b>	87	<b>(243)</b>	87
Cash	-	150	-	150
<b>Net debt</b> <sup>3</sup>	<b>19,161</b>	(237)	<b>19,161</b>	(237)
Weighted-average common shares outstanding (000s)				
Basic	<b>63,564</b>	46,146	<b>61,466</b>	46,146
Diluted	<b>63,564</b>	46,146	<b>61,466</b>	46,146
<b>OPERATIONS</b>				
<b>Production</b> <sup>4</sup>				
Natural gas (mcf/d)	<b>4,217</b>	594	<b>3,556</b>	622
Crude oil (bbls/d)	<b>29</b>	-	<b>23</b>	-
Natural gas liquids (bbls/d)	<b>163</b>	1	<b>141</b>	1
<b>Total (boe/d)</b>	<b>895</b>	100	<b>757</b>	105
<b>Commodity sales prices</b>				
Natural gas (\$/mcf)	<b>2.76</b>	3.91	<b>2.32</b>	4.02
Crude oil (\$/bbl)	<b>80.57</b>	-	<b>79.24</b>	-
Natural gas liquids (\$/bbl)	<b>60.84</b>	80.45	<b>64.12</b>	81.87
<b>Combined (\$/boe)</b>	<b>26.69</b>	23.97	<b>25.22</b>	24.60
<b>Netback (\$/boe)</b>				
Operating netback (\$/boe) <sup>5</sup>	<b>13.36</b>	15.63	<b>12.64</b>	16.42

<sup>1</sup> The results of the first nine months of 2012 include the results of the Carrot Creek Assets for the period of March 1 to September 30, 2012.

<sup>2</sup> 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.

<sup>3</sup> Net debt is a non-IFRS measure calculated as the sum of bank debt, related party note payable and trade and other payables less trade and other receivables and cash.

<sup>4</sup> The production for the nine months ended September 30, 2012 includes the results of the Carrot Creek Assets for the period of March 1 to September 30, 2012, averaged over 274 days.

<sup>5</sup> 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.

November 13, 2012

## INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the three and nine months ended September 30, 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 and nine months ended September 30, 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](http://www.sedar.com) and by visiting Pine Cliff's website at [www.pinecliffenergy.com](http://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 ("TSX-V") under the symbol "PNE".

## READER ADVISORIES

This MD&A contains financial measures that are not defined under International Financial Reporting Standards ("IFRS") 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 US\$ are to United States dollars.

Where amounts are expressed in a barrel of oil equivalent ("boe" or daily equivalent of "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.

## 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	Change	Impact on annual funds flow from operations <sup>1</sup>	
		\$000s	\$ per share <sup>3</sup>
Crude oil price - Edmonton par (\$/bbl) <sup>2</sup>	\$1.00	50	0.00
Natural gas price - AECO (\$/mcf) <sup>2</sup>	\$0.10	150	0.00
Interest rate on variable rate debt	1.0%	120	0.00

<sup>1</sup>This analysis does not adjust for changes in working capital and uses current royalty rates.

<sup>2</sup>Pine Cliff has prepared this analysis using its third quarter 2012 daily sales volumes annualized for twelve months.

<sup>3</sup>Based on third quarter 2012 weighted average shares outstanding of 63,564,000.

## 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 is seeking 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 also 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 (\$22.6 million after operating funds flow adjustments for January and February 2012). 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 and produce liquids rich 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 90% of the Company's production in the area. The Carrot Creek area has multi-zone potential which can be further exploited using horizontal drilling technology. Pine Cliff currently plans to commence drilling one gross well (0.30 net well) in December 2012 targeting 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. Pine Cliff and its partners were pleased to obtain an extension on a highly-prospective expiring lease and plan to drill a well (0.25 net) on that location in 2013 after completing further technical analysis. There are also significant natural gas prospects (over 50 gross potential locations) on these lands, most of which have been inventoried until natural gas prices improve.

The balance of Pine Cliff's 2012 year to date 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.

On October 19, 2012, Pine Cliff combined its operations with those of Geomark Exploration Ltd. ("Geomark"), pursuant to an arrangement agreement (the "Geomark Transaction"). Geomark became a wholly-owned subsidiary and adds significant strength to the combined company. The Geomark assets include oil and gas properties in Alberta, primarily in the Harmattan area, and mineral properties in Utah, Ontario, Nunavut and the Northwest Territories. Pine Cliff is continuing Geomark's drilling program on the King's Canyon project in Utah for which encouraging gold results were announced by Geomark in a press release dated September 26, 2012. Please see "Subsequent Events" for further details on the Geomark Transaction.

On November 9, 2012, Pine Cliff completed the purchase from a Canadian financial institution of all of the outstanding indebtedness and liabilities owing by Skope Energy Partners ("Skope") and all of the security documents granted by Skope to the financial institution (the "Skope Debt Purchase"), for cash consideration of \$28,000,000. Pine Cliff intends to make an application to the court to appoint a receiver to realize on its security. Skope owns an 80% working interest in a package of high-quality, low decline, producing shallow gas assets in southeast Alberta and southwest Saskatchewan. Skope's current production of approximately 3,500 boe/d, weighted 100% towards natural gas, is expected to provide Pine Cliff with increased cash flow and shareholders with considerable upside should natural gas prices recover and if Pine Cliff is successful in realizing on its security. In addition to its oil and gas assets, Skope has positive working capital (excluding the current bank indebtedness) and tax pools. Please see "Subsequent Events" for further details on the Skope Debt Purchase.

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

#### SELECTED QUARTERLY FINANCIAL INFORMATION

(\$000s, unless otherwise indicated)	2012			2011			2010	
	Q3	Q2	Q1 <sup>1</sup>	Q4	Q3	Q2	Q1	Q4
Average sales volumes (boe/d) <sup>2</sup>	895	972	401	88	100	103	111	129
Operating netback (\$/boe) <sup>3</sup>	13.36	11.78	13.11	12.20	15.63	17.34	16.31	15.88
Oil and gas sales	2,197	2,130	901	164	220	236	246	280
Oil and gas sales, net of royalties	1,824	1,735	750	159	211	230	231	267
Cash flow (deficiency) from operating activities	246	1,198	(331)	(4)	120	69	148	39
Funds flow (deficiency) from operations <sup>4</sup>	442	520	(35)	55	82	103	113	119
Per share - basic (\$/share)	0.01	0.01	(0.00)	0.00	0.00	0.00	0.00	0.00
Per share - diluted (\$/share)	0.01	0.01	(0.00)	0.00	0.00	0.00	0.00	0.00
Earnings (loss)	(472)	(450)	713	(46)	(74)	(53)	(33)	(917)
Per share - basic (\$/share)	(0.01)	(0.01)	0.01	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)
Per share - diluted (\$/share)	(0.01)	(0.01)	0.01	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)

<sup>1</sup> The results for Q1-2012 include the results of the Carrot Creek Assets for the period of March 1 to March 31, 2012.

