2009 ANNUAL REPORT

Pine Cliff Energy Ltd.

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 Canadian Sedimentary Basin 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.

REPORT TO SHAREHOLDERS

Pine Cliff Energy Ltd. (Pine Cliff or the Company) is pleased to report its operations and financial results for 2009.

The year 2009 was transitional for Pine Cliff as management and the Board of Directors refocused its strategy and operations in the Western Canadian Sedimentary Basin. The Company realized promising results on its Sundance properties in Alberta and intends to continue seeking out additional domestic opportunities which may enhance value on behalf of shareholders.

The disappointing 2008 drill results coupled with an increasingly difficult business and political environment required management and the Board to reconsider its commitment to Argentina as an area of new exploration and growth. As a result, the Company actively reduced its consulting services and other expenses in this area since the second quarter of 2009. Pine Cliff will also be considering the various options that may become available to the Company for exiting Argentina in the most beneficial manner possible for its shareholders.

OPERATIONS

Production year over year increased approximately 39 percent to 54 BOE per day due mainly to the Company's increased activities in Canada. During the year, Pine Cliff participated in drilling two (0.3 net) natural gas wells on its Sundance properties in Canada. The wells came on production in the first quarter of 2010 and current production is approximately 3,200 MCF per day (480 MCF per day net).

Pine Cliff has continued to pursue additional opportunities in this area and has participated in drilling an additional two (0.3 net) natural gas wells on its property in 2010. The wells came on production in April 2010 with current production exceeding 6,100 MCF per day (920 MCF per day net).

Pine Cliff intends to continue increasing its activities in Canada by aggressively pursuing acquisition opportunities and participating in a more active drilling program.

FINANCIAL

General and administrative (G&A) expenditures decreased 26 percent in 2009 compared to 2008. The decrease is mainly due to reduced contractor fees for services provided to the Company's South American activities and reduced management fees.

As of December 31, 2009, Pine Cliff had positive working capital of $491,064 (December 31, 2008 - $2,316,982). These funds along with increased cash flow from the four (0.6 net) new wells, funds from employee stock options and the entering into of a bank facility or equity placement will be used to cover the Company's budgeted 2010 capital expenditures of approximately $1,360,000, which have already been substantially spent, relating primarily to the current drilling program for the additional two (0.3 net) Canadian gas wells and the completion and tie-in of the recently drilled two (0.3 net) Canadian gas wells.

OUTLOOK

The Board of Directors and management remain optimistic that Pine Cliff will be able to take advantage of the many opportunities available to improve shareholder value, redirect its operations towards a domestic perspective and reduce its activities in foreign jurisdictions.

George F. Fink
President, Chief Executive Officer and Director

CANADA

SUNDANCE AREA – WEST CENTRAL ALBERTA

Pine Cliff's only producing property is located in the Sundance area of West Central Alberta. The Company has a 13.7 percent average working interest in 4,960 acres (681 net acres) of Crown land in the area. There are currently ten gross (1.28 net) wells producing. The wells are producing liquid rich natural gas from multiple Cretaceous sands ranging from the Cadomin to the Belly River. Current production from the ten wells is exceeding 11 MMCF per day gross (1,600 MCF per day net to Pine Cliff). NGLs are produced in association with the natural gas.

There continues to be significant industry activity in the area and the operator for this area continues to monitor and evaluate the undeveloped lands for additional development. The lands have been approved for a holding which allows for the drilling of eight wells per section on approximately 60 percent of Pine Cliff's lands. Pine Cliff participated in the drilling and completion of two wells in 2009 and two wells in the first quarter of 2010, all of which are on production as of April 1, 2010. Production from these wells is exceeding 1,400 MCF per day net to Pine Cliff.

ARGENTINA

CAÑADÓN RAMIREZ FARM-IN, ARGENTINA

The Company through its 93 percent owned subsidiary, CanAmericas Energy Ltd. (CanAmericas) earned a 49 percent 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 funding 100 percent of exploration costs totaling U.S. $5,500,000, including a 21 percent Value Added Tax (V.A.T.). The commitment, that is now complete, included conducting a 190 square kilometer 3D seismic program and spending the remainder of the funds on drilling, completing and testing of the three exploration wells.

The drilling, completion and testing of the three exploration wells was completed and even though cuttings openhole logs and side wall core evaluations were encouraging and indicated the presence of hydrocarbons all zones tested were determined to be uneconomic. As a result of the unsuccessful drilling program, less prospective lands were relinquished reducing the size of the concession to 6,206 gross acres (3,020 net acres).

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 to 1,500 meters. Additionally, Neocomian aged source rocks within the farm in area have been proven to be oil generating and over pressured. The 3D seismic program has identified several other opportunities and the Company is exploring ways to extract additional value from this property.

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 by funding 40 percent of a 100 km^2 3D seismic program over the northern portion of the property. There are no further commitments required to maintain this concession. The concession 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. To date there have been no wells drilled on the block. Plans to drill one gross (0.25 net) exploration well on the property have been delayed by regulatory issues which the operator of the property is negotiating to resolve. The outcome of these negotiations is uncertain at this time.

RESERVES

The Company engaged the services of Sproule Associates Limited to prepare a reserve evaluation with an effective date of December 31, 2009. All 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 deduction of all royalties.

SUMMARY OF OIL AND GAS RESERVES AS OF DECEMBER 31, 2009

(Forecast prices and costs)

	Natural Gas (non-associated & associated)		Natural Gas Liquids	
Reserve Category:	Gross *(MMCF)*	Net *(MMCF)*	Gross *(Mbbl)*	Net *(Mbbl)*
PROVED				
Developed Producing	320	280	1.4	0.8
Developed Non-Producing	334	309	1.4	1.2
Undeveloped	402	371	1.7	1.4
TOTAL PROVED	1,056	960	4.5	3.4
Probable	320	285	1.4	0.9
TOTAL PROVED PLUS PROBABLE	1,376	1,245	5.9	4.3

All reserves are located in Canada.

