Pine Cliff Energy Ltd.

2007 ANNUAL REPORT

PROFILE

Pine Cliff Energy Ltd. (TSX Venture symbol – PNE) is a junior energy company that explores for, develops, and produces oil and natural gas in the Western Sedimentary Basin in Canada and Internationally.

The Company's business strategy is to strive to maximize shareholder value by applying long-term growth objectives. The Company's primary objective is to combine its oil and gas production technical strengths with planned business strategies to generate above average results and returns for its shareholders.

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NOTICE OF MEETING

The Annual General Meeting of Shareholders will be held on Thursday, May 22, 2008, in the Eau Claire Room at the Westin Hotel, 320 Fourth Avenue S.W., Calgary, Alberta, at 9:00 a.m. (Calgary time).

FORWARD-LOOKING INFORMATION

Certain information set forth in this document, including management's assessment of Pine Cliff Energy Ltd.'s ("the Company" or "Pine Cliff") future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Pine Cliff's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Pine Cliff's actual results, performance or achievement could differ materially from those expressed in, or implied by these forward-looking statements, and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits Pine Cliff will derive therefrom. Pine Cliff disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned that net present value of reserves does not represent fair market value of reserves.

HIGHLIGHTS

$	2007	2006
Financial		
Revenue – Oil and Gas	**582,950**	661,100
Funds flow from Operations (1)	**(934,998)**	(424,248)
Per Share Basic	**(0.02)**	(0.01)
Per Share Fully Diluted	**(0.02)**	(0.01)
Net Loss	**(1,381,454)**	(1,014,605)
Per Share Basic	**(0.04)**	(0.03)
Per Share Fully Diluted	**(0.04)**	(0.03)
Capital Expenditures and Acquisitions	**2,797,763**	271,926
Shareholders' Equity	**12,205,066**	4,239,638
Shares Outstanding (December 31)	**45,275,695**	36,523,041
Operations		
Oil and Liquids (barrels per day)	**4**	5
Average Price ($ per barrel)	**62.75**	63.88
Natural Gas (MCF per day)	**198**	195
Average Price ($ per MCF)	**6.91**	7.58
Total Barrels per Day (BOE per day) (2)	**37**	38
Reserves (3)		
Oil and Liquids (barrels)		
Proved Developed Producing (Gross)	**4,800**	10,200
Proved plus Probable (Gross)	**6,900**	13,700
Natural Gas (MCF)		
Proved Developed Producing (Gross)	**251,000**	326,000
Proved plus Probable (Gross)	**363,000**	440,000
Share Trading Statistics		
Share Prices (based on daily closing price)		
High	**$1.60**	$0.76
Low	**$0.40**	$0.40
Close	**$0.75**	$0.65
Daily Average Trading Volume	**6,783**	3,754

(1) Funds flow from operations is not a recognized measure under GAAP. Management believes that in addition to net earnings, funds flow from operations is a useful supplemental measure as it demonstrates the Company's ability to generate the cash necessary to fund future growth through capital investment. Investors are cautioned, however, that this measure should not be construed as an indication of the Company's performance. The Company's method of calculating this measure may differ from other issuers and accordingly, it may not be comparable to that used by other issuers. For these purposes, the Company defines funds flow from operations as funds provided by operations before changes in non-cash operating working capital items, foreign exchange loss and asset retirement expenditures.

(2) BOE's are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

(3) Gross reserves relate to the Company's ownership of reserves before royalty interests.

REPORT TO SHAREHOLDERS

Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") is pleased to report its operational and financial results for 2007. It has been a challenging year for the Company. As advised in previous releases, Pine Cliff elected to focus most of its activities in South America and a lesser amount in North America. This focus may have to be modified in the future.

Operations

Throughout most of 2007 the Company was successful in advancing its assessment and evaluation of its large land position in Argentina (1,165,000 gross acres; 605,000 net acres). However, in November 2007, unannounced and without industry consultation, the Argentina Federal government increased the export tax on crude oil to a rate of 100 percent for all revenue over $42 West Texas Intermediate price.

This increased export tax made it necessary for the Company to reassess the economics for the projects in Argentina. It has been concluded that although the net backs will not be as good, they are still economical but at a lower rate of return. Pine Cliff will therefore continue with its planned drill program in April whereby three anomalies will be drilled and will continue with its aero-magnetic and aero-gravity survey and will acquire 39 square miles of 3D seismic on its largest property in the San Jorge Basin. The Company is currently conducting a 39 square mile 3D seismic program over its property in the Neuquen Basin.

Another reason for continuing in Argentina is that the increased export tax will likely result in a reduction in activity in that country and that may cause the Argentine government to reassess this increased export tax.

The Company also believes because of energy shortages in Argentina, the government will have to make energy policy changes to stimulate investment in the oil and gas sector.

Overall the position in Argentina is still of benefit to Pine Cliff. A land position of this magnitude is difficult to obtain and provides the potential for a large number of drill locations on anomalies that may be large in size.

The Company is also increasing its activity in Canada and the United States.

Finance

At December 31, 2007, the Company had working capital of $8,300,000 and is well positioned to proceed with its activities in Argentina and North America.

General

The Board of Directors wish to take this opportunity to thank its shareholders for their patience and support during a year when royalty challenges emerged in both Argentina and Alberta. The Board also wishes to acknowledge the input of the staff and consultants for their contributions during the past year.

Submitted on behalf of the Board of Directors,

George F. Fink
President, CEO, and Director

Reserves

The Company engaged the services of Sproule Associates Limited to prepare a reserve evaluation with an effective date of December 31, 2007. The reserves are located in the Province of Alberta. The majority of the Company's production is comprised of natural gas. The Company's main gas producing area is located in the Sundance area of West Central Alberta. The gross reserve figure in the following charts represents the Company's ownership interest before royalties and the net figure is after deductions for royalties.

Summary of Oil and Gas Reserves as of December 31, 2007

(Forecast Prices and Costs)

	Reserves			
	Natural Gas		Natural Gas Liquids	
Reserve category	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)
Proved				
Developed producing	**251**	**199**	**5**	**3**
Total proved	**251**	**199**	**5**	**3**
Probable	**112**	**87**	**2**	**1**
Total proved plus probable	**363**	**286**	**7**	**4**

Reconciliation of Company Gross Reserves by Principal Product Type

(Forecast Prices and Costs)

		Natural Gas	
	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)
December 31, 2006	**326**	**114**	**440**
Technical Revisions	**(7)**	**(3)**	**(10)**
Economic factors	**5**	**1**	**6**
Production	**(73)**	**–**	**(73)**
December 31, 2007	**251**	**112**	**363**

Summary of Net Present Values of Future Net Revenue as of December 31, 2007

(Forecast Prices and Costs)

	Net Present Value of Future Net Revenue After Income Taxes Discounted at (%/year)				
Reserve category (M$)	0	5	10	15	20
Proved					
Developed Producing	**1,164**	**1,102**	**896**	**805**	**732**
Total proved	**1,164**	**1,102**	**896**	**805**	**732**
Probable	**602**	**440**	**336**	**267**	**219**
Total proved plus probable	**1,766**	**1,452**	**1,232**	**1,072**	**951**

Year	Edmonton Par Price (Cdn $ per barrel)	Alberta Gas Reference Price Plantgate (Cdn $ per MCF)	Propane (Cdn $ per barrel)	Butane (Cdn $ per barrel)	Pentane (Cdn $ per barrel)
2008	**88.17**	**6.19**	**52.29**	**65.72**	**90.30**
2009	**84.54**	**6.94**	**50.14**	**63.01**	**86.58**
2010	**83.16**	**7.46**	**49.32**	**61.98**	**85.17**
2011	**81.26**	**7.50**	**48.20**	**60.57**	**83.23**
2012	**80.73**	**7.41**	**47.88**	**60.17**	**82.68**
2013	**81.25**	**7.58**	**48.19**	**60.56**	**83.21**
2014	**82.88**	**7.76**	**49.16**	**61.78**	**84.88**
2015	**84.55**	**7.94**	**50.14**	**63.02**	**86.59**
2016	**86.25**	**8.12**	**51.15**	**64.28**	**88.33**
2017	**87.98**	**8.31**	**52.18**	**65.58**	**90.10**

Natural gas and liquid prices escalate at 2% thereafter.