<sup>2</sup> The sales volumes 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.

<sup>3</sup> 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.

<sup>4</sup> 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.

**Third quarter 2012 highlights**

During the third quarter of 2012, Pine Cliff reports that it:

- Announced the combination of Pine Cliff's operations with those of Geomark, adding significant flexibility to Pine Cliff's balance sheet. The transaction closed on October 19, 2012 (See "Subsequent Events");
- Attained average daily sales volumes of 895 boe/d as compared to 100 boe/d in the third quarter of 2011. The increase is due to the acquisition of the Carrot Creek Assets;
- Reported an 8% reduction in sales volumes as compared to the second quarter of 2012 due to unplanned third-party gas plant outages in July and September, resulting in a portion of Pine Cliff's production being deferred to future periods;
- Achieved quarterly funds flow from operations of \$442,000 (third quarter of 2011 – funds flow from operations of \$82,000), due to increased revenues from the Carrot Creek Assets, offset by higher royalties, operating, general and administration and interest expenses; and
- Realized a quarterly loss of \$472,000 (third quarter of 2011 – loss of \$74,000), mainly a result of non-cash depletion and depreciation and share-based payment expenses.

**SALES VOLUMES**

<b>Total sales volumes by product</b>	Three months ended September 30		Nine months ended September 30	
	<b>2012</b>	2011	<b>2012</b>	2011
Natural gas (mcf)	<b>387,945</b>	55,874	<b>974,412</b>	169,832
Crude oil (bbls)	<b>2,680</b>	-	<b>6,314</b>	-
NGLs (bbls)	<b>14,961</b>	74	<b>38,537</b>	235
Barrels of oil equivalent	<b>82,299</b>	9,386	<b>207,253</b>	28,540
Oil and liquids weighting	<b>21%</b>	1%	<b>22%</b>	1%

<b>Average daily sales volumes by product</b>	Three months ended September 30		Nine months ended September 30	
	<b>2012</b>	2011	<b>2012</b>	2011
Natural gas (mcf/d)	<b>4,217</b>	594	<b>3,556</b>	622
Crude oil (bbls/d)	<b>29</b>	-	<b>23</b>	-
NGLs (bbls/d)	<b>163</b>	1	<b>141</b>	1
Total (boe/d)	<b>895</b>	100	<b>757</b>	105

Pine Cliff's sales volumes increased by 795% in the third quarter of 2012 to 895 boe/d as compared to 100 boe/d in the third quarter of 2011. The significant increase was a result of the Carrot Creek Assets being included in the full third quarter 2012 results, whereas in 2011 sales were only from the Sundance Assets. These increases have been partially offset by production disruptions during the third quarter of 2012 associated with unscheduled third-party plant outages in July (one week) and September (three weeks) at the plant that processes Pine Cliff's sour gas. Although a portion of the production was sweetened and re-routed to an alternative plant, some production was deferred to future periods. Pine Cliff's sour gas began flowing back to this plant on October 3, 2012 and the Company is taking steps to mitigate the impact of any potential outages at this plant in future. The Carrot Creek Assets produce liquids rich gas and oil, contributing to the increase in liquids weighting to 21% in the third quarter of 2012, as compared to just 1% in the third quarter of 2011.

Pine Cliff's sales volumes for the nine months ended September 30, 2012 were 757 boe/d as compared to 105 boe/d in the nine months ended September 30, 2011. The year-to-date sales volumes for 2012 are lower than the third quarter of 2012 as the sales volumes of the Carrot Creek Assets are included for only seven out of nine months and averaged over 274 days.

**OPERATING NETBACKS**

The components of the operating netback are summarized as follows:

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
(\$ per boe)				
Oil and gas sales	<b>26.69</b>	23.97	<b>25.22</b>	24.60
Royalties	<b>4.53</b>	1.06	<b>4.43</b>	1.09
Operating expenses	<b>8.80</b>	7.28	<b>8.15</b>	7.09
Operating netback	<b>13.36</b>	15.63	<b>12.64</b>	16.42

Pine Cliff generated an operating netback of \$13.36 per boe for the three months ended September 30, 2012 as compared to \$15.63 per boe for the three months ended September 30, 2011. This reduction is a result of higher commodity prices offset by higher royalties per boe and higher operating expenses per boe.

Pine Cliff generated an operating netback of \$12.64 per boe for the nine months ended September 30, 2012 as compared to \$16.42 per boe for the nine months ended September 30, 2011. This reduction is a result of higher commodity prices offset by higher royalties per boe and higher operating expenses per boe.

**OIL AND GAS SALES**

	Three months ended September 30				Nine months ended September 30			
	2012		2011		2012		2011	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Natural gas <sup>1</sup>	<b>1,071</b>	<b>2.76</b>	213	3.91	<b>2,257</b>	<b>2.32</b>	683	4.02
Crude oil	<b>216</b>	<b>80.57</b>	-	-	<b>500</b>	<b>79.24</b>	-	-
NGLs	<b>910</b>	<b>60.84</b>	7	80.45	<b>2,471</b>	<b>64.12</b>	19	81.87
Total sales	<b>2,197</b>	<b>26.69</b>	220	23.97	<b>5,228</b>	<b>25.22</b>	702	24.60

<sup>1</sup> Per unit values are expressed in \$ per mcf.

Oil and gas sales increased by 894% from \$220,000 in the third quarter of 2011 to \$2,197,000 in the third quarter of 2012, reflecting increased sales volumes 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 the three months ended September 30, 2012 was \$26.69 per boe as compared to \$23.97 per boe in the same period of 2011. Pine Cliff's increased weighting towards oil and liquids offset the significant decrease in natural gas prices.

For the nine months ended September 30, 2012, oil and gas sales were \$5,228,000 (\$25.22 per boe) as compared to \$702,000 (\$24.60 per boe) for the same period of 2011; an increase of \$4,526,000. This increase is primarily a result of the increased sales volumes from the Carrot Creek Asset acquisition, offset by a lower commodity price environment for gas and liquids.

**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 six quarters to assist in understanding the volatility in prices and foreign exchange rates that have impacted Pine Cliff's business.