RECONCILIATION OF COMPANY GROSS[1] RESERVES (BEFORE ROYALTY) BY PRINCIPAL PRODUCT TYPE AS OF DECEMBER 31, 2009

(Forecast prices and costs)

	Natural Gas			Natural Gas Liquids		
	Gross Proved *(MMcf)*	Gross Probable *(MMcf)*	Gross Proved Plus Probable *(MMcf)*	Gross Proved *(MBbl)*	Gross Probable *(MBbl)*	Gross Proved Plus Probable *(MBbl)*
December 31, 2008	438	146	584	6.7	2.0	8.7
Extensions	735	184	919	3.1	0.8	3.9
Improved Recovery	-	-	-	-	-	-
Technical Revisions	2	(8)	(6)	(4.8)	(1.4)	(6.2)
Discoveries	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-
Economic Factors	(3)	(2)	(5)	-	-	-
Production	(116)	-	(116)	(0.5)	-	(0.5)
December 31, 2009	1,056	320	1,376	4.5	1.4	5.9

[1] Gross Reserves means the Company's working interest reserves before calculation of royalties and before consideration of the Company's royalty interests.

All reserves are located in Canada.

SUMMARY OF NET PRESENT VALUES AFTER INCOME TAXES OF FUTURE NET REVENUE AS OF DECEMBER 31, 2009

(Forecast prices and costs)

($ thousands)	0%	5%	10%	15%	20%
PROVED					
Developed Producing	1,323	1,142	1,003	895	808
Developed Non-Producing	1,444	1,241	1,094	983	897
Undeveloped	786	537	363	236	140
TOTAL PROVED	3,553	2,920	2,461	2,114	1,845
Probable	1,355	971	740	591	489
TOTAL PROVED PLUS PROBABLE	4,909	3,892	3,200	2,705	2,334

All reserves are located in Canada.

The Forecast Prices used in the appendix are:

Year	Natural Gas AECO Gas *(Cdn$/ MMBtu)*	Butanes Edmonton *(Cdn $/Bbl)*	Pentanes Plus Edmonton *(Cdn $/Bbl)*	Inflation Rate *(%/Year)*	Exchange Rate *($U.S./$ Cdn)*
Forecast					
2010	5.36	59.65	86.28	2.0	0.920
2011	6.21	63.72	92.16	2.0	0.920
2012	6.44	65.57	94.84	2.0	0.920
2013	7.23	68.11	98.51	2.0	0.920
2014	7.98	69.48	100.50	2.0	0.920

* Natural gas and liquid prices escalate at two percent per year thereafter.

The above prices were provided by the independent reserves evaluator Sproule Associates Limited

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 barrels of oil equivalent (BOE) may be misleading, particularly if used in isolation. In accordance with NI 51-101, a BOE conversion ratio of 6 MCF:1 Bbl 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 estimates of reserves and future net revenues for all properties due to the effects of aggregation.

LAND HOLDINGS

Pine Cliff's holdings of petroleum and natural gas leases and rights are as follows:

	2009		2008	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Alberta, Canada	7,360	2,802	7,360	2,802
San Jorge Basin, Argentina	6,206	3,020	17,182	8,334
Neuquen Basin, Argentina	252,048	63,012	252,048	63,012
Total	265,614	68,834	276,590	74,148

PETROLEUM AND NATURAL GAS 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:

	2009	2008
Exploration costs	$ 125,441	$ 4,769,249
Development costs	871,128	607,941
Net petroleum and natural gas capital expenditures	$ 996,569	$ 5,377,190

The exploration costs relate to the Company's Argentina operations. Development costs relate to the Company's Canadian operations.

DRILLING HISTORY

The following tables summarize Pine Cliff's gross and net drilling activity and success:

	2009					
	Development		Exploratory		Total	
	Gross	Net	Gross	Net	Gross	Net
Natural Gas	2	0.30	-	-	2	0.30
Success rate	100%	100%	-	-	100%	100%

All drilling operations in 2009 were in Canada.

	2008					
	Development		Exploratory		Total	
	Gross	Net	Gross	Net	Gross	Net
Natural Gas	1	0.15	3	2.5	4	2.65
Success rate	100%	100%	0%	0%	25%	6%

Drilling operations in 2008 were in Canada and Argentina.

	2007					
	Development		Exploratory		Total	
	Gross	Net	Gross	Net	Gross	Net
Natural Gas	-	-	-	-	-	-
Success rate	-	-	-	-	-	-

This annual management's discussion and analysis (MD&A) is a review of the operations, current financial position and outlook for the Company and covers the fiscal year ended December 31, 2009 and the period up to April 22, 2010. It should be read in conjunction with the audited financial statement for the period ended December 31, 2009, 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.

ANNUAL FINANCIAL AND OPERATIONAL HIGHLIGHTS

	2009	2008	2007
FINANCIAL ($)			
Revenue - Oil and Gas	518,401	707,012	582,950
Cash Flow from Operations	(714,265)	(725,525)	(784,938)
Per Share Basic and Diluted	(0.02)	(0.02)	(0.02)
Net Loss	(2,822,276)	(7,541,868)	(1,381,454)
Per Share Basic and Diluted	(0.06)	(0.17)	(0.04)
Capital Expenditures and Acquisitions	996,569	5,377,190	2,797,763
Total Assets	3,475,877	5,570,015	12,445,994
Working Capital	491,064	2,316,982	8,378,110
Shareholders' Equity	2,363,915	5,044,701	12,205,066
OPERATIONS			
Oil and NGLs (barrels per day)	1	1	4
Natural Gas (MCF per day)	315	228	198