The following cautionary statements are specifically required by NI 51-101.

- It should not be assumed that the estimates of future net revenue presented in the above tables represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material.
- Disclosure provided herein in respect of BOE's may be misleading, particularly if used in isolation. In accordance with NI 51-101, a BOE conversion ratio of 6mcf:1bbl has been used in all cases in this disclosure. This BOE conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
- Estimates of reserves and future net revenues for individual properties may not reflect the same confidence level as estimates of reserves and future net revenues for all properties due to the effects of aggregation.

Land Holdings

The Company's holdings of natural gas leases and rights as of December 31, 2007 and 2006 are as follows:

	2007		2006	
	Gross Acres	**Net Acres**	Gross Acres	Net Acres
Alberta, Canada	**7,360**	**2,802**	7,360	2,802
San Jorge Basin, Argentina	**912,810**	**542,410**	–	–
Neuquen Basin, Argentina	**252,048**	**63,012**	–	–
	1,172,218	**608,224**	7,360	2,802

Petroleum and Natural Gas Capital Expenditures

The following table summarizes petroleum and natural gas capital expenditures incurred by the Company on acquisitions, land, seismic, exploration and development drilling and production facilities for the years ended December 31:

	2007	2006
Exploration and development costs	**$2,790,208**	$ 226,193
Acquisitions	**–**	–
Land costs	**–**	–
Net petroleum and natural gas capital expenditures	**$2,790,208**	$ 226,193

Drilling History

The following table summarizes the Company's gross and net drilling activity and success:

	2007					
	Development		**Exploratory**		**Total**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
Natural Gas	–	–	–	–	–	–
Success rate	–%	–%	–	–	–%	–%

	2006					
	Development		Exploratory		Total	
	Gross	Net	Gross	Net	Gross	Net
Natural Gas	1	0.1	–	–	1	0.1
Success rate	100%	100%	–	–	100%	100%

	2005					
	Development		Exploratory		Total	
	Gross	Net	Gross	Net	Gross	Net
Natural Gas	2	0.2	–	–	2	0.2
Dry	–	–	1	1.0	1	1.0
Total	2	0.2	1	1.0	3	1.2
Success rate	100%	100%	–	–	67%	16.7%

Pine Cliff's only producing property is located in the Sundance area of West Central Alberta. The Company has a 13.7% average working interest in 5,280 acres (723 net) of Crown land in the area. There are currently 5 (0.53 net) wells producing. The wells are producing from multiple Cretaceous sands ranging from the Cadomin to the Belly River. Current production from the five wells is approximately 1,550 mcf/day gross, 186 mcf/day net to Pine Cliff. NGL's are produced in association with the natural gas.

There continues to be significant industry activity in the area and the Company continues to monitor and evaluate non-producing properties for additional prospective drilling locations as the information becomes available. The increased activity in the area has caused pipeline pressures to increase as new wells are brought on stream, adversely affecting Pine Cliff's wells periodically. A third party plant expansion completed in November should alleviate this problem.

In 2006 Pine Cliff had decided to pursue oil and gas opportunities in South America. In 2007, the Company was successful in negotiating three separate farm-in agreements to acquire an interest in over 50 gross (26 net) townships of land in Argentina.

Cañadón Ramirez Farm-In, Argentina

The Company through its 93 percent owned subsidiary, CanAmericas Energy Ltd. ("CanAmericas") has earned a 49% interest in 47,940 gross acres (23,490 net acres) of an exploitation concession situated in the western part of the San Jorge Basin by committing to fund 100% of exploration costs totaling $US 5,500,000 over the next two years. The commitment includes conducting a 3D seismic program and drilling three wells in the first year at an estimated cost of $US 4,630,000. In the second year of the commitment CanAmericas is committed to spend the remainder of the $US 5,500,000 on drilling.

The acreage is bordered by several producing oil fields. Over 40 separate prospective reservoirs belonging to the Upper-Mid Cretaceous-aged Bajo Barreal and Castillo Formations are known to exist within the farm in area at depths between 600 – 1,500 meters. Additionally, Neocomian aged source rocks within the farm in area have been proven to be oil generating and over pressured.

CanAmericas has completed a 190 square kilometer 3D seismic survey and will be commencing with a three well drilling program in April 2008 which is to be completed by the end of May. An agreement was made with an adjacent operator to trade seismic data providing Pine Cliff with data over a total of 240 square kilometers. This has allowed CanAmericas to tie in its seismic data to seismic conducted over an existing producing oil field.

San Jorge Basin Farm-In, Argentina

The Company through its 93 percent owned subsidiary, CanAmericas, has negotiated exclusive rights to progressively earn a 60% interest in 864,870 gross acres (518,920 net acres) of an exploration permit situated in the north-central San Jorge basin. CanAmericas has the right to become operator of the Permit and will likely decide to do so after it has completed its due diligence.

Subject to completion of the due diligence, the exclusive rights commit CanAmericas to fund 100% of the costs to conduct an aero-magnetic and aero-gravity survey over the entire permit area, acquire 39 square miles of 3D seismic, and drill two exploration wells to earn a 30% participating interest in the entire permit. The surveys are to be completed within one year of the effective date of the agreement and the wells are to be drilled within two years of the effective date.

CanAmericas will earn an additional 30% in the entire permit by drilling two additional wells within three years of the effective date of the agreement. CanAmericas will receive 100 percent of cash flow from this property until it has recovered 100 percent of its costs for the two work programs. The estimated cost for both work programs is $US 4,620,000. After completion of the two work programs costs will be shared on a 60 percent CanAmericas and 40 percent farmor basis.

Principal reservoir objectives are multiple sands of the Upper-Mid Cretaceous Bajo Barreal and Castillo Formations which are known to exist throughout the permit at depths ranging between 300 – 1,500 meters. A producing oil field lies adjacent to the southern border of this permit and existing seismic data and well control suggests the productive trend may extend into the southern portion of this permit. Additionally, numerous oil and gas shows encountered by older wells drilled throughout the permit during the 1960's – 1980's prove that the permit contains an active hydrocarbon system.

CanAmericas will initially acquire the regional aero-gravity and aero-magnetic surveys over the entire permit and with this information, and existing well and 2D seismic coverage, will determine where to best conduct the required 3D seismic survey. The 3D coverage is expected to assist in better understanding strategraphic environments that were previously identified from existing 2D seismic coverage.

CanAmericas commitment and earn-in in this property is subject to final granting of the concession for this property by the provincial government to the Farmor. The finalization for this concession is ongoing and is expected to be completed in the second quarter of 2008. The work commitments are expected to commence shortly thereafter.

Laguna de Piedra Farm-In, Argentina

The Company through its 93 percent owned subsidiary, CanAmericas, has earned a 25 percent interest in 252,944 gross acres (63,236 net acres) of the Laguna de Piedra exploration concession operated by Golden Oil, and is situated on the southeast flank of the prolific Neuquen Basin. The concession is adjacent to the Estacion Fernandex Oro oil field situated to the northwest, and adjacent to Flor de Roca, General Roca, and Don Jose oil fields to the north. These fields collectively produce from the Lower Cretaceous – Jurassic aged Quintuco, Lotena, Los Molles, and Punta Rosada Formations. Additionally, it is believed that the PreCuyo interval may also have significant potential, as it lies on trend with Chevron's La Yassera and Loma Negra fields, and is in a similar deposition setting as Petrolifera's recent Puesto Morales Field discoveries. Expected target depths range from 500 to 2,200 meters. There are 140 kilometers of existing 2D seismic lines, but no well has ever been drilled on the block. Plans include reprocessing the existing seismic date, and acquiring 100 square kilometers of proprietary 3D seismic to mature the inventory of existing leads. The 3D seismic will be shot in April of 2008. CanAmericas share of the 3D program is estimated at $US 1,080,000.