	Q3-2012	Q2-2012	Q1-2012	Q4-2011	Q3-2011	Q2-2011	Q1-2011
<b>Natural gas</b>							
NYMEX (U.S.\$/mmbtu) <sup>1</sup>	2.81	2.26	2.77	3.61	4.19	4.36	4.14
AECO (C\$/mcf)	2.31	1.89	2.15	3.19	3.65	3.86	3.79
<b>Crude oil</b>							
WTI (U.S.\$/bbl)	92.22	93.49	102.93	94.06	89.76	102.56	94.10
Edmonton light (C\$/bbl)	84.79	84.42	92.70	97.86	92.24	103.58	88.39
<b>Foreign exchange</b>							
C\$/US\$	0.9948	1.0102	1.0012	1.0231	0.9802	0.9677	0.9860

<sup>1</sup> mmbtu is the abbreviation for millions of British thermal units. One mcf of natural gas is approximately 1.02 mmbtu.

The average NYMEX gas price in the United States has decreased by 33% in the third quarter of 2012 as compared to the third quarter of 2011, whereas benchmark AECO natural gas prices in Canada decreased by 37% in the third quarter of 2012 as compared to the same period of 2011. NYMEX is linked to AECO through transportation tariffs from the respective hubs to common markets and through foreign exchange rates. Although the natural gas pricing environment is weaker than 2011, recoveries are starting to be seen with the average AECO price for natural gas being more than 40% higher in September than April. AECO prices averaged \$2.31 per mcf for the three months ended September 30, 2012, while Pine Cliff's realized natural gas price was \$2.76 per mcf, reflecting the heating content of Pine Cliff's natural gas.

WTI oil prices averaged US\$92.22 per bbl in the third quarter of 2012 as compared to US\$89.76 per bbl in the third quarter of 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. Earlier in 2012, the price differentials between Edmonton light oil prices and WTI widened substantially, due in part to refinery outages and seasonal turnarounds as well as transportation capacity issues. The disconnect between the indices largely evaporated by the end third quarter of 2012, with the September price differential being less than \$2.00. The fourth quarter of 2012 has once again seen the price differentials for crude oil widen and there is potential for the differentials to remain volatile in future periods. In the three months ended September 30, 2012, the realized price of Pine Cliff's oil was \$80.57 per bbl as a result of quality adjustments to the average posted Edmonton light crude oil price of \$84.79 per bbl.

Under normal circumstances, the average price of NGLs tracks the price of oil. However, beginning in the later part of the second quarter of 2012, changes in the supply and demand for NGLs negatively affected the relationship between the price of NGLs and the price of oil. In the three months ended September 30, 2012, the realized price of Pine Cliff's NGLs was \$60.84 per bbl, representing 72% of the Edmonton light crude oil prices as compared to 73% in the nine months ended September 30, 2012.

Price differentials for commodities have the potential to remain volatile for the remainder of 2012.

#### ROYALTIES

	Three months ended September 30				Nine months ended September 30			
	2012		2011		2012		2011	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Total	373	4.53	10	1.06	919	4.43	31	1.09
% of oil and gas sales	17%		5%		18%		4%	

Royalties for the three and nine months ended September 30, 2012 were \$4.53 and \$4.43 per boe, respectively, as compared to \$1.06 and \$1.09 per boe for the three and nine months ended September 30, 2011, respectively. As a percentage of oil and gas sales, royalties averaged 18% in the first nine months of 2012 (three months ended September 30, 2012 - 17%) as compared to 4% in the first nine months of 2011 (three months ended September 30, 2011 - 5%). 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. Royalty rates, which are dependent on production volumes per well and commodity prices, are presently higher for oil and liquids than natural gas.

#### OPERATING EXPENSES

	Three months ended September 30				Nine months ended September 30			
	2012		2011		2012		2011	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Operating expenses	729	8.80	67	7.28	1,695	8.15	202	7.09
% of oil and gas sales	33%		30%		32%		29%	

As compared to the same periods in 2011, operating expenses per boe increased 21% and 15% in the three and nine months ended September 30, 2012, respectively, to \$8.80 and \$8.15 per boe, respectively. The increase in operating expenses is primarily due to a different operating environment and product mix in the Carrot Creek Assets as compared to the legacy Sundance Assets, such that oil and liquids production results in a higher average per boe cost to produce and transport to market than gas production. Pine Cliff's operating expenses in the third quarter of 2012 were also inflated as a result of the costs associated with sweetening Pine Cliff's sour production during unscheduled third-party plant outages. On a per boe basis, the most significant impact to the operating expenses in the third quarter of 2012 was the decrease in production as a result of unplanned third-party gas plant outages, resulting in fixed costs being allocated over a smaller production base. Pine Cliff is committed to seeking ways to increase efficiencies in the field which should decrease the operating expenses per boe in future periods.

**GENERAL AND ADMINISTRATIVE EXPENSES**

	Three months ended September 30				Nine months ended September 30			
	2012		2011		2012		2011	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Total	451	5.48	61	6.57	1,175	5.67	171	5.99
Less: non-recurring transaction costs	203	2.47	-	-	378	1.82	-	-
	248	3.01	61	6.57	797	3.85	171	5.99
% of oil and gas sales	11%		28%		15%		24%	

General and administrative expenses ("G&A"), excluding non-recurring transaction costs, decreased on a per boe basis to \$3.01 and \$3.85 per boe in the three and nine months ended September 30, 2012, respectively, as compared to \$6.57 and \$5.99 per boe in the three and nine months ended September 30, 2011, respectively. 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.

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 in the second quarter. 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.

In the nine months ended September 30, 2012, Pine Cliff incurred \$185,000 in non-recurring transaction costs related to the acquisition of the Carrot Creek Assets, which closed in the first quarter of 2012 and \$193,000 in non-recurring transaction costs related to the Geomark Transaction, which closed in the fourth quarter of 2012. The non-recurring transaction costs are comprised of legal, accounting, consulting and regulatory expenses associated with those business combinations.

**SHARE-BASED PAYMENTS**

	Three months ended September 30				Nine months ended September 30			
	2012		2011		2012		2011	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Total	203	2.47	-	-	516	2.49	-	-
% of oil and gas sales	9%		0%		10%		0%	

The Company has an equity settled stock-based compensation plan. Stock options are granted to certain officers, directors, employees and service providers, with the term and vesting period of the options granted being determined at the discretion of the Company's Board of Directors. An option's maximum term is five years.

In the first nine months of 2012, Pine Cliff granted stock options to purchase 3,665,000 common shares at a weighted average exercise price of \$0.42 per share. During the second and third quarters of 2012, 140,000 of those options were forfeited, resulting in an ending balance of 3,525,000 stock options outstanding. Subsequent to September 30, 2012, Pine Cliff issued 6,735,000 stock options (See "Subsequent Events"). In the three and nine months ended September 30, 2012, Pine Cliff recorded share-based payment expense of \$203,000 and \$516,000, respectively, (September 30, 2011 - nil) related to the stock options issued.