QUARTERLY FINANCIAL AND OPERATIONAL HIGHLIGHTS

	2009			
	4th	3rd	2nd	1st
FINANCIAL ($)				
Revenue - Oil and Gas	119,726	93,177	111,773	193,725
Cash Flow from Operations	(115,801)	(74,702)	(294,455)	(229,307)
Per Share Basic and Diluted	0.00	0.00	(0.01)	(0.01)
Net Loss	(1,734,926)	(263,808)	(325,010)	(498,532)
Per Share Basic and Diluted	(0.04)	(0.01)	(0.01)	(0.01)
Capital Expenditures and Acquisitions	266,470	600,732	9,581	119,786
Total Assets	3,475,877	4,900,934	4,558,217	4,966,907
Working Capital	491,064	991,619	1,738,974	1,903,038
Shareholders' Equity	2,363,915	4,089,767	4,341,385	4,644,004
OPERATIONS				
Oil and NGLs (barrels per day)	1	1	2	1
Natural Gas (MCF per day)	264	295	312	392

	2008			
	4th	3rd	2nd	1st
FINANCIAL ($)				
Revenue - Oil and Gas	295,944	129,537	138,415	143,116
Cash Flow from Operations	(68,211)	(332,184)	(122,517)	(202,613)
Per Share Basic and Diluted	0.00	(0.01)	0.00	(0.01)
Net Loss	(6,423,691)	(505,953)	(295,111)	(317,113)
Per Share Basic and Diluted	(0.14)	(0.01)	(0.01)	(0.01)
Capital Expenditures and Acquisitions	1,067,843	1,511,745	2,516,214	281,388
Total Assets	5,570,015	11,621,915	12,043,617	12,221,650
Working Capital	2,316,982	3,440,165	5,278,074	7,937,179
Shareholders' Equity	5,044,701	11,400,311	12,043,617	12,003,398
OPERATIONS				
Oil and NGLs (barrels per day)	2	1	-	4
Natural Gas (MCF per day)	453	146	142	168

PRODUCTION

	Three months ended			Twelve months ended	
	Dec. 31, 2009	Sept. 30, 2009	Dec. 31, 2008	**Dec. 31, 2009**	Dec. 31, 2008
Crude oil and NGLs (barrels per day)	**1**	1	2	**1**	1
Natural gas (MCF per day)	**264**	295	453	**315**	228
Total BOE per day (1)	**45**	51	77	**54**	39

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

The Company participated in drilling two (0.3 net, 15 percent working interest in each well) natural gas wells on its Sundance property in Canada. The wells came on production in the first quarter of 2010. Production from the wells as of the date of this report is approximately 3,200 MCF per day (480 MCF per day net).

Subsequent to year end, the Company has also participated in drilling another two (0.3 net, 15 percent working interest in each well) natural gas wells on its Sundance property. These wells came on production in April 2010. Production from these wells as of the date of this report exceeds 6,100 MCF per day (920 MCF per day net).

During the fourth quarter of 2008, a natural gas well that is not operated by Pine Cliff was completed and placed on production (0.15 net) by the operator. Production for the 2009 year from this well averaged 194 MCF per day net to the Company.

REVENUE

	Three months ended			Twelve months ended	
($)	**Dec. 31, 2009**	Sept. 30, 2009	Dec. 31, 2008	**Dec. 31, 2009**	Dec. 31, 2008
Revenue:					
Oil and gas sales	**119,726**	93,177	295,944	**518,401**	707,012
Average Realized Prices					
Crude oil and NGLs (per barrel)	**69.71**	62.98	53.46	**60.98**	90.68
Natural gas (per MCF)	**4.55**	3.13	6.92	**4.22**	8.05

Revenue from petroleum and natural gas sales for 2009 decreased by $188,611 from 2008 due to a 48 percent decrease in commodity prices for natural gas. This was partially offset by the increased production from the gas well discussed above. An increase in revenue from Q4 2009 to Q3 2009 was due to increased commodity prices for natural gas, which was partially offset by decreased production volumes. Natural gas prices remain volatile due to numerous factors including drilling activity, supply shut-ins and industrial and weather related demand. The Company did not have hedging agreements in either 2009 or 2008 and presently does not have any future hedging agreements.

ROYALTIES

	Three months ended			Twelve months ended	
($)	**Dec. 31, 2009**	Sept. 30, 2009	Dec. 31, 2008	**Dec. 31, 2009**	Dec. 31, 2008
Crown royalties	**9,257**	(4,421)	74,834	**340**	162,716
Gross overriding royalties	**2,902**	2,120	10,204	**12,351**	28,559
Total royalty expense	**12,159**	(2,301)	85,038	**12,691**	191,275
Percentage of revenue	**10.2**	(2.5)	28.7	**2.4**	27.1
$ per BOE	**2.91**	(0.49)	14.02	**0.64**	12.57

Crown royalties are lower for 2009 compared to 2008 due to a $58,000 crown royalty holiday adjustment received in the second quarter of 2009 related to 2008 crown royalty payments made on the new natural gas well. A further crown royalty adjustment of $5,800 was made in Q3 2009 related to reworks done in prior periods by the operator of Pine Cliff's other natural gas wells. Gross overriding royalties were also lower due to the significant decrease in natural gas prices. Gross overriding royalties were higher for Q4 2009 compared to Q3 2009, due to increased commodity prices for natural gas.

ALBERTA GOVERNMENT COMPETITIVENESS REVIEW

The results of the Alberta Government Competitiveness Review on the changes to the current Alberta crown royalty structure will come into effect January 1, 2011. The future royalty calculation has not been fully disclosed at this time. Management believes the result of the changes in the Alberta Crown Royalty structure will not likely have a material impact on crown royalties in the future.

INTEREST INCOME

	Three months ended			Twelve months ended	
($)	**Dec. 31, 2009**	Sept. 30, 2009	Dec. 31, 2008	**Dec. 31, 2009**	Dec. 31, 2008
Interest income	**16**	16	13,580	**6,097**	128,935

The Company maintains both Canadian and U.S. investment accounts that pay interest at prime less various percentages as long as the Company maintains certain minimum account balances. The Company was earning interest at higher rates and on an increased cash balance throughout the 2008 year.