The following report dated March 18, 2008 is a review of the operations, current financial position and outlook for the Company and should be read in conjunction with the audited financial statement for the period ended December 31, 2007, including the notes related thereto.

Forward-Looking Information

Certain statements contained in this MD&A include statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: expected cash provided by continuing operations; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and outlook; expansion and growth of our business and operations; and maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, and may include, without limitation: the risks of foreign operations; foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived therefrom. Except as required by law, Pine Cliff disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

Financial and Operational

Annual Financial and Operational Highlights

	2007	2006	2005
Financial			
Revenue - Oil and Gas	**$ 582,950**	$ 661,100	$ 633,873
Funds Flow from Operations [1]	**(934,998)**	(424,248)	368,259
Per Share Basic	**(0.02)**	(0.01)	0.01
Per Share Diluted	**(0.02)**	(0.01)	0.01
Net Loss	**(1,381,454)**	(1,014,605)	(329,062)
Per Share Basic	**(0.04)**	(0.03)	(0.01)
Per Share Diluted	**(0.04)**	(0.03)	(0.01)
Capital Expenditures and Acquisitions	**2,797,763**	271,926	2,097,930
Total Assets	**12,445,994**	4,494,010	5,267,988
Working Capital	**8,378,110**	2,963,513	3,565,689
Shareholder's Equity	**12,205,066**	4,239,638	5,110,407
Operations			
Oil and Liquids *(barrels per day)*	**4**	5	7
Natural Gas *(MCF per day)*	**198**	195	175

Quarterly Financial and Operational Highlights

	2007			
Financial	**4th**	**3rd**	**2nd**	**1st**
Revenue - Oil and Gas	**$ 112,685**	**$ 95,160**	**$ 176,590**	**$ 198,515**
Funds Flow from Operations [1]	**(228,913)**	**(287,764)**	**(252,435)**	**(165,886)**
Per Share Basic	**(0.01)**	**(0.01)**	**(0.01)**	**(0.00)**
Per Share Diluted	**(0.01)**	**(0.01)**	**(0.01)**	**(0.00)**
Net Loss	**(381,561)**	**(383,510)**	**(346,274)**	**(270,109)**
Per Share Basic	**(0.01)**	**(0.01)**	**(0.01)**	**(0.01)**
Per Share Diluted	**(0.01)**	**(0.01)**	**(0.01)**	**(0.01)**
Capital Expenditures and Acquisitions	**193,350**	**174,289**	**233,648**	**2,196,476**
Total Assets	**12,445,994**	**4,173,333**	**3,946,888**	**4,211,984**
Working Capital	**8,378,110**	**(314,684)**	**182,319**	**602,650**
Shareholder's Equity	**12,205,066**	**3,371,089**	**3,749,025**	**4,008,304**
Operations				
Oil and Liquids (barrels per day)	**2**	**1**	**5**	**7**
Natural Gas *(MCF per day)*	**182**	**163**	**226**	**226**

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

(1) Funds flow from operations is not a recognized measure under GAAP. Management believes that in addition to net earnings, funds flow from operations is a useful supplemental measure as it demonstrates the Company's ability to generate the cash necessary to fund future growth through capital investment. Investors are cautioned, however, that this measure should not be construed as an indication of the Company's performance. The Company's method of calculating this measure may differ from other issuers and accordingly, it may not be comparable to that used by other issuers. For these purposes, the Company defines funds flow from operations as funds provided by operations before changes in non-cash operating working capital items, foreign exchange loss and asset retirement expenditures.

Production

Production volumes in 2007 averaged 198 MCF (2006 – 195 MCF) of natural gas and four barrels (2006 – five barrels) of natural gas liquids per day. Production volumes increased in the fourth quarter of 2007 to 182 MCF per day from 163 MCF per day in quarter three.

The Company has an expected decline rate of approximately 20%. During the third quarter of each year the operator of the gas plant, where approximately 80 percent of the Company's production is processed, performs an annual turnaround resulting in having to shut in wells for lengthy periods of time. In 2007 the wells were shut in for a shorter period than in 2006 resulting in production volumes remaining constant year over year.

Revenue

Revenue from petroleum and natural gas sales for 2007 was $582,950 compared to $661,100 in 2006. The decrease of $78,150 was due to lower commodity prices. Average price received in 2007 for its natural gas was $6.91 (2006 - $7.58) per MCF and $62.75 (2006 - $63.88) per barrel for natural gas liquids. The Company did not have hedging agreements in either 2007 or 2006 and presently does not have any future hedging agreements.

Fourth quarter petroleum and natural gas sales increased to $112,685 from $95,160 in the third quarter. The increase is primarily due to higher production from the Sundance property as well as a 10% increase in natural gas commodity prices.

Royalties

Royalties consist of Crown royalties of $113,257 (2006 – ($1,054)) paid to (recovered from) the Province of Alberta and gross overriding royalties of $23,755 (2006 - $26,723). Crown royalties are significantly higher in 2007 due to the expiry of the Crown royalty holiday on all the Company's gas wells. Gross overriding royalties are down due to lower commodity prices for natural gas.

Royalties for Q4 2007 consist of Crown royalties of $27,090 (Q3 2007 – 13,791) and gross overriding royalties of $4,570 (Q3 2007 - $7,338). The increase in Crown royalties is due to a significant increase in production as wells came back on production from the annual turnaround and the expiry of the Crown royalty holiday. Gross overriding royalties have decreased due to an allocation of a prior year adjustment by the operator in Q3 2007.

Based on information currently available to management, the royalty review will not have a material effect on future Crown royalty payments.

Interest Income

Interest income decreased in 2007 to $76,273 from $118,981 in 2006 as the Company's cash balance was higher on average throughout the year in 2006 than in 2007. The Company maintains an investment account with its principal banker that pays interest at prime less 2.25 percent as long as the Company maintains a minimum balance of $1,500,000. The Company in March 2007 drew down on the outstanding cash balance to finance its exploration expenditure commitment in Argentina. Please refer to Commitments Section. This amount was replenished in late October as the Company raised equity through a rights offering. Please refer to the Liquidity and Capital Resources section. Also the Company through its subsidiary CanAmericas purchased a Term deposit (rolling GIC) for $2,678,057 to maintain a minimum cash balance required by one of its Concessions in Argentina. The GIC paid interest at 3.4%.

Production Costs

Production costs for the year ended December 31, 2007, were $134,453 (2006 - $132,346) or $10.48 (2006 - $9.62) per BOE (Q4 – $12.53 per BOE, Q3 – $10.90 per BOE). BOE's are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation. Due to capacity constraints at the gas plant, the Company is incurring increased processing fees in relation to its Sundance gas production.

General and Administrative

General and administrative expenses for 2007 were $1,294,929 (Q4 - $329,773) compared to $1,043,866 for 2006 and $315,257 for the third quarter of 2007. The primary reason for the increase in 2007 expenses was due to the Company incurring $144,000 in additional professional fees (mostly engineering and consulting fees) and $29,000 in finance fees related to its activities in South America. Also administration costs increased by $23,000, due to increased continuous disclosure costs.

Pine Cliff does not have any employees at the present time but has engaged Bonterra Energy Corp. ("Bonterra Corp") a related party (see Related Party section), to provide management services and engages the services of consultants on a contract or temporary basis. Pine Cliff's subsidiary CanAmericas Energy Ltd. ("CanAmericas") has also engaged the consulting services of two individual professionals as senior management and officers of CanAmericas.