**DEPLETION AND DEPRECIATION**

	Three months ended September 30				Nine months ended September 30			
	2012		2011		2012		2011	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Oil and gas assets	793	9.64	144	15.34	1,994	9.62	443	15.52
Office furniture and equipment	-	-	-	-	-	-	-	-
Total	793	9.64	144	15.34	1,994	9.62	443	15.52
% of oil and gas sales	36%		65%		38%		63%	

Pine Cliff's depletion and depreciation expense decreased 37% and 38% on a per boe basis in the three and nine months ended September 30, 2012, as compared to the same periods in 2011, respectively. The reduction in depletion and depreciation expense per boe 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 ("Proved Developed Method") for oil and gas properties and the straight-line method for production facilities. This change of estimate was due to management of the Company 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 September 30				Nine months ended September 30			
	2012		2011		2012		2011	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Unwinding of the discounted value of decommissioning liabilities	14	0.17	-	-	30	0.14	2	0.07
Interest and bank charges	202	2.45	-	-	512	2.47	-	-
<b>Total</b>	<b>216</b>	<b>2.62</b>	<b>-</b>	<b>-</b>	<b>542</b>	<b>2.62</b>	<b>2</b>	<b>0.07</b>
% of oil and gas sales	<b>10%</b>		<b>0%</b>		<b>10%</b>		<b>0%</b>	

In the three and nine months ended September 30, 2012, Pine Cliff incurred finance expenses of \$216,000 and \$542,000, respectively, as compared to insignificant amounts in the three and nine months ended September 30, 2011. Finance expenses in 2012 predominately consist of interest on the related party note payable, interest on Pine Cliff's revolving demand credit facility and bank charges incurred as a result of the implementation of the revolving demand credit facility. Amounts drawn under the revolving demand credit facility are in the form of Canadian prime lending rate based loans, guaranteed notes or letters of credit. The revolving demand credit facility bears interest at the prime lending rate plus 0.75% per annum. The related party note payable bears interest at 5% per annum. Overall, Pine Cliff realized an effective interest rate of 4.6% for the nine months ended September 30, 2012. Subsequent to September 30, 2012, Pine Cliff repaid both the revolving demand credit facility and the related party note payable (See "Subsequent Events").

**INCOME TAXES**

	Three months ended September 30				Nine months ended September 30			
	2012		2011		2012		2011	
(000s, except per boe amounts)	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe	\$	\$ per boe
Deferred tax expense (recovery)	(96)	(1.17)	12	1.31	(1,404)	(6.77)	13	0.46

During the third quarter of 2012, a deferred tax recovery of \$96,000 was recorded, as compared to a deferred tax expense of \$12,000 in the third quarter of 2011. The third quarter 2012 recovery is primarily related to temporary differences arising from the book basis of Pine Cliff's property and equipment and decommissioning liability relative to the tax basis.

Pine Cliff recognized a deferred tax recovery of \$1,404,000 in the nine months ended September 30, 2012, as compared to a deferred tax expense of \$13,000 in the nine months ended September 30, 2011. The recovery is due in part to a deferred tax asset being recognized upon the acquisition of the Carrot Creek Assets, and the related reversal of the benefit of the tax pools that was not recognized 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 is now 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 accumulated approximately \$29,697,000 in tax pools at September 30, 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 \$4,844,000 (December 31, 2011 - \$3,483,000) that expire between the years 2026 and 2032.

**EARNINGS (LOSS) AND FUNDS FLOW FROM OPERATIONS**

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
(\$000s, except per boe amounts)				
Earnings (loss)	(472)	(74)	(209)	(160)
Adjustments for:				
Share-based payments	203	-	516	-
Depletion and depreciation	793	144	1,994	443
Unwinding of the discount on decommissioning liabilities	14	-	30	2
Deferred tax expense (recovery)	(96)	12	(1,404)	13
Funds flow from operations	442	82	927	298
Funds flow from operations (\$/boe)	5.37	8.92	4.47	10.44

In the nine months ended September 30, 2012, the loss increased by \$49,000 to \$209,000 as compared to the nine months ended September 30, 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 a significant deferred income tax recovery in the first quarter of 2012. This was more than 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.

In the three months ended September 30, 2012, Pine Cliff recorded a loss of \$472,000 as compared to a loss of \$74,000 in the three months ended September 30, 2011. Despite the increased activity of the Company, the non-cash depletion and depreciation of \$793,000 (three months ended September 30, 2011 – \$144,000) primarily created a loss for the quarter which was partially offset by the deferred tax recovery of \$96,000 in the third quarter of 2012.

Funds flow from operations, which represents cash flow from operating activities before changes in non-cash working capital and interest payable, was \$442,000 and \$927,000 in the three and nine months ended September 30, 2012, respectively, as compared to \$82,000 and \$298,000 in the same periods of 2011, respectively. The increase in funds flow from operations in both periods is due to the increase in activity of the Company with the acquisition of the Carrot Creek Assets.

**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 consideration in the disposal of the South American operations previously owned by Pine Cliff. During the first nine months of 2012, the market value of the investment decreased by \$101,000, before deferred taxes (September 30, 2011 – \$98,000), to \$71,000 (December 31, 2011 – \$172,000).

**SHARE CAPITAL**

As of September 30, 2012, a total of 63,564,118 Pine Cliff common shares were issued and outstanding. On October 19, 2012, Pine Cliff issued an additional 81,767,641 common shares in connection with the Geomark Transaction (See "Subsequent Events"), bringing the number of common shares issued and outstanding to 145,331,759.

Pine Cliff announced on November 12, 2012 that it has entered into an engagement letter for a brokered private placement of up to 8,900,000 common shares (See "Subsequent Events").

**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 purchased 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.

**ADDITIONS TO PROPERTY AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS**

	Nine months ended September 30, 2012	Year ended December 31, 2011
(\$000s)		
Exploration and evaluation assets	91	-
Oil and gas assets	539	30
Furniture and office equipment	2	2
Acquisition of Carrot Creek Assets	24,463	-
Capitalized asset retirement costs	200	
<b>Total</b>	<b>25,295</b>	<b>32</b>

In the nine months ended September 30, 2012, Pine Cliff added \$25,295,000 in capital assets to its balance sheet as compared to \$32,000 in the year ended December 31, 2011. The acquisition of the Carrot Creek Assets included property and equipment of \$23,956,000 and exploration and evaluation assets of \$507,000. In addition to the purchase of the Carrot Creek Assets, Pine Cliff acquired prospective land at crown land sales, purchased 3-D seismic and attempted to recomplate an existing wellbore. Given the current condition of the wellbore and depressed commodity prices, Pine Cliff has chosen to suspend this recompletion work and revisit the opportunity at a later date. Pine Cliff plans to begin drilling a well targeting the Rock Creek zone in December 2012.