PRODUCTION COSTS

	Three months ended			Twelve months ended	
($)	**Dec. 31, 2009**	Sept. 30, 2009	Dec. 31, 2008	**Dec. 31, 2009**	Dec. 31, 2008
Production costs	**31,354**	36,848	49,159	**150,691**	115,868
$ per BOE	**7.51**	7.92	7.27	**7.65**	8.11

Production costs were higher for the 2009 year versus 2008 year due to higher production volumes but were lower on a per BOE basis. The Company anticipates higher production costs in 2010 due to commencement of production from the four (0.60 net) natural gas wells (see Production), however costs per BOE should continue to decline.

GENERAL AND ADMINISTRATIVE

	Three months ended			Twelve months ended	
($)	**Dec. 31, 2009**	Sept. 30, 2009	Dec. 31, 2008	**Dec. 31, 2009**	Dec. 31, 2008
G&A expense	**239,077**	174,363	339,344	**987,675**	1,338,621

General and administrative (G&A) expenditures decreased by $350,946 from the 2009 year compared to the 2008 year. The decrease in G&A expenses is due to reduced contractor fees for services provided to the Company's South American activities and reduced management fees. The increase in G&A expenditures in Q4 2009 compared to Q3 2009 is primarily due to a $66,000 interest charge by the operator of the Canadon Ramirez Concession. The Company is currently disputing the interest charge. The majority of the G&A expenses pertain to the Company's operations in Argentina. With the unsuccessful completion of the three-well drill program on the Canadon Ramirez Concession, the Company's Board of Directors and management are reviewing the Company's involvement in Argentina and have reduced its consulting services and other international expenses since Q2 2009.

Pine Cliff does not have any employees at the present time but has engaged Bonterra Energy Corp. (Bonterra) a related party (see Related Party section), to provide management services and engage 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 an individual professional as senior management and officer of CanAmericas.

FOREIGN EXCHANGE LOSS (GAIN)

($)	Three months ended Dec. 31, 2009	Sept. 30, 2009	Dec. 31, 2008	Twelve months ended Dec. 31, 2009	Dec. 31, 2008
Foreign exchange loss (gain)	**57,885**	4,771	(71,892)	**86,131**	(149,010)

The Company maintains foreign denominated bank accounts to facilitate its foreign operations. The loss on foreign exchange for the 2009 year relates to the appreciation of the Canadian dollar with the Argentine peso and U.S. dollar versus depreciation in 2008. During the fourth quarter of 2009, $53,000 of foreign exchange gain was booked to capital assets to partially offset $110,000 foreign exchange loss booked to capital assets in 2008. This reclass of foreign exchange gain was the result of the foreign exchange gain and loss on outstanding cash call receivables denominated in U.S. dollars and Argentine pesos which were expended in 2009.

STOCK-BASED COMPENSATION

($)	Three months ended Dec. 31, 2009	Sept. 30, 2009	Dec. 31, 2008	Twelve months ended Dec. 31, 2009	Dec. 31, 2008
Stock-based compensation	**6,074**	12,190	68,081	**138,490**	381,503

The Company has a stock-based compensation plan. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees of the management company (see section "Related Party Transactions"), directors and service providers in respect of the Company. The decrease in stock-based compensation in 2009 is due to the amortization in 2008 of most of the stock-based compensation on the 1,108,000 options issued in the fourth quarter of 2007. The Company issued 40,000 stock options in Pine Cliff during the 2009 year. The Company estimated the 2009 stock options fair value at $3,350 ($0.08 per option) using the Black-Scholes option pricing model, assuming a weighted average risk free interest rate of 1.24 percent, weighted average expected volatility of 96.0 percent, weighted average expected life of 2.5 years and no annual dividend rate. Of the options outstanding as of December 31, 2009, $5,106 of stock-based compensation is remaining to be expensed in 2010 and 2011.

DEPLETION, DEPRECIATION, AND ACCRETION AND DRY HOLE EXPLORATION COSTS

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.

During the 2009 year, the Company expensed $356,654 (2008 - $330,465) for depletion, depreciation and accretion of its property and equipment. The increase is related to increased production volumes during the 2009 year. The Company incurred $31,071 of capital costs in 2009 related to the three wells drilled in the Canadon Ramirez Concession in Argentina. These costs were written off as dry hole costs as the 2008 three-well exploration program was unsuccessful. In 2008, $6,171,140 were expensed to dry hole costs.

The Company has also taken a full impairment charge of $1,463,712 in 2009 on its Laguna de Piedra Concession as the ability to drill in the desired location on the exploration permit is currently under negotiation with the local municipality. Subsequent to the Company earning in on the property, the local municipality designated a portion of the Laguna Concession surface area as a "Nature Area". The operator of the Concession has commenced negotiations with the municipality to drill, but negotiations have been unsuccessful at this time.

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, 2009, the estimated total undiscounted amount required to settle the asset retirement obligations was $123,602 (2008 - $123,602). 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 that it is not liable for current income tax. However the Company is subject to a one percent Argentina capital tax on assets in Argentina. These amounts are deductible from future income earned in Argentina. During 2009 the Company reported a current tax expense of $119,659 (2008 - $23,132).

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

	Rate of Utilization (%)	Amount ($)
Undepreciated capital costs	25	340,038
Foreign exploration expenditures	10	5,957,688
Share issue costs	20	32,925
Canadian exploration expenditures	100	392,110
Canadian development expenditures	30	1,216,017
Canadian oil and gas expenditures	10	530,983
Non-capital loss carry forward *	100	5,729,653
		14,199,414

* $700,214 expires 2026, $1,523,672 expires 2027, $1,684,143 expires in 2028 and $1,821,624 expires in 2029

NON-CONTROLLING INTEREST

A private foreign company (Foreign Corp.) owns seven percent of CanAmericas, a 93 percent owned subsidiary of Pine Cliff. In 2008, losses in CanAmericas exceeded the non-controlling interest investment and therefore none of CanAmericas' loss in 2009 was allocated to the non-controlling interest.