Foreign Exchange Loss

In February 2006, the Company incorporated CanAmericas to explore and develop oil and gas properties primarily in South America. CanAmericas is owned 93 percent by the Company and seven percent by a foreign private corporation ("Foreign Corp."). CanAmericas was initially financed with $1,400,000 U.S. for 5,600,000 common shares from the Company and $100,000 U.S. for 400,000 common shares from Foreign Corp. Further Canadian funds, from Pine Cliff, have also been loaned to CanAmericas and converted to US funds. The funds held in US cash have caused a loss in foreign exchange as the Canadian dollar appreciated against the US dollar in 2007 and 2006. In 2007 the Company had a foreign exchange loss of $27,827 (2006 - $2,448). The fourth quarter saw the Canadian dollar weaken as the Company had a foreign exchange gain of $6,302 compared to a foreign exchange loss of $14,481 in Q3 of 2007.

Stock Based Compensation

Stock based compensation for the year ended December 31, 2007, was $178,826 (2006 - $128,385). The Company has a stock-based compensation plan for Pine Cliff. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. The Company issued 1,108,000 stock options in Pine Cliff during 2007. The Company estimated the stock options fair value at $547,080 ($0.49 per option) using the Black-Scholes option pricing model, assuming a weighted average risk free interest rate of 4.14 percent, weighted average expected volatility of 64.8 percent, weighted average expected life of 2.5 years and no annual dividend rate. As of December 31, 2007 approximately $500,000 of unamortized stock based compensation exists and will be amortized over two years, approximately $400,000 in 2008 and $100,000 in 2009.

Depletion, Depreciation and Amortization

The Company follows the successful efforts method of accounting for petroleum and natural gas properties and related equipment. Costs of acquiring unproved properties are capitalized. When petroleum and natural gas properties are found to contain proved reserves as determined by Company engineers, the related net book value is depleted on the unit of production basis, calculated by field. The costs of dry holes and abandoned properties are charged to operations. Geological costs, lease rentals and carrying costs are charged to income as incurred. Costs of drilling exploratory and development wells that result in additions to proved reserves are capitalized and depleted on the unit of production basis. Tangible equipment is depreciated on a straight-line basis over ten years. The Company through its subsidiary CanAmericas spent $2,575,676 on exploration activities in Argentina to earn an interest in specific properties. If the development of these properties is successful and proved reserves are obtained, this amount will be depleted on the unit of production basis, otherwise this amount will be charged to operations.

Provisions are made for asset retirement obligations through the recognition of the fair value of obligations associated with the retirement of tangible long-life assets being recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is adjusted over time for changes in the value of the liability through accretion charges which are included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion and depreciation of the underlying asset.

At December 31, 2007, the estimated total undiscounted amount required to settle the asset retirement obligations was $69,182 (2006 - $42,796). These obligations will be settled based on the useful lives of the underlying assets, which extend up to 13 years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of five percent. The discount rate is reviewed annually and adjusted if considered necessary. A change in the rate would not have a significant impact on the amount recorded for asset retirement obligations.

The calculation of the above requires an estimation of the amount of the Company's petroleum reserves by field. This figure is calculated annually by an independent engineering firm and used to calculate depletion. This calculation is to a large extent subjective. Reserve adjustments are affected by economic assumptions as well as estimates of petroleum products in place and methods of recovering those reserves. To the extent reserves are increased or decreased, depletion costs will vary.

Income Taxes

The Company follows the liability method of accounting for income taxes under which the income tax provision is based on the temporary differences in the accounts calculated using income tax rates expected to apply in the year in which the temporary differences will reverse. The Company has sufficient tax pools so it is not liable for current income tax in 2007. Due to the decline in natural gas prices as well as the exploration stage of the Company's Argentina venture, the ability to claim the tax benefits from the following tax pools will likely not happen and as such the Company has eliminated the future tax asset.

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

	Rate of Utilization %	Amount
Undepreciated capital costs	25	$ 351,077
Foreign exploration expenditures	10	2,585,123
Canadian oil and gas property expenditures	10	699,248
Canadian development expenditures	30	438,267
Canadian exploration expenditures	100	392,110
Share issue costs	20	134,506
Non-capital loss carryforward*	20	1,687,523
		$6,287,854

*$757,797 expires 2026 and $929,726 expires 2027

Non-Controlling Interest

As described above, Foreign Corp. owns seven percent of CanAmericas. The $49,791 (2006 - $38,701) of loss applicable to non-controlling interest relates to their share of revenues and costs associated with CanAmericas' South American activities.

Loss

The loss for the 2007 fiscal year is $1,381,454 ($381,561 in the fourth quarter) compared to $1,014,605 in 2006 and $383,510 in the third quarter of 2007. The 2007 loss was predominantly due to general and administrative costs incurred in respect of the Company's South American operations as well as a decrease in net revenues from oil and gas operations, which was offset by a lower future tax adjustment in 2007. Please see Commitments Section for discussions regarding future activities.

Funds Flow from Operations

Funds flow from operations decreased to negative $934,998 in 2007 from a negative $424,248 in 2006. The decrease from the 2006 amount was mainly due to the Company's increased activities in South America and a reduction in net revenue from oil and gas operations. Quarter over quarter saw a reduction in the funds flow loss due to increased funds flow from the Company's oil and natural gas operations.

The following reconciliation compares funds flow for the fiscal years ended December 31, 2007 and 2006 to the Company's cash flow from operating activities as calculated according to Canadian generally accepted accounting principles:

	2007	2006
Cash flow from operating activities	**($784,938)**	($168,809)
Items not affecting funds flow		
Accounts receivable	**(113,097)**	(170,335)
Prepaid expenses	**25,814**	(806)
Accounts payable and accrued liabilities	**(34,950)**	(116,973)
Asset retirement obligations settled	**–**	35,123
Foreign exchange loss	**(27,827)**	(2,448)
Funds flow for the period	**($934,998)**	($424,248)

Related Party Transactions

Pine Cliff has a management agreement with Bonterra Corp, a wholly owned subsidiary of Bonterra Energy Income Trust and a company with common directors and management with Pine Cliff, to have Bonterra Corp provide executive services (President and CEO, CFO and COO), accounting services, oil and gas administration and office administration. The management fee consists of a monthly fee of $18,000 (2006 - $18,000), three percent of net earnings before income taxes, $250 per month per operated producing well and $150 per month per water injector well plus out of pocket costs. Total fees for 2007 were $216,000 (2006 - $216,000) plus minimal out of pocket costs. Amounts were owing to Bonterra Corp of $3,976 as at December 31, 2007 (2006 - $Nil).

During the year interest at bank prime rate was paid on a loan from the president and shareholder in the amount of $5,819 (2006 - $Nil).

Commitments

As discussed above, the Company has a management agreement with Bonterra Corp which can be cancelled by giving 90 days notice.

The Company has entered into commitments in relation to its farm-ins on three parcels of land in Argentina. Please see previous Property Discussions section for further details. A summary of the commitments is provided below:

Canadon Ramirez Concession

Pine Cliff through its 93 percent owned subsidiary, CanAmericas, has committed to pay 100% of costs totaling $5,500,000 US, including the 21% Value Added Tax ("V.A.T."), for work to be conducted on the concession within two years to earn a 49% participating interest.

As of December 31, 2007, the Company has expended $2,559,698 CDN ($2,213,731 US) including V.A.T. of $432,753 CDN ($374,264 US) on the Canadon Ramirez Concession. The V.A.T. amount is recoverable against V.A.T. liabilities generated on the sale of petroleum production in Argentina.

Commitment by Year ($000's US)

Year	Amount
2008	3,286

The Company has issued a letter of guarantee to cover its commitment to spend $2,142,446 US for drilling three wells on this Concession. The guarantee expires January 31, 2008.