**RELATED PARTY TRANSACTIONS****Related party note payable**

On February 28, 2012, the Company's Executive Chairman of the Board and major shareholder (the "Related Party") loaned the Company \$7,000,000. The promissory note bears interest at 5% per annum and is repayable on August 31, 2013 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 September 30, 2012, the full amount of the promissory note was outstanding (December 31, 2011 - nil). Interest paid on this note during the first nine months of 2012 was \$207,000 (September 30, 2011 - nil). Subsequent to September 30, 2012, Pine Cliff repaid the entire amount of the promissory note plus interest (See "Subsequent Events").

**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 nine months ended September 30, 2012 were \$45,000 (September 30, 2011 - \$45,000), plus minimal administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at September 30, 2012, Pine Cliff owed Bonterra \$3,700 (December 31, 2011 - \$3,800).

**Other**

Geomark was a publicly traded company listed on the TSX-V with some common directors and some common management with Pine Cliff. As of September 30, 2012, Geomark owned 432,812 common shares of Pine Cliff (December 31, 2011 - 346,250), which represented less than one percent of the total issued and outstanding common shares of Pine Cliff. Subsequent to September 30, 2012, Geomark and Pine Cliff combined their operations pursuant to an arrangement agreement (See "Subsequent Events") and the shares that Geomark owned in Pine Cliff were sold.

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. Growth 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 and nine months ended September 30, 2012 and 2011:

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
(\$000s)				
Funds flow (deficiency) from operations	442	82	927	298
Bank debt proceeds (repayment)	(178)	-	11,918	-
Related party note payable proceeds	-	-	7,000	-
Issuance of common shares, net of share issue costs	-	-	2,885	-
Interest payable	(38)	-	-	-
Changes in non-cash working capital	(212)	(94)	231	(233)
Decrease (increase) in cash	-	25	277	(43)
Capital expenditures including acquisitions	14	13	23,238	22

In the first nine months 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 September 30, 2012 are comprised of a revolving demand credit facility in the amount of \$15,000,000, of which \$11,918,000 is drawn at September 30, 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. Subsequent to September 30, 2012, Pine Cliff repaid both the revolving demand credit facility and the related party note payable (See "Subsequent Events"). Funds flow from operations and the unused portion of the credit facility will allow Pine Cliff to meet its short-term 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 both the related party note payable and the current portion of bank debt 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 September 30, 2012 and will take steps to ensure that it remains in compliance with its covenants in future periods. As at September 30, 2012, the Company had a working capital deficiency of \$19,038,000 (December 31, 2011 - working capital of \$482,000), mainly as a result of the related party note payable of \$7,000,000 and revolving demand credit facility of \$11,918,000 being considered current liabilities. Subsequent to September 30, 2012, Pine Cliff repaid both the revolving demand credit facility and the related party note payable (See "Subsequent Events").

### 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:

	Total	< 6 months	6 - 12 months	> 12 months
(\$000s)				
Trade and other payables	1,528	1,528	-	-
Related party note payable - principal <sup>1</sup>	7,000	-	7,000	-
Related party note payable - future interest <sup>1</sup>	321	175	146	-
Bank loan - principal <sup>1</sup>	11,918	-	11,918	-
Bank loan - future interest <sup>1</sup>	298	223	75	-
	21,065	1,926	19,139	-

<sup>1</sup> Subsequent to September 30, 2012, the related party note payable and the bank loan were repaid in full (See "Subsequent Events").

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 did not drill on the concession before the expiry date of this contingent receivable.

## ACCOUNTING POLICY CHANGES

### Changes to accounting estimate – property and equipment

On January 1, 2012, the Company prospectively began depleting all of its oil and gas properties and facilities and its decommissioning asset using the Proved plus Probable Method; a change from the 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 nine months of 2012, the Company recorded \$1,493,000 less depletion and depreciation under the Proved plus Probable Method, as 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.

### 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 operating 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.

## SUBSEQUENT EVENTS

On October 19, 2012, Pine Cliff acquired 100% of the issued and outstanding common shares of Geomark (the "Geomark Shares"), a related party, pursuant to an arrangement agreement. Geomark was a public oil and gas and mineral company with oil and gas properties in Alberta and mineral assets in Utah, Ontario, Nunavut and the Northwest Territories. Geomark became a wholly-owned subsidiary of Pine Cliff on October 19, 2012 and its shares were delisted from the TSX Venture Exchange on October 22, 2012. The assets of Geomark, including the strong working capital position, no debt and highly liquid investments in a related party, will provide Pine Cliff with increased cash flow and financial flexibility. Consideration for each Geomark Share was 1.5 voting common shares of Pine Cliff (the "Pine Cliff Shares"), which amounted to the issuance of 81,767,641 Pine Cliff Shares or \$60,508,000, using the closing share price of \$0.74 per share on the date of the Geomark Transaction. The exchange ratio of 1.5 was based on the 30-day average closing price of the Pine Cliff Shares for the period ended September 5, 2012, one day prior to the arrangement agreement being announced to the public. The exchange ratio for the transaction represents a deemed price of \$1.01 per Geomark Share. The Geomark Transaction will be accounted for as a business combination with Pine Cliff identified as the acquirer. The purchase price allocation using the acquisition method for the Geomark Transaction is incomplete as of the date hereof. These details will be disclosed in Pine Cliff's December 31, 2012 financial statements.

Using available cash acquired through the Geomark Transaction, on October 25, 2012, Pine Cliff repaid the entire amount drawn under its Credit Facility and on October 31, 2012, Pine Cliff repaid the entire amount of the related party note payable of \$7,000,000.

On October 30, 2012, 6,735,000 share options were granted to employees with an exercise price of \$0.65, based on the market price immediately preceding the date of grant. The options vest between one and three years and expire between April 30, 2014 and April 30, 2016.

On November 9, 2012, Pine Cliff completed the purchase from a Canadian financial institution whereby Pine Cliff was assigned and transferred all of the financial institution's rights, interests and benefits pursuant to the credit agreement (the "Skope Credit Agreement") and related security documents of Skope. The security documents include a \$200 million demand debenture secured by a first floating charge over all of Skope's assets. Consideration for the Skope Debt Purchase was \$28,000,000 which was funded with cash acquired through the Geomark Transaction of \$20,000,000 and a drawdown of \$8,000,000 on Pine Cliff's revolving demand credit facility. Pine Cliff intends to make an application to the court to appoint a receiver to realize on its security. It is not known at this time if a receiver will be appointed or if Pine Cliff will be successful in realizing on its security. Skope owns an 80% working interest in a package of high-quality, low decline, producing shallow gas assets in southeast Alberta and southwest Saskatchewan. In addition to its oil and gas assets, Skope has positive working capital (excluding current bank indebtedness) and tax pools.