LOSS

	Three months ended			Twelve months ended	
($)	**Dec. 31, 2009**	Sept. 30, 2009	Dec. 31, 2008	**Dec. 31, 2009**	Dec. 31, 2008
Loss	**1,734,926**	263,808	6,423,691	**2,822,276**	7,567,047
Loss per share	**0.04**	0.01	0.14	**0.06**	0.17

The decrease in loss for the 2009 year compared to the 2008 year was predominantly due to lower dry hole costs, crown royalty recoveries, reduced general and administrative costs and lower stock based compensation than 2008. These cost reductions were partially offset by an impairment of oil and gas assets provision, lower interest income, depletion and depreciation and accretion and taxes and a foreign exchange loss instead of a foreign exchange gain in 2009. The increase in the Q4 2009 loss compared to Q3 2009 loss was predominantly due to impairment of oil and gas assets provision.

CASH FLOW (DEFICIENCY) FROM OPERATIONS

	Three months ended			Twelve months ended	
($)	**Dec. 31, 2009**	Sept. 30, 2009	Dec. 31, 2008	**Dec. 31, 2009**	Dec. 31, 2008
Cash flow (deficiency) from operations	**(115,801)**	(74,702)	(68,211)	**(714,265)**	(725,525)
Cash flow (deficiency) from operations per share	**(0.00)**	(0.00)	(0.00)	**(0.02)**	(0.02)

Cash flow deficiency decreased in 2009 compared to 2008 as the Company decreased its general and administrative costs. This decrease was partially offset by lower interest income, increased production costs and a foreign exchange loss instead of a foreign exchange gain in 2009. The increase in cash flow deficiency from Q4 2009 compared to Q3 2009 was primarily due to an increase in foreign exchange loss.

RELATED PARTY TRANSACTIONS

Pine Cliff has a management agreement with Bonterra (a company with common directors and management with Pine Cliff), to have Bonterra 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 $10,000 (2008 - $19,800), three percent of net earnings before income taxes plus minor general and administrative expenses incurred by Bonterra that were specifically attributable to Pine Cliff. Total fees for 2009 were $120,000 (2008 - $237,600). As at December 31, 2009, amounts owing to Bonterra were $448 (December 31, 2008 - $592). This agreement with Bonterra can be cancelled by giving 90 days notice.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2009, Pine Cliff had positive working capital of $491,064 (December 31, 2008 - $2,316,982). These funds along with increased cash flow from the four (0.6 net) new wells, funds from employee stock options and the entering of a bank facility or equity placement will be used to cover the Company's budgeted 2010 capital expenditures of approximately $1,360,000 relating primarily to the current drilling program for the additional two (0.3 net) Canadian gas wells and the completion and tie-in of the recently drilled two (0.3 net) Canadian gas wells.

CANADON RAMIREZ CONCESSION

Pine Cliff through its subsidiaries has paid 100 percent of costs totaling U.S. $5,500,000, including a 21 percent Value Added Tax (V.A.T.), for work to be conducted on the concession to earn a 49 percent participating interest, which included a three well drilling program. As of December 31, 2009 all costs relating to this concession, have been expensed to dry hole costs as discussed above. There are no further material farm-in commitments on this property, but the Company may decide to do additional exploratory programs in the future.

LAGUNA DE PIEDRA CONCESSION

Pine Cliff through its subsidiaries has paid 40 percent of costs totaling U.S. $1,120,000 including V.A.T. to earn a 25 percent participating interest in the entire permit. The Company had planned to participate in a one well project. The certainty of the exploration permit for the concession is under review. The Company has therefore taken a full impairment provision on the property.

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.

The Company has a line of credit through its subsidiary CanAmericas to the lower of its available amount of cash or U.S. $3,690,000, which can be drawn by means of letters of guarantee and letters of credit. The line of credit may be cancelled without notice. No letters of guarantee or credit are currently outstanding.

The Company is currently in dispute with the operator of the Canadon Ramirez Concession for the 2008 Canon (land rental payments). It is the Company's interpretation that the operator is responsible for the 2008 Canon under the Joint Operating Agreement. Should the Company be unsuccessful, the amount of its share of the Canon is approximately $122,000. If the disputed amount (or a portion of) is settled the Company will capitalize the costs.

The Company is authorized to issue an unlimited number of common shares without nominal or par value. Equity transactions during the past years are as follows:

	2009		2008	
Issued	Number	Amount ($)	Number	Amount ($)
COMMON SHARES				
Balance, beginning of year	45,275,695	14,588,722	45,275,695	14,588,722
Issued on exercise of stock options	20,000	3,000	-	-
Transfer of contributed surplus to share capital		1,838		-
Balance, end of year	45,295,695	14,593,560	45,275,695	14,588,722

A summary of the status of the Company's stock option plan as of December 31, 2009 and December 31, 2008, and changes during the years ended on those dates are presented as follows:

	December 31, 2009		December 31, 2008	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	3,118,000	$ 0.63	3,053,000	$ 0.62
Options granted	40,000	0.15	65,000	1.15
Options exercised	(20,000)	0.15	-	-
Options cancelled	(12,000)	1.15	-	-
Outstanding at end of year	3,126,000	$ 0.63	3,118,000	$ 0.63
Options exercisable at end of year	3,028,500	$ 0.62	2,003,500	$ 0.33

The following table summarizes information about stock options outstanding at December 31, 2009:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/09	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/09	Weighted-Average Exercise Price
$ 0.15	1,110,000	0.1 years	$ 0.15	1,070,000	$ 0.15
0.50 – 0.60	825,000	0.1 years	0.51	825,000	0.51
0.70 – 0.75	80,000	0.1 years	0.72	80,000	0.72
1.10 – 1.20	1,071,000	0.5 years	1.18	1,013,500	1.18
1.40 – 1.50	40,000	1.1 years	1.49	40,000	1.49
$ 0.15 - $1.50	3,126,000	0.3 years	$ 0.63	3,028,500	$ 0.62

The Company records a 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, 2009 vest 77,500 in 2010 and 20,000 in 2011.