San Jorge Basin Permit

Pine Cliff through its 93% owned subsidiary CanAmericas has committed to pay 100% of the costs totalling $4,620,000 US including V.A.T. to conduct an exploration program over the entire permit area and drill four wells to earn a 60% participating interest in the entire permit. The surveys are to be completed within one year of the effective date, the first two wells are to be drilled within two years of the effective date, and the remaining two wells are to be drilled within three years of the effective date. The costs for this project are subject to cost recovery from cash flow obtained from the wells drilled in this work program. As of December 31, 2007, no amounts have been expended on this permit. The V.A.T amount is recoverable against V.A.T liabilities generated on the sale of petroleum production in Argentina. CanAmericas commitment and earn-in in this property is subject to final granting of the concession for this property by the provincial government to the Farmor. The finalization for this conversion is expected to be completed in the second quarter of 2008.

Commitment by Year ($000's US)

Year	Amount
2008	300
2009	2,595
2010	1,725
	4,620

Laguna de Piedra Concession

Pine Cliff through its 93 percent owned subsidiary, CanAmericas, has committed to pay 40% of costs totaling $1,120,000 US including V.A.T. to earn a 25% participating interest in the entire permit.

As of December 31, 2007, the Company has expended $59,821 CDN ($58,205 US) including V.A.T of $8,352 CDN ($8,175 US) on the Laguna de Piedra Concession. The V.A.T amount is recoverable against V.A.T liabilities generated on the sale of petroleum production in Argentina.

Commitment by Year ($000's US)

Year	Amount
2008	1,062

The Company issued a letter of guarantee to spend $1,120,000 US for work to be conducted on this Concession. The guarantee expires July 1, 2008. The Company has entered into a performance security agreement whereby the guarantee has been reassigned to Export Development Canada for a fee. The reassignment reduces the Company's requirement to maintain 1.25 times the letter of guarantee in its bank account.

Liquidity and Capital Resources

As of December 31, 2007, Pine Cliff had positive working capital of $8,378,110 (December 31, 2006 - $2,963,513). These funds will be used to fund financial commitments as discussed under Commitments.

The Company has secured a line of credit through its subsidiary CanAmericas Energy Ltd. ("CanAmericas") in the amount of $3,690,000 US, which can be drawn by means of letters of guarantee and letters of credit. The line of credit bears interest at US or CDN prime plus 2% per annum depending on the currency borrowed. The line of credit is repayable on demand and is secured by a restriction for CanAmericas' to maintain a minimum restricted term investment balance of 1.25 times the amount of outstanding letters of guarantee and letters of credit.

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

	2007		2006	
	Number	**Amount**	Number	Amount
Common Shares				
Balance, beginning of year	**36,523,041**	**$5,377,343**	36,420,041	$5,352,428
Issued pursuant to public offering	**8,312,654**	**9,143,919**	–	–
Share issue costs		**(71,309)**		–
Issued on exercise of stock options	**440,000**	**74,750**	103,000	15,450
Transfer of contributed surplus to share capital		**43,322**		9,465
Future tax benefit of share issue costs		**20,697**		–
Balance, end of year	**45,275,695**	**$14,588,722**	36,523,041	$5,377,343

On October 25, 2007, the Company completed a rights offering. The Company shareholders were granted the right to purchase one common share for every four common shares held with an exercise price of $1.10 per share. The Company issued 8,312,654 common shares for proceeds of $9,072,610 net of $71,309 of share issue costs.

A summary of the status of the Company's stock option plan as of December 31, 2007 and December 31, 2006, and changes during the years ended on those dates is presented below:

	December 31, 2007		December 31, 2006	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	2,420,000	$0.29	1,686,000	$0.16
Options granted	1,108,000	1.16	895,000	0.52
Options exercised	(440,000)	0.17	(103,000)	0.15
Options cancelled	(35,000)	0.40	(58,000)	0.21
Outstanding at end of year	3,053,000	$0.62	2,420,000	$0.29
Options exercisable at end of year	1,162,500	$0.18	740,000	$0.16

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At 12/31/07	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 12/31/07	Weighted-Average Exercise Price
$0.15	1,090,000	2.1 years	$0.15	1,090,000	$0.15
0.50 – 0.60	825,000	2.1 years	0.51	32,500	0.56
0.70 – 0.75	80,000	2.1 years	0.72	40,000	0.72
1.10 – 1.20	1,018,000	3.1 years	1.18	–	–
1.40 – 1.50	40,000	3.1 years	1.49	–	–
$0.15 – 1.50	3,053,000	2.5 years	$0.62	1,162,500	$0.18

The Company records compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. The Company issued 1,108,000 (2006 – 895,000) stock options with an estimated fair value of $547,080 (2006 - $191,458) ($0.49 per option (2006 - $0.21 per option)) using the Black-Scholes option pricing model with the following key assumptions:

	2007	2006
Weighted-average risk free interest rate (%)	**4.14**	4.13
Dividend yield (%)	**0.00**	0.00
Expected life (years)	**2.5**	2.5
Weighted-average volatility (%)	**64.8**	63.1

The Company's subsidiary CanAmericas issued an option to Foreign Corp. during the first quarter of 2006 to acquire 1,000,000 common shares of CanAmericas at an option price of $0.25 US per common share. The options vest 50 percent on each of January 13, 2007, and January 13, 2008, and expire on January 13, 2011.

Changes in Accounting Policies

During 2007, the Company completed the implementation of the new CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", Section 1530, "Comprehensive Income" and Section 3865, "Hedges" that deal with the recognition and measurement of financial instruments at fair value and comprehensive income. See note 1 in the Notes to the audited Consolidated Financial Statements for further details.

Accounting Changes

Section 1506 permits voluntary changes in accounting policy only if they result in financial statements that provide more reliable and relevant information. Changes in policy are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in net income. In addition, disclosure is required for all future accounting changes when an entity has not applied a new source of GAAP that has been issued but is not yet effective.

Future Accounting Changes

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, "Capital Disclosures," Section 3862, "Financial Instruments – Disclosure," and Section 3863, "Financial Instruments – Presentation." These new standards will be effective January 1, 2008.

Section 1535 specifies the disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance. This Section is expected to have minimal impact on the Company's financial statements.

Sections 3862 and 3863 specify a revised and enhanced disclosure on financial instruments. Increased disclosure will be required on the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets," replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs." Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. These changes establish standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

Sensitivity Analysis

Given the current start up status of the Company changes of $1.00 US per barrel in the price of crude oil, $0.10 per MCF in the price of natural gas, or a $0.01 change in the Cdn/US exchange rate would have no significant impact on the cash flow per unit amounts for the Company.

Additional information relating to the Company may be found on **WWW.SEDAR.COM** and by visiting its website at **www.pinecliffenergy.com**.

Submitted on behalf of the Board of Directors,

George F. Fink
President, CEO and Director

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of the statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying financial statements.

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

Deloitte & Touche LLP has been appointed by the shareholders to serve as the Company's external auditors. They have examined the financial statements and provided their auditors' report. The audit committee has reviewed the financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented.