In connection with the Skope Debt Purchase, Pine Cliff has entered into an engagement letter for a brokered private placement (the "Offering") of up to 8,900,000 common shares of Pine Cliff at a price of \$0.73 per share for gross proceeds of approximately \$6,500,000.

## 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 September 30		Nine months ended September 30	
	2012	2011	2012	2011
(\$000s)				
Cash flow from operating activities	246	120	1,113	337
Less:				
Change in non-cash working capital	(158)	38	186	39
Change in interest payable	(38)	-	-	-
Funds flow from operations	442	82	927	298

*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; management's current expectations regarding the ability of Pine Cliff to realize on the debt and security purchased from the financial institution in the Skope Debt Purchase including, without limitation, by court appointed receiver or otherwise; the completion of the Offering; 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 Pine Cliff's 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 September 30, 2012	As at December 31, 2011
<b>ASSETS</b>			
Current assets			
Cash		-	277
Trade and other receivables		1,285	109
Prepaid expenses and deposits		52	23
Investment		71	172
		<b>1,408</b>	581
Exploration and evaluation assets	4	598	-
Property and equipment	5	24,509	1,806
Deferred taxes	6	1,737	-
<b>Total assets</b>		<b>28,252</b>	2,387
<b>LIABILITIES</b>			
Current liabilities			
Trade and other payables		1,528	99
Related party note payable	7	7,000	-
Bank debt	8	11,918	-
		<b>20,446</b>	99
Decommissioning liabilities		2,496	82
<b>Total liabilities</b>		<b>22,942</b>	181
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	9	17,704	14,819
Contributed surplus		1,282	766
Accumulated other comprehensive loss		(225)	(137)
Deficit		(13,451)	(13,242)
<b>Total shareholders' equity</b>		<b>5,310</b>	2,206
<b>Total liabilities and shareholders' equity</b>		<b>28,252</b>	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 September 30 2012	2011	Nine months ended September 30 2012	2011
Oil and gas sales		2,197	220	5,228	702
Royalties		(373)	(10)	(919)	(31)
<b>REVENUE</b>		<b>1,824</b>	<b>210</b>	<b>4,309</b>	<b>671</b>
<b>EXPENSES</b>					
Operating		729	67	1,695	202
General and administration		451	61	1,175	171
Depletion and depreciation	5	793	144	1,994	443
Share-based payments	9	203	-	516	-
Finance expenses	10	216	-	542	2
Total expenses		2,392	272	5,922	818
Loss before income taxes		(568)	(62)	(1,613)	(147)
Deferred tax expense (recovery)	6	(96)	12	(1,404)	13
<b>LOSS FOR THE PERIOD</b>		<b>(472)</b>	<b>(74)</b>	<b>(209)</b>	<b>(160)</b>
<b>Loss per share (\$)</b>					
	9				
Basic		(0.01)	(0.00)	(0.00)	(0.00)
Diluted		(0.01)	(0.00)	(0.00)	(0.00)

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

**STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)**

(Canadian dollars, 000s)  
(unaudited)

	Note	Three months ended September 30 2012	2011	Nine months ended September 30 2012	2011
Loss for the period		(472)	(74)	(209)	(160)
<b>OTHER COMPREHENSIVE EARNINGS (LOSSES)</b>					
Unrealized loss on investment		(14)	(93)	(101)	(98)
Deferred taxes on unrealized loss on investment		2	12	13	13
<b>COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(484)</b>	<b>(155)</b>	<b>(297)</b>	<b>(245)</b>

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 September 30 2012	2011	Nine months ended September 30 2012	2011
<b>CASH PROVIDED BY (USED IN):</b>					
<b>OPERATING ACTIVITIES</b>					
Loss for the period		(472)	(74)	(209)	(160)
Items not affecting cash:					
Share-based payments		203	-	516	-
Depletion and depreciation		793	144	1,994	443
Finance expenses		216	-	542	2
Deferred tax expense (recovery)		(96)	12	(1,404)	13
Changes in non-cash working capital	11	(158)	38	186	39
Interest paid		(240)	-	(512)	-
<b>Cash provided by operating activities</b>		<b>246</b>	<b>120</b>	<b>1,113</b>	<b>337</b>
<b>INVESTING ACTIVITIES</b>					
Expenditures on property and equipment	5	(14)	(13)	(539)	(22)
Expenditures on exploration and evaluation assets	4	-	-	(91)	-
Acquisition	3	-	-	(22,608)	-
Changes in non-cash working capital	11	(54)	(132)	45	(272)
<b>Cash used in investing activities</b>		<b>(68)</b>	<b>(145)</b>	<b>(23,193)</b>	<b>(294)</b>
<b>FINANCING ACTIVITIES</b>					
Issuance of common shares, net of share issue costs		-	-	2,885	-
Related party note payable	7	-	-	7,000	-
Bank debt	8	(178)	-	11,918	-
<b>Cash provided by (used in) financing activities</b>		<b>(178)</b>	<b>-</b>	<b>21,803</b>	<b>-</b>
Increase (decrease) in cash		-	(25)	(277)	43
Cash - beginning of period		-	176	277	108
<b>CASH - END OF PERIOD</b>		<b>-</b>	<b>151</b>	<b>-</b>	<b>151</b>

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 <sup>1</sup>	Accumulated other comprehensive loss <sup>2</sup>	Deficit	Total equity
<b>BALANCE AT JANUARY 1, 2011</b>		14,819	766	-	(13,035)	2,550
Comprehensive loss for the period		-	-	(85)	(160)	(245)
<b>BALANCE AT SEPTEMBER 30, 2011</b>		<b>14,819</b>	<b>766</b>	<b>(85)</b>	<b>(13,195)</b>	<b>2,305</b>
Comprehensive loss for the period		-	-	(52)	(47)	(99)
<b>BALANCE AT DECEMBER 31, 2011</b>		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 loss for the period		-	-	(88)	(209)	(297)
Share-based payments	9	-	516	-	-	516
<b>BALANCE AT SEPTEMBER 30, 2012</b>		<b>17,704</b>	<b>1,282</b>	<b>(225)</b>	<b>(13,451)</b>	<b>5,310</b>

<sup>1</sup> Contributed surplus is comprised of share-based payments.<sup>2</sup> Accumulated other comprehensive income is comprised of unrealized gains and losses on available-for-sale investments.

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

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

As at September 30, 2012 and December 31, 2011 and for the three and nine month periods ended September 30, 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, 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. Subsequent to September 30, 2012, Pine Cliff also became involved in the exploration for precious metals (See Note 13).