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 U.S. $0.25 per common share. All the options will expire on January 13, 2011.

FINANCIAL REPORTING UPDATE

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, "Goodwill and Intangible Assets". The new section replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company's consolidated financial statements.

On January 20, 2009, the Company adopted the CICA's EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this EIC had no impact on the Company's consolidated financial statements.

In 2009, the CICA issued amendments to CICA Handbook Section 3862, "Financial Instruments – Disclosures". The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. The Company has included these additional disclosures in Note 11.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2008, the CICA issued Section 1582, "Business Combinations", which will replace former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier adoption permitted.

In December 2008, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted.

The Company is evaluating the impact of these standards on its consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) will be effective January 1, 2011. From that point onward the Company will be required to account for and report under IFRS.

Although the International Accounting Standards Board (IASB) intends to revise several standards between now and 2011, IFRS will be adopted in Canada utilizing a "big bang" approach, with the exception of some Canadian GAAP changes that have occurred or will occur in periods leading up to the transition date.

The IASB has undertaken a number of projects, many being joint projects with the Financial Accounting Standards Board in the U.S., that may significantly change existing international standards.

This degree of activity currently being undertaken by the standard setters makes the convergence from Canadian GAAP to IFRS a moving target. Due to these likely changes, careful monitoring of developments will be required in order to understand fully the accounting and business implications of the new requirements.

In the fourth quarter of 2009, the Company commenced phase two of the process of conversion to IFRS by engaging its external auditors to perform a detailed review of the of the implementation of IFRS on the Company's high impact and medium impact areas identified below:

High impact areas include:

- IFRS 1 – First time adoption of IFRS
- IAS 16 – Property and equipment
- IAS 36 – Impairment of assets

Medium impact areas include:

- IFRS 6 – Exploration and evaluation of mineral resources
- IFRS 2 – Share-based payments
- IAS 1 – Presentation of financial statements
- IAS 10 – Events after the balance sheet date
- IAS 12 – Income Taxes
- IAS 18 – Revenues
- IAS 21 – The effects of changes in foreign exchange rates
- IAS 23 – Borrowing costs
- IAS 37 – Provisions, contingent liabilities and contingent assets

The Company, in conjunction with its auditors, is currently finalizing phase two with an anticipated completion date of June 30, 2010 to determine accounting policies and the resulting numerical changes to opening balance sheet items. The Company anticipates commencing phase three (financial statement and note compilation) during the third quarter of 2010. Key information will be disclosed as it becomes available during the transition period.

The impact of IFRS will be significant; however the Company has always maintained an accounting policy of successful efforts for property and equipment that will result in a major reduction in the level of conversion compared to most oil and gas companies who used the full cost accounting policy.

The Company has recently implemented a new financial accounting system that provides for sufficient detail to comply with the IFRS requirements. As the Company has been using successful efforts since its inception, current financial accounting systems as well as procedures are in place to capture this information at the operational level.

Implications to the Company's controls for DC&P and ICFR are being reviewed; however the Company believes that the majority of the procedures in place will apply once IFRS is implemented. Training will be required and is ongoing. Individuals within the Company have been and will continue to attend courses, seminars and other training activities to ensure the Company is adequately prepared for IFRS. Use of external legal expertise will be used to ensure compliance is maintained with all contractual agreements.

SENSITIVITY ANALYSIS

Given the current status of the Company, changes of U.S. $1.00 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/U.S. exchange rate would have no significant impact on the cash flow or cash flow per share 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 was 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
April 22, 2010

Garth E. Schultz
Vice President, Finance and CFO
April 22, 2010

AUDITORS' 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, 2009 and 2008 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, 2009 and 2008 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

Chartered Accountants
Calgary, Alberta
April 22, 2010

CONSOLIDATED BALANCE SHEETS

As at December 31

($)	2009	2008
ASSETS		
Current		
Cash	1,372,643	2,624,556
Accounts receivable	129,904	107,200
Prepaid expenditures	16,345	29,602
	1,518,892	2,761,358
Property and Equipment *(Note 6)*		
Property and equipment	3,374,830	3,878,550
Accumulated depletion and depreciation	(1,417,845)	(1,069,893)
Net Property and Equipment	1,956,985	2,808,657
	3,475,877	5,570,015
LIABILITIES		
Current		
Accounts payable and accrued liabilities *(Note 4)*	1,027,828	444,376
Asset Retirement Obligations *(Note 8)*	84,134	80,938
	1,111,962	525,314
Non-Controlling Interests *(Note 5)*	-	-
Contingent Liability *(Note 12)*		
Shareholders' Equity *(Note 9)*		
Share capital	14,593,560	14,588,722
Contributed surplus	859,620	722,968
Deficit	(13,089,265)	(10,266,989)
Accumulated other comprehensive income	-	-
Total Shareholders' Equity	2,363,915	5,044,701
	3,475,877	5,570,015

See the accompanying notes to the consolidated financial statements

Approved on Behalf of the Board:

George F. Fink
Director

F. William Woodward
Director

CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

For the years ended December 31

($)	2009	2008
REVENUE		
Oil and gas sales	518,401	707,012
Royalties	(12,691)	(191,275)
Interest income	6,097	128,935
	511,807	644,672
EXPENSES		
Production costs	150,691	115,868
General and administrative *(Note 4)*	987,675	1,338,621
Foreign exchange loss (gain)	86,131	(149,010)
Stock-based compensation *(Note 9)*	138,490	381,503
Depletion, depreciation and accretion	356,654	330,465
Impairment of oil and gas assets *(Note 6)*	1,463,712	-
Dry hole costs *(Note 6)*	31,071	6,171,140
	3,214,424	8,188,587
LOSS BEFORE TAXES AND NON-CONTROLLING INTERESTS	(2,702,617)	(7,543,915)
TAXES *(Note 7)*		
Current	119,659	23,132
Future	-	-
	119,659	23,132
LOSS BEFORE NON-CONTROLLING INTERESTS	(2,822,276)	(7,567,047)
Loss applicable to non-controlling interests *(Note 5)*	-	25,179
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(2,822,276)	(7,541,868)
Deficit, Beginning of Year	(10,266,989)	(2,725,121)
DEFICIT, END OF YEAR	(13,089,265)	(10,266,989)
LOSS PER SHARE - BASIC AND DILUTED *(Note 9)*	(0.06)	(0.17)

CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31

($)	2009	2008
OPERATING ACTIVITIES		
Loss for the year	(2,822,276)	(7,541,868)
Items not affecting cash		
Stock-based compensation	138,490	381,503
Depletion, depreciation and accretion	356,654	330,465
Impairment of oil and gas assets	1,463,712	-
Dry hole costs	31,071	6,171,140
Loss applicable to non-controlling interests	-	(25,179)
	(832,349)	(683,939)
Change in non-cash working capital		
Accounts receivable	37,296	(35,296)
Prepaid expenditures	13,257	(1,134)
Accounts payable and accrued liabilities	67,531	(5,156)
	118,084	(41,586)
CASH USED IN OPERATING ACTIVITIES	(714,265)	(725,525)
FINANCING ACTIVITIES		
Share option proceeds	3,000	-
CASH PROVIDED BY FINANCING ACTIVITIES	3,000	-
INVESTING ACTIVITIES		
Property and equipment expenditures	(996,569)	(5,377,190)
Proceeds on disposal of restricted term investments	-	2,689,601
Change in non-cash working capital		
Accounts receivable	(60,000)	-
Accounts payable and accrued liabilities	515,921	268,222
CASH USED IN INVESTING ACTIVITIES	(540,648)	(2,419,367)
NET CASH OUTFLOW	(1,251,913)	(3,144,892)
CASH, BEGINNING OF YEAR	2,624,556	5,769,448
CASH, END OF YEAR	1,372,643	2,624,556
CASH INTEREST PAID	-	-
CASH TAXES PAID	58,379	34,126

For the Years Ended December 31, 2009 and 2008

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 consolidated financial statements include the accounts of Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") and its 93 percent owned subsidiaries CanAmericas Energy Ltd. (CanAmericas) and CanAmericas (Argentina) Energy Ltd. (CanAmericas Argentina) (see note 5). Inter-company transactions and balances are eliminated upon consolidation.

GOING CONCERN

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in these financial statements, and that the Company will be able to continue its business activities.

At December 31, 2009 the Company had working capital of $491,000, a capital budget for the fiscal 2010 year of $1,360,000 and negative cash from operations of $714,000 (December 31, 2008 - $726,000). The Company does not currently generate sufficient cash flow to meet its capital commitments.

The Company has committed to participate in drilling two new wells (0.3 net) as well as tying in two wells (0.3 net) drilled in 2009 on its Canadian Sundance property at an estimated cost to the Company of $1,360,000.

The future funding of the capital program is dependent upon the Company's ability to raise capital or financing to support its activities, to successfully explore, develop, produce and market economically viable reserves. As at December 31, 2009 the Company had increased the value of its proven and probable oil and gas reserves by participating in a successful two well (0.3 net) drilling program. Management believes that the current reserves have third party lending value and also that the Company may be able to raise additional capital required for the future development of the Company's current projects.

Management and the Board of Directors believe that the going concern assumption is appropriate for these financial statements. If this assumption is not appropriate, adjustments to the carrying values of the assets and liabilities, revenues and expenses and the balance sheet classifications used may be necessary.

MEASUREMENT UNCERTAINTY

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the balance sheets as well as the reported amounts of revenues, expenses, and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from estimated amounts.

Amounts recorded for depletion, depreciation and accretion costs and amounts used for impairment test calculations are based on estimates of crude oil and natural gas reserves and future costs required to develop those reserves. Stock-based compensation is based upon expected volatility and option life estimates. Asset retirement obligations are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates. The provision for income taxes is based on judgements in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax basis of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods.

REVENUE RECOGNITION

Revenues associated with sales of petroleum and natural gas are recorded when title passes to the customer.

JOINT INTEREST OPERATIONS

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

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 are assessed annually or more frequently 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.

Costs related to undeveloped properties are excluded from the depletion base until it is determined whether or not proved reserves exist or if impairment of such costs has occurred. These properties are assessed at least annually to determine whether impairment has occurred.

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 accounts for income taxes using the liability method. Under this method, the Company records a future income tax asset or liability to reflect any difference between the accounting and tax bases of assets and liabilities, using substantively enacted income tax rates. The effect on future tax assets and liabilities of a change in tax rates is recognized in net earnings in the period in which the change occurs. Future income tax assets are only recognized to the extent it is more likely than not that sufficient future taxable income will be available to allow the future income tax asset to be realized.

ASSET RETIREMENT OBLIGATIONS

The Company recognizes an asset retirement obligation (ARO) in the period in which it is incurred when a reasonable estimate of the fair value can be made. On a periodic basis, management will review these estimates and changes, if any, will be applied prospectively. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit of production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and this amount is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the obligations are charged against the ARO to the extent of the liability recorded and the remaining balance of the actual costs is recorded in the statement of loss as a credit or charge.

STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation using the fair-value method of accounting for stock options granted to directors, officers, employees and other service providers using the Black-Scholes option pricing model. Stock-based compensation expense is recorded over the vesting period with a corresponding amount reflected in contributed surplus. When stock options are exercised, the associated amounts previously recorded as contributed surplus are reclassified to common share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Company accounts for actual forfeitures as they occur.

FINANCIAL INSTRUMENTS

Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories: held-for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

Cash is classified as held-for-trading and measured at fair value which equals the carrying value and any gains or losses are recognized in earnings in the period they occur. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

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.

BASIC AND DILUTED PER SHARE CALCULATIONS

Basic earnings per share are computed by dividing 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 shares were exercised. The treasury stock method is used to determine the dilutive effect of common share options, whereby proceeds from the exercise of common share options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, "Goodwill and Intangible Assets". The new section replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company's consolidated financial statements.

On January 20, 2009, the Company adopted the CICA's Emerging Issues Committee (EIC) EIC 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". EIC 173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of EIC 173 did not have a material impact on the Company's consolidated financial statements.

In 2009, the CICA issued amendments to CICA Handbook Section 3862, "Financial Instruments – Disclosures". The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels. The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. The Company has included these additional disclosures in Note 11.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2008, the CICA issued Section 1582, "Business Combinations", which will replace former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier adoption permitted.

In December 2008, the CICA also issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted.

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards (IFRS) will replace Canadian GAAP effective January 1, 2011, including comparatives for 2010, for Canadian publicly accountable enterprises.

The Company is evaluating the impact of these standards on its consolidated financial statements.

3. BANKING AGREEMENT

The Company has a line of credit through its subsidiary CanAmericas to the lower of its available amount of cash or U.S. $3,690,000, which can be drawn by means of letters of guarantee and letters of credit. The line of credit may be cancelled without notice. No letters of guarantee or credit are currently outstanding.

4. RELATED PARTY TRANSACTIONS

Bonterra Energy Corp. (Bonterra) an oil and gas corporation publicly traded on the Toronto Stock Exchange with common directors and management with Pine Cliff, provides management services and office administration to the Company. Total fees for the year were $120,000 (2008 - $237,600) plus minimal administrative costs. The management services agreement may be cancelled by the Company with 90 days notice.

As of December 31, 2009 Pine Cliff owed Bonterra $448 (2008 - $592).

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.

5. NON-CONTROLLING INTERESTS

The Company has incorporated CanAmericas and its wholly-owned subsidiary, CanAmericas Argentina, to explore and develop oil and gas properties primarily in South America. CanAmericas is owned 93 percent by the Company and seven percent by a foreign private corporation (Foreign Corp.). CanAmericas was initially financed by 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:

($)	2009	2008
Non-controlling interest, January 1	-	25,179
Loss applicable to non-controlling interest	-	(25,179)
Non-controlling interest, December 31	-	-

Foreign Corp. has been granted options to acquire an additional 1,000,000 common shares of CanAmericas at U.S. $0.25 per common share. All of the options expire on January 13, 2011.

6. PROPERTY AND EQUIPMENT

($)	2009		2008	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Petroleum and natural gas properties and related equipment	3,328,873	1,384,807	3,825,037	1,041,902
Furniture, equipment and other	45,957	33,038	53,513	27,991
	3,374,830	1,417,845	3,878,550	1,069,893

As of December 31, 2009, the Company spent $7,642,026 (2008 - $7,503,452) for exploration activities for the Canadon Ramirez Concession and Laguna de Piedra Concession (South American Properties). In 2009, exploration costs related to the Canadon Ramirez Concession of $31,071 (2008 - $6,171,140) were written-off to dry hole costs as the three well program was unsuccessful.

A full impairment provision of $1,463,712 (2008 - $Nil) was taken on the Laguna de Piedra Concession as access to a portion of the surface to drill on the exploration permit is currently under negotiation with the local municipality. Subsequent to the Company earning in on the property, the local municipality designated a portion of the Laguna Concession surface area as a "Nature Area." The operator of the Concession has commenced negotiations with the municipality to drill, but negotiations have been unsuccessful at this time.

Development costs of $858,381 included in petroleum and natural gas properties and related equipment at December 31, 2009 were incurred to drill two natural gas wells in Canada. The drilling costs for these wells have been excluded from costs subject to depletion and depreciation as these wells were not completed or producing as of December 31, 2009.

7. TAXES

The Company has recorded a full valuation allowance for its future income tax assets as it has been determined that their recoverability is not likely.

($)	2009 Amount	2008 Amount
Future income tax assets:		
Capital assets	2,227,801	1,807,256
Asset retirement obligation	21,034	20,235
Share issue costs	8,231	20,929
Loss carry-forward	1,432,413	898,328
Valuation allowance	(3,689,479)	(2,746,748)
	-	-

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

($)	2009	2008
Loss before income taxes and non-controlling interests	(2,702,617)	(7,543,915)
Combined federal and provincial income tax rates	29.0%	29.5%
Income tax provision calculated using statutory tax rates	(783,759)	(2,225,455)
Increase (decrease) in income taxes resulting from:		
Stock-based compensation	40,162	112,543
Argentina capital tax	119,659	23,132
Loss applicable to non-controlling interests	-	7,428
Change in valuation allowance	942,731	2,099,724
Change in tax rates	(233,959)	18,135
Other	34,825	(12,375)
Income tax provision	119,659	23,132

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	340,038
Foreign exploration expenditures	10	5,957,688
Canadian oil and gas property expenditures	10	32,925
Canadian development expenditures	30	392,110
Canadian exploration expenditures	100	1,216,017
Share issue costs	20	530,983
Non-capital loss carryforward [1]	100	5,729,653
		14,199,414

[1] $700,214 expires 2026, $1,523,672 expires 2027, $1,684,143 expires 2028 and $1,821,624 expires in 2029.

8. ASSET