George F. Fink
President and CEO
March 14, 2008

Garth E. Schultz
Vice President, Finance and CFO
March 14, 2008

AUDITOR'S REPORT

To the Shareholders of Pine Cliff Energy Ltd.:

We have audited the consolidated balance sheets of **Pine Cliff Energy Ltd.** as at December 31, 2007 and 2006 and the consolidated statements of loss, comprehensive loss and deficit and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Calgary, Alberta
March 14, 2008

Chartered Accountants

PINE CLIFF ENERGY LTD.
CONSOLIDATED BALANCE SHEETS

As at December 31	**2007**	2006
Assets		
Current		
Cash	**$ 5,769,448**	$ 2,915,020
Restricted term investment (Note 2)	**2,689,601**	–
Accounts receivable	**71,904**	185,001
Prepaid expenditures	**28,468**	2,654
	8,559,421	3,102,675
Property and Equipment (Note 6)		
Property and equipment	**4,638,837**	1,848,887
Accumulated depletion and depreciation	**(752,264)**	(457,552)
	3,886,573	1,391,335
	$12,445,994	$ 4,494,010
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 181,311**	$ 139,162
Asset Retirement Obligations (Note 7)	**34,438**	40,240
Non-controlling Interests (Note 4)	**25,179**	74,970
	240,928	254,372
Commitments (Note 9)		
Shareholders' Equity		
Share capital (Note 8)	**14,588,722**	5,377,343
Contributed surplus	**341,465**	205,962
Deficit	**(2,725,121)**	(1,343,667)
Accumulated other comprehensive income (Note 1)	**–**	–
	12,205,066	4,239,638
	$12,445,994	$ 4,494,010

On Behalf of the Board:

George F. Fink
Director

F. William Woodward
Director

PINE CLIFF ENERGY LTD.
CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

For the years ended December 31	**2007**	2006
Revenue		
Oil and gas sales	**$ 582,950**	$ 661,100
Royalties	**(137,012)**	(25,669)
Interest income	**76,273**	118,981
	522,211	754,412
Expenses		
Production costs	**134,453**	132,346
General and administrative	**1,294,929**	1,043,866
Foreign exchange loss	**27,827**	2,448
Stock based compensation	**178,826**	128,385
Dry hole exploration costs	**–**	6,222
Depletion, depreciation and accretion	**296,724**	278,197
	1,932,759	1,591,464
Loss Before Income Taxes and Non-controlling Interests	**(1,410,548)**	(837,052)
Income Taxes (Note 5)		
Current	**–**	–
Future	**20,697**	216,254
	20,697	216,254
Loss before Non-Controlling Interests	**(1,431,245)**	(1,053,306)
Loss applicable to non-controlling interests (Note 4)	**49,791**	38,701
Loss and Comprehensive Loss for the Year	**(1,381,454)**	(1,014,605)
Deficit, beginning of year	**(1,343,667)**	(329,062)
Deficit, end of year	**$(2,725,121)**	$ (1,343,667)
Loss Per Share – Basic and Diluted (Note 8)	**$ (0.04)**	$ (0.03)

PINE CLIFF ENERGY LTD.
CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31	**2007**	2006
Operating Activities		
Loss for the year	**$(1,381,454)**	$(1,014,605)
Items not affecting cash		
Stock based compensation	**178,826**	128,385
Dry hole exploration costs	**–**	6,222
Depletion, depreciation and accretion	**296,724**	278,197
Foreign exchange loss	**27,827**	2,448
Future income taxes	**20,697**	216,254
Loss applicable to non-controlling interests	**(49,791)**	(38,701)
	(907,171)	(421,800)
Change in non-cash working capital		
Accounts receivable	**113,097**	170,335
Prepaid expenditures	**(25,814)**	806
Accounts payable and accrued liabilities	**34,950**	116,973
Asset retirement obligations settled	**–**	(35,123)
	122,233	252,991
Cash Used in Operating Activities	**(784,938)**	(168,809)
Financing Activities		
Issue of shares under employee stock option plan	**74,750**	15,450
Issue of shares by subsidiary to non-controlling interests	**–**	113,670
Issue of shares pursuant to rights offering	**9,143,919**	–
Issue costs	**(71,309)**	–
Cash Provided by Financing Activities	**9,147,360**	129,120
Investing Activities		
Property and equipment expenditures	**(2,797,763)**	(271,926)
Purchase of restricted term investment	**(2,689,601)**	–
Change in non-cash working capital		
Accounts payable and accrued liabilities	**7,197**	(105,878)
Cash Used In Investing Activities	**(5,480,167)**	(377,804)
Foreign Exchange Loss on Cash Held in Foreign Currency	**(27,827)**	(2,448)
Net Cash Inflow (Outflow)	**2,854,428**	(419,941)
Cash, Beginning of Year	**2,915,020**	3,334,961
Cash, End of Year	**$ 5,769,448**	$ 2,915,020
Cash Interest Paid	**$ –**	$ –
Cash Taxes Paid	**$ –**	$ –

For the Years Ended December 31, 2007 and 2006

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles as described below.

Consolidation

These financial statements include the accounts of the Company and its 93 percent owned subsidiaries CanAmericas Energy Ltd. ("CanAmericas") and CanAmericas (Argentina) Energy Ltd. ("CanAmericas Argentina) (see note 4). Inter-company transactions and balances are eliminated upon consolidation.

Measurement Uncertainty

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Actual results can differ from those estimates.

In particular, amounts recorded for depreciation and depletion and amounts used in ceiling test calculations are based on estimates of petroleum and natural gas reserves and future costs required to develop those reserves. The Company's reserve estimates are evaluated annually by an independent engineering firm. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact on the consolidated financial statements of future periods could be material.

The amounts recorded for asset retirement obligations were estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to abandon and reclaim the wells and facilities and the estimated period during which these costs will be incurred in the future. Any changes to these estimates could change the amount recorded for asset retirement obligations and may materially impact the consolidated financial statements of future periods.

Financial instruments – recognition and measurement

On January 1, 2007, the Company adopted Section 3855 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook, "Financial Instruments – Recognition and Measurement" and Section 3861 "Financial Instruments – Disclosure and Presentation." These set out the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, whether part of a hedging relationship or not, have to be measured at fair value.

The Company has made the following classifications:

- Accounts receivable are classified as loans and receivables and are recorded at amortized cost using the effective interest method. Gains and losses are recognized in net earnings when the asset is no longer recognized.

- Accounts payable and accrued liabilities are classified as other liabilities and are recorded at amortized cost. Gains and losses are recognized in net earnings when the liability is no longer recognized.

The adoption of the Sections is done retrospectively without restatement of the consolidated financial statements of prior periods. Further, because the Company does not currently utilize hedges or other derivative financial instruments, the adoption of these sections has had no material impact on the Company's consolidated loss or cash flows in 2007 or retained earnings as at January 1, 2007 and December 31, 2007.

The Company has reviewed its contracts for embedded derivatives. An embedded derivative is a component of a financial instrument or another contract of which the characteristics are similar to a derivative. This had no impact on the consolidated financial statements.

Comprehensive income

On January 1, 2007, the Company adopted Section 1530 of the CICA Handbook, "Comprehensive Income". This section describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in shareholders' equity, which results from transactions and events from sources other than the Company's shareholders and consists of net income and other comprehensive income (OCI). OCI comprises revenues, expenses, gains and losses that are recognized in comprehensive income but excluded from net income. Such items include unrealized gains and losses from changes in fair value of certain financial instruments.

The adoption of this Section had no impact on the Company's presentation. However, should the Company have transactions resulting in an impact to other comprehensive income, the Company will present a separate consolidated statement of comprehensive income as a part of the consolidated financial statements.

Equity

On January 1, 2007, the Company adopted Section 3251 of the CICA Handbook "Equity" replacing Section 3250 "Surplus". This section describes standards for the presentation of equity and changes in equity during the period as a result of the application of Section 1530 "Comprehensive Income".

Accounting changes

The Company also adopted Section 1506, "Accounting Changes," the only impact of which is to provide disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Section 1535, "Capital Disclosures," Section 3862, "Financial Instruments - Disclosures" and Section 3863, "Financial Instruments - Presentation" which are required to be adopted for fiscal years beginning on or after October 1, 2007. The Company will adopt these standards on January 1, 2008 and it is expected the only effect on the Company will be incremental disclosures regarding the Company's objectives, policies and processes for managing capital and the significance of financial instruments for the entity's financial position and performance; and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets," replacing Section 3062, "Goodwill and

Other Intangible Assets" and Section 3450, "Research and Development Costs." Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. These changes establish standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

Petroleum and Natural Gas Properties and Related Equipment

The Company follows the successful efforts method of accounting for petroleum and natural gas properties and related equipment. Costs of exploratory wells are initially capitalized pending determination of proved reserves. Costs of wells which are assigned proved reserves remain capitalized, while costs of unsuccessful wells are charged to earnings. All other exploration costs including geological and geophysical costs are charged to earnings as incurred. Development costs, including the cost of all wells, are capitalized.