**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 issue by the Company's Board of Directors on November 13, 2012.

**b) Changes to Accounting Estimate****Property and equipment**

On January 1, 2012, the Company prospectively began depleting all of its 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 nine months of 2012, the Company recorded \$1,493,000 less depletion and depreciation under the Proved plus Probable Method, as 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 operating 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 \$22,608,000. 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 \$4,308,000 and operating expenses of \$1,655,000 for the period from March 1, 2012 to September 30, 2012. If the acquisition had occurred on January 1,

2012, total oil and gas sales, net of royalties, would have been approximately \$5,802,000 and total operating expenses would have been approximately \$2,258,000 for the nine months ended September 30, 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:

<u>Net assets acquired:</u>	
Property and equipment	23,956
Exploration and evaluation assets	507
Decommissioning provision	(2,182)
Working capital	26
Deferred income tax asset	301
<b>Total net assets acquired</b>	<b>22,608</b>
<u>Consideration:</u>	
Cash	22,608
<b>Total purchase price</b>	<b>22,608</b>

#### 4. EXPLORATION AND EVALUATION ASSETS

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

<u>Cost:</u>	
Balance at December 31, 2011	-
Additions	91
Acquisitions	507
<b>Balance at September 30, 2012</b>	<b>598</b>

#### 5. PROPERTY AND EQUIPMENT

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

<u>Cost:</u>	Oil and gas properties	Office equipment	Total
Balance at December 31, 2011	4,600	2	4,602
Additions	739	2	741
Acquisitions	23,956	-	23,956
<b>Balance at September 30, 2012</b>	<b>29,295</b>	<b>4</b>	<b>29,299</b>
<u>Accumulated depletion and depreciation:</u>			
Balance at December 31, 2011	(2,796)	-	(2,796)
Depletion and depreciation for the period	(1,994)	-	(1,994)
<b>Balance at September 30, 2012</b>	<b>(4,790)</b>	<b>-</b>	<b>(4,790)</b>
<u>Carrying value at:</u>			
December 31, 2011	1,804	2	1,806
<b>September 30, 2012</b>	<b>24,505</b>	<b>4</b>	<b>24,509</b>

#### 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 or reversals recorded in the statement of earnings (loss) for the three or nine months ended September 30, 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.

	September 30, 2012	December 31, 2011
Deferred income tax assets (liabilities):		
Share issue costs	16	1
Investment	32	13
Decommissioning provision	624	18
Property and equipment	-	107
Capital loss carry forward	100	104
Non-capital losses carry forward	1,242	846
Unrecorded benefit of tax pools	-	(1,089)
Exploration and evaluation assets	(150)	-
Property, plant and equipment	(127)	-
<b>Net deferred income tax asset</b>	<b>1,737</b>	<b>-</b>

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

	Nine months ended September 30	
	2012	2011
Loss before income taxes	(1,613)	(147)
Corporate income tax rate	25.0%	26.5%
Computed income tax recovery	(403)	(39)
Increase (decrease) resulting from:		
Non-deductible compensation expense	129	-
Changes in the unrecorded benefit of tax pools	(1,089)	48
Changes in tax rates and other	(41)	4
<b>Deferred income tax expense (recovery)</b>	<b>(1,404)</b>	<b>13</b>

Pine Cliff has approximately \$29,697,000 in tax pools at September 30, 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 \$4,844,000 (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, 2013 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 September 30, 2012, the full amount of the promissory note was outstanding (December 31, 2011 – nil). Interest paid on this note during the three and nine months ended September 30, 2012 was \$88,000 and \$207,000, respectively (September 30, 2011 – nil).

Subsequent to September 30, 2012, Pine Cliff repaid the entire amount of the promissory note plus interest (See Note 13).

### 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 three and nine months ended September 30, 2012 and 2011 were \$15,000 and \$45,000, respectively, plus minimal administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at September 30, 2012, Pine Cliff owed Bonterra \$3,700 (December 31, 2011 – \$3,800).

**Other**

As at September 30, 2012, Geomark Exploration Ltd. ("Geomark") was a publicly traded company listed on the TSX-Venture and had some common directors and some common management with Pine Cliff. As at September 30, 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. Subsequent to September 30, 2012, Geomark and Pine Cliff combined their operations pursuant to an arrangement agreement (See Note 13) and the Pine Cliff shares were sold in the public market.

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 (the "Credit Facility") with a Canadian chartered bank, of which \$11,918,000 is drawn at September 30, 2012. The Credit Facility is considered a current liability at September 30, 2012 as the current revolving period will end on May 31, 2013 and if the Credit Facility is not renewed it will become payable in full on demand. Subsequent to September 30, 2012, Pine Cliff repaid the entire amount of the Credit Facility (See Note 13). Amounts drawn under this Credit Facility are in the form of Canadian prime lending rate based loans, guaranteed notes or letters of credit. The Credit Facility bears interest at the prime lending rate plus 0.75% per annum and Pine Cliff realized an effective interest rate of 3.75% for the nine months ended September 30, 2012. The Credit Facility is secured by a first priority security interest on all present and after acquired property of the Company.

The Credit Facility requires Pine Cliff to maintain a working capital ratio, excluding the related party note payable and the current portion of the bank debt 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 September 30, 2012.

**9. SHARE CAPITAL****Authorized**

The Company is authorized to issue an unlimited number of Common Shares ("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**

	Common shares (000s)	Share capital
Issued and outstanding share capital continuity:		
Balance at 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)
<b>Balance at September 30, 2012</b>	<b>63,564</b>	<b>17,704</b>

The shares issued pursuant to a private placement in the nine months ended September 30, 2012 were issued to the President and Chief Executive Officer and his associates. Subsequent to September 30, 2012, Pine Cliff issued 81,767,641 shares (See Note 13).

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 and nine month periods ended September 30, 2012 and 2011, all options were excluded as there was a loss in the periods then ended.