Producing properties and significant unproved properties are assessed annually or as economic events dictate, for potential impairment. Impairment is assessed by comparing the estimated net undiscounted future cash flows to the carrying value of the asset. If required, the impairment recorded is the amount by which the carrying value of the asset exceeds its fair value.

Depreciation and depletion of capitalized costs of oil and gas producing properties are calculated using the unit of production method. Development and exploration drilling and equipment costs are depleted over the remaining proved developed reserves. Depreciation of other plant and equipment is provided on the straight line method. Straight line depreciation is based on the estimated service lives of the related assets which is estimated to be ten years.

Furniture, Equipment and Other

These assets are recorded at cost and are depreciated on a straight line basis over five to ten years.

Income Taxes

The Company follows the liability method of accounting for income taxes under which the income tax provision is based on the temporary differences between the amounts reported by the Company and their respective tax bases calculated using income tax rates expected to apply in the year in which the temporary differences will reverse.

Asset Retirement Obligations

The Company recognizes the fair value of obligations associated with the retirement of long-life assets in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is adjusted over time for changes in the value of the liability through accretion charges which are included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion and depreciation of the underlying asset.

Stock-based Compensation

The Company has a stock-based compensation plan which is described in Note 8. The Company records compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. These amounts are recorded as contributed surplus. Any consideration paid by employees, directors or consultants on the exercise of these options is recorded as share capital together with the related contributed surplus associated with the exercised options.

Revenue Recognition

Petroleum and natural gas sales are recognized when the commodities are delivered and title transfers to the purchasers.

Foreign Currency Translation

The Company translates foreign currency denominated monetary assets and liabilities of its integrated foreign subsidiaries at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at estimated transaction date exchange rates except depletion and depreciation expense, which is translated at the same historical exchange rates as the related assets. Exchange gains or losses are included in the determination of net income as foreign exchange gain or loss.

Joint Interest Operations

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

Loss Per Share

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

2. RESTRICTED TERM INVESTMENT AND BANKING AGREEMENT

The Company has secured a line of credit through its subsidiary CanAmericas in the amount of $3,690,000 US, which can be drawn by means of letters of guarantee and letters of credit. The line of credit bears interest at US or CDN prime plus 2% per annum depending on the currency borrowed. The line of credit is repayable on demand.

CanAmericas has issued letters of guarantee worth $3,262,446 as of December 31, 2007 (see Note 9).

The Company has entered into a performance security agreement whereby a guarantee to spend $1,120,000 US on the Laguna de Peidra concession has been reassigned to Export Development Canada for a fee. The reassignment reduces the Company's requirement to maintain 1.25 times the letter of guarantee in its bank account.

Restricted term investment is a rolling GIC that accrues interest at 3.4% per annum.

3. RELATED PARTY TRANSACTIONS

Bonterra Energy Income Trust ("Bonterra Trust"), an organization with common directors and management and the former parent of the Company, through its wholly owned subsidiary Bonterra Energy Corp. ("Bonterra Corp") has provided management services to the Company. Fees paid for management services totalled $216,000 (2006 - $216,000) for the year. The management services agreement may be cancelled by the Company with 90 days notice. During the year interest was paid at bank prime rate on a loan from the President and shareholder in the amount of $5,819 (2006 - $Nil). No amount was owing on this loan as of year end.

As of December 31, 2007, the Company owed $3,976 (2006 - $Nil) to Bonterra Corp for operating expenditures paid on its behalf.

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

4. NON-CONTROLLING INTERESTS

The Company incorporated subsidiary companies, CanAmericas, to explore and develop oil and gas properties primarily in South America. (CanAmericas incorporated a wholly owned subsidiary, CanAmericas Argentina, to carry on its activities in Argentina). CanAmericas is owned 93 percent by the Company and 7 percent by a foreign private Company ("Foreign Corp."). CanAmericas was initially financed by investments of $1,400,000 U.S. for 5,600,000 common shares from the Company and $100,000 U.S. for 400,000 common shares from Foreign Corp.

Changes to non-controlling interest were as follows:

	2007	2006
Non-controlling interest, January 1	**$ 74,970**	$ –
Acquisition of CanAmericas by non-controlling interest	**–**	113,671
Loss applicable to non-controlling interest	**(49,791)**	(38,701)
Non-controlling interest, December 31	**$ 25,179**	$ 74,970

Foreign Corp. has been granted options to acquire an additional 1,000,000 common shares of CanAmericas at $0.25 U.S. per common share. The options vest 50 percent on each of January 13, 2007 and January 13, 2008 and expire on January 13, 2011.

5. INCOME TAXES

The Company has recorded a full valuation allowance for its future income tax assets as their recoverability is determined not to be more likely than not.

	2007 Amount	2006 Amount
Future income tax assets:		
Capital assets	**$182,907**	$125,932
Asset retirement obligation	**8,610**	11,670
Share issue costs	**33,627**	29,171
Loss carry-forward	**421,880**	215,798
Valuation allowance	**(647,024)**	(382,571)
	$ –	$ –

Income tax expense differs from the amounts that would be computed by applying Canadian federal and provincial income tax rates as follows:

	2007	2006
Loss before income taxes and non-controlling interests	**$(1,410,548)**	$(837,052)
Combined federal and provincial income tax rates	**32.1%**	34.5%
Income tax provision calculated using statutory tax rates	**(452,786)**	(288,783)
Increase (decrease) in income taxes resulting from:		
Stock based compensation	**57,403**	44,293
Non-deductible expenditures	**7,158**	329
Resource allowance	**–**	(4,854)
Loss applicable to non-controlling interests	**15,983**	13,352
Change in valuation allowance	**264,453**	382,571
Change in tax rates	**126,875**	70,843
Other	**1,611**	(1,497)
Income tax provision	**$ 20,697**	$ 216,254

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

	Rate of Utilization %	**Amount**
Undepreciated capital costs	25	$ 351,077
Foreign exploration expenditures	10	2,585,123
Canadian oil and gas property expenditures	10	699,248
Canadian development expenditures	30	438,267
Canadian exploration expenditures	100	392,110
Share issue costs	20	134,506
Non-capital loss carryforward (1)	100	1,687,523
		$6,287,854

(1) $757,797 expires 2026 and $929,726 expires 2027

6. PROPERTY AND EQUIPMENT

	2007		2006	
	Cost	**Accumulated Depletion and Depreciation**	Cost	Accumulated Depletion and Depreciation
Petroleum and natural gas properties and related equipment	$4,585,325	$ 734,384	$1,803,124	$ 450,365
Furniture, equipment and other	53,512	17,880	45,763	7,187
	$4,638,837	$ 752,264	$1,848,887	$ 457,552

As of December 31, 2007, the Company spent $2,575,676 for exploration activities for the Canadon Ramirez Concession and

Laguna de Piedra Concession as discussed in Note 9. These costs presently have been excluded from costs subject to depletion and depreciation.

7. ASSET RETIREMENT OBLIGATIONS

At December 31, 2007, the estimated total undiscounted amount required to settle the asset retirement obligations was $69,182 (December 31, 2006 - $71,031). Costs for asset retirement have been calculated assuming a 2 percent inflation rate for 2008 and thereafter. These obligations will be settled based on the useful lives of the underlying assets, which extend up to 13 years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of 5 percent.

Changes to asset retirement obligations were as follows:

	2007	2006
Asset retirement obligations, January 1	**$ 40,020**	$ 29,513
Adjustment to asset retirement obligation	**(7,814)**	44,375
Liabilities settled during the year	**–**	(35,123)
Accretion	**2,012**	1,475
Asset retirement obligations, December 31	**$ 34,438**	$ 40,240

8. SHARE CAPITAL

Authorized

Unlimited number of Common Shares without nominal or par value.

Unlimited number of Class B Preferred Shares without nominal or par value which may be issued in one or more series.

	2007		2006	
	Number	**Amount**	Number	Amount
Common Shares				
Balance, beginning of year	**36,523,041**	**$ 5,377,343**	36,420,041	$5,352,428
Issued pursuant to rights offering	**8,312,654**	**9,143,919**	–	–
Share issue costs		**(71,309)**		–
Issued on exercise of stock options	**440,000**	**74,750**	103,000	15,450
Transfer of contributed surplus to share capital		**43,322**		9,465
Future tax benefit of share issue costs		**20,697**		–
Balance, end of year	**45,275,695**	**$14,588,722**	36,523,041	$5,377,343

The number of common shares used to calculate diluted loss per share for the year ended December 31, 2007 is 38,291,597 (2006 – 36,477,619). The exercise of outstanding stock options would have no dilutive effect on per share amounts.

On October 25, 2007, the Company completed a rights offering whereby the Company shareholders were granted the right to purchase one common share for every four common shares held with an exercise price of $1.10 per share. The Company issued 8,312,654 common shares for proceeds of $9,072,610 net of $71,309 of share issue costs.

The Company may grant options for up to 3,605,583 (2006 – 3,605,583) common shares. The exercise price of each option granted equals the market price of the common share on the date of grant and the options' maximum term is five years.

A summary of the status of the Company's stock option plan as of December 31, 2007 and December 31, 2006, and changes during the years ended on those dates are presented below:

	December 31, 2007		December 31, 2006	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	2,420,000	$0.29	1,686,000	$0.16
Options granted	1,108,000	1.16	895,000	0.52
Options exercised	(440,000)	0.17	(103,000)	0.15
Options cancelled	(35,000)	0.40	(58,000)	0.21
Outstanding at end of year	3,053,000	$0.62	2,420,000	$0.29
Options exercisable at end of year	1,162,500	$0.18	740,000	$0.16

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding At 12/31/07	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 12/31/07	Weighted-Average Exercise Price
$0.15	1,090,000	2.1 years	$0.15	1,090,000	$0.15
0.50 – 0.60	825,000	2.1 years	0.51	32,500	0.56
0.70 – 0.75	80,000	2.1 years	0.72	40,000	0.72
1.10 – 1.20	1,018,000	3.1 years	1.18	–	–
1.40 – 1.50	40,000	3.1 years	1.49	–	–
$0.15 – 1.50	3,053,000	2.5 years	$0.62	1,162,500	$0.18

The Company records compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. Unvested options as of December 31, 2007 vest 841,000 in 2008, 1,024,500 in 2009 and 25,000 in 2010.

The Company issued 1,108,000 (2006 – 895,000) stock options with an estimated fair value of $547,080 (2006 - $191,458) ($0.49 per option (2006 - $0.21 per option)) using the Black-Scholes option pricing model with the following key assumptions:

	2007	2006
Weighted-average risk free interest rate (%)	**4.14**	4.13
Dividend yield (%)	**0.00**	0.00
Expected life (years)	**2.5**	2.5
Weighted-average volatility (%)	**64.8**	63.1

9. COMMITMENTS

The Company has entered into three farm-in agreements in South America which require future expenditure commitments as outlined below:

Canadon Ramirez Concession

Pine Cliff, has committed to pay 100% of costs totaling $5,500,000 US, including the 21% Value Added Tax ("V.A.T."), for work to be conducted on the concession within two years to earn a 49% participating interest.

As of December 31, 2007, the Company has expended $2,559,698 CDN ($2,213,731 US) including V.A.T of $432,753 CDN ($374,264 US) on the Canadon Ramirez Concession. The V.A.T amount is recoverable against V.A.T liabilities generated on the sale of petroleum production in Argentina. The V.A.T amount has been capitalized to exploration costs, as its recoverability can not be determined until a successful producing property is established.

Commitment by Year ($000's US)

Year	Amount
2008	3,286

The Company has issued a letter of guarantee to cover its commitment to spend $2,142,446 US for drilling three wells on this Concession. The guarantee expired January 31, 2008.

San Jorge Basin Permit

Pine Cliff, has committed to pay 100% of costs totaling $4,620,000 US including V.A.T. to earn a 60% participating interest in the entire permit. As of December 31, 2007, no amounts have been expended on this permit. The V.A.T amount is recoverable against V.A.T liabilities generated on the sale of petroleum production in Argentina. CanAmericas' commitment and earn-in in this property is subject to final granting of the concession for this property by the provincial government to the Farmor. The finalization for this conversion is expected to be completed in the second quarter of 2008.

Commitment by Year ($000's US)

Year	Amount
2008	300
2009	2,595
2010	1,725
	4,620

Laguna de Piedra Concession

Pine Cliff through its subsidiaries has committed to pay 40% of costs totaling $1,120,000 US including V.A.T. to earn a 25% participating interest in the entire permit.

As of December 31, 2007, the Company has expended $59,821 CDN ($58,205 US) including V.A.T of $8,352 CDN ($8,175 US) on the Laguna de Piedra Concession. The V.A.T amount is recoverable against V.A.T liabilities generated on the sale of petroleum production in Argentina. . The V.A.T amount has been capitalized to exploration costs, as its recoverability can not be determined until a successful producing property is established.

Commitment by Year ($000's US)

Year	Amount
2008	1,062

The Company issued a letter of guarantee to spend $1,120,000 US for work to be conducted on this Concession. The guarantee expires July 1, 2008.

The success of the South American operations and recoverability of the capitalized costs related thereto are dependent upon the development of successful producing properties. This may require additional financing in amounts sufficient to continue the on-going development of the South American operations and to meet the related obligations as they become due.

10. FINANCIAL INSTRUMENTS

Fair Values

The Company's financial instruments included in the balance sheet are comprised of cash, restricted term investment, accounts receivable and current liabilities. The fair values of these financial instruments approximate their carrying value due to the short-term maturity of those instruments.

Credit Risk

Substantially all of the Company's accounts receivable are due from customers in the oil and gas industry and are subject to normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of associated credit risks.

Commodity Price Risk

The Company's operations and financial results may be affected by fluctuations in commodity prices and exchange rates.

Currency Risk

The Company is exposed to fluctuations in foreign currency as a result of its South American operations. The Company has not entered into any foreign currency derivatives with respect to this exposure.

11. SEGMENTED INFORMATION

The Company has operations in Canada and in South America. All operating activities are related to exploration, development and production of petroleum and natural gas:

($)	Canada	South America	Total
Year Ended December 31, 2007			
Revenue, gross	631,963	27,260	659,223
Loss before non-controlling interest	560,826	870,419	1,431,245
Capital expenditures	50,234	2,747,529	2,797,763
Property and equipment	1,111,830	2,774,743	3,886,573
Total assets	6,428,371	6,017,623	12,445,994
Year Ended December 31, 2006			
Revenue, gross	729,332	50,749	780,081
Loss before non-controlling interest	472,797	580,509	1,053,306
Capital expenditures	226,163	45,763	271,926
Property and equipment	1,352,759	38,576	1,391,335
Total assets	3,254,440	1,239,570	4,494,010

CORPORATE INFORMATION

Board of Directors
G.J. Drummond, Nassau, Bahamas
G.F. Fink, Calgary, Alberta
C.R. Jonsson, Vancouver, British Columbia
F. W. Woodward, Calgary, Alberta

Officers
G.F. Fink – President & Chief Executive Officer
R.M. Jarock – Chief Operating Officer
G.E. Schultz – Vice President Finance, Chief Financial Officer & Secretary

Registrar & Transfer Agent
Olympia Trust Company, Calgary, Alberta

Auditors
Deloitte & Touche LLP, Calgary, Alberta

Solicitors
Borden Ladner Gervais LLP, Calgary, Alberta

Bankers
The Royal Bank of Canada, Calgary, Alberta

Stock Listing
The TSX Venture Exchange, Toronto, Ontario
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