Loss per share calculation:	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
<b>Numerator</b>				
Earnings (loss) for the period	(472)	(74)	(209)	(160)
<b>Denominator (000s)</b>				
Weighted-average common shares outstanding - basic	63,564	46,146	61,466	46,146
Effect of options outstanding	-	-	-	-
Weighted-average common shares outstanding - diluted	63,564	46,146	61,466	46,146
Earnings (loss) per share - basic (\$)	(0.01)	(0.00)	(0.00)	(0.00)
Earnings (loss) per share - diluted (\$)	(0.01)	(0.00)	(0.00)	(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 September 30, 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 at September 30, 2012 and changes during the nine month period then ended is presented as follows:

Stock options issued and outstanding:	Options (000s)	Weighted-average exercise price (\$ per share)
Outstanding at December 31, 2011	-	-
Granted	3,665	0.42
Forfeited	(140)	0.38
<b>Outstanding at September 30, 2012</b>	<b>3,525</b>	<b>0.43</b>
<b>Exercisable at September 30, 2012</b>	<b>-</b>	<b>-</b>

Subsequent to September 30, 2012, Pine Cliff issued 6,735,000 stock options (See Note 13). The following table summarizes information about stock options outstanding at September 30, 2012:

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
\$0.38	2,835	3.3	-	-
\$0.50	255	3.3	-	-
\$0.65 - \$0.76	435	2.7	-	-
	3,525	3.3	-	-

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 nine months ended September 30, 2012, the Company granted 3,665,000 stock options with an estimated fair value of \$1,283,000 or \$0.35 per option using the Black-Scholes option pricing model with the following key assumptions (weighted-average):

Assumptions:	Nine months ended September 30, 2012
Exercise price (\$)	0.42
Estimated volatility of underlying common shares (%)	128
Weighted average expected life (years)	3.9
Risk-free rate (%)	1.2
Forfeiture rate (%)	0.0
Expected dividend yield (%)	0.0

## 10. FINANCE EXPENSES

Finance expenses are comprised of:

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Finance expenses:				
Interest and bank charges	202	-	512	-
Unwinding of the discount on decommissioning liabilities	14	-	30	2
	<b>216</b>	<b>-</b>	<b>542</b>	<b>2</b>

## 11. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
<b>Operating activities</b>				
Changes in non-cash working capital:				
Trade and other receivables	33	(2)	(1,175)	64
Prepaid expenses and deposits	23	5	(29)	7
Trade and other payables and accrued liabilities	(214)	35	1,390	(32)
	<b>(158)</b>	<b>38</b>	<b>186</b>	<b>39</b>
<b>Investing activities</b>				
Changes in non-cash working capital:				
Trade and other receivables	-	(132)	-	(121)
Trade and other payables and accrued liabilities	(54)	-	45	(151)
	<b>(54)</b>	<b>(132)</b>	<b>45</b>	<b>(272)</b>

## 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 September 30, 2012 and December 31, 2011:

Description: <sup>1</sup>	Level	September 30, 2012		December 31, 2011	
		Carrying value	Fair value	Carrying value	Fair value
Cash	1	-	-	277	277
Trade and other receivables		1,285	1,285	109	109
Investment	1	71	71	172	172
Trade and other payables		(1,528)	(1,528)	(99)	(99)
Related party note payable		(7,000)	(7,000)	-	-
Bank debt		(11,918)	(11,918)	-	-

<sup>1</sup> 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 earnings (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	1,528	1,528	-	-
Related party note payable - principal <sup>1</sup>	Yes - Liability	7,000	-	7,000	-
Related party note payable - future interest <sup>1</sup>	No	321	175	146	-
Bank loan - principal <sup>1</sup>	Yes - Liability	11,918	-	11,918	-
Bank loan - future interest <sup>1</sup>	No	298	223	75	-
		21,065	1,926	19,139	-

<sup>1</sup> Subsequent to September 30, 2012, the related party note payable and the bank loan were repaid in full (See Note 13).

**13. SUBSEQUENT EVENTS**

On October 19, 2012, Pine Cliff acquired 100% of the issued and outstanding common shares of Geomark (the "Geomark Shares"), a related party, pursuant to an arrangement agreement (the "Geomark Transaction"). Geomark was a public oil and gas and mineral company with oil and gas properties in Alberta and mineral assets in Utah, Ontario, Nunavut and the Northwest Territories. Geomark became a wholly-owned subsidiary of Pine Cliff on October 19, 2012 and its shares were delisted from the TSX Venture Exchange on October 22, 2012. The assets of Geomark, including the working capital position, no debt and liquid investments, will provide Pine Cliff with increased cash flow and financial flexibility. Consideration for the each of Geomark Shares was 1.5 voting common shares of Pine Cliff (the "Pine Cliff Shares"), which amounted to the issuance of 81,767,641 Pine Cliff Shares or \$60,508,000, using the closing share price of \$0.74 per share on the date of the Geomark Transaction. The exchange ratio of 1.5 was based on the 30-day average closing price of the Pine Cliff Shares for the period ended September 5, 2012, one day prior to the arrangement agreement being announced to the public. The exchange ratio for the transaction represents a deemed price of \$1.01 per Geomark Share. The Geomark Transaction will be accounted for as a business combination with Pine Cliff identified as the acquirer. The purchase price allocation using the acquisition method for the Geomark Transaction is incomplete as of the date hereof. These details will be disclosed in Pine Cliff's December 31, 2012 financial statements.

Using available cash acquired through the Geomark Transaction, on October 25, 2012, Pine Cliff repaid the entire amount drawn under its Credit Facility and on October 31, 2012, Pine Cliff repaid the entire amount of the related party note payable of \$7,000,000.

On October 30, 2012, 6,735,000 share options were granted to employees with an exercise price of \$0.65, based on the market price immediately preceding the date of grant. The options vest between one and three years and expire between April 30, 2014 and April 30, 2016.

On November 9, 2012, Pine Cliff completed the purchase from a Canadian financial institution of all of the outstanding indebtedness and liabilities owing by Skope Energy Partners ("Skope") and all of the security documents granted by Skope to the financial institution (the "Skope Debt Purchase"). The security documents include a \$200 million demand debenture secured by a first floating charge over all of Skope's assets. Consideration for the Skope Debt Purchase was \$28,000,000 which was funded with cash acquired in the Geomark Transaction of \$20,000,000 and a drawdown of \$8,000,000 on Pine Cliff's Credit Facility. The effective date of the transaction is November 9, 2012. Skope owns an 80% working interest in a package of producing shallow gas assets in southeast Alberta and southwest Saskatchewan. In addition to its oil and gas assets, Skope has positive working capital (excluding current bank indebtedness) and tax pools. Pine Cliff intends to make an application to the court to appoint a receiver to realize on its security. It is not known at this time if a receiver will be appointed or if Pine Cliff will be successful in realizing on its security.

In connection with the Skope Debt Purchase, Pine Cliff has entered into an engagement letter for a brokered private placement (the "Offering") of up to 8,900,000 common shares of Pine Cliff at a price of \$0.73 per share for gross proceeds of approximately \$6,500,000.

**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  
Robb D. Thompson  
Chief Financial Officer and Secretary

**HEAD OFFICE**

901, 1015 – 4<sup>th</sup> Street SW  
Calgary, Alberta T2R 1J4  
Phone: (403) 269-2289  
Fax: (403) 265-7488

**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](http://www.pinecliffenergy.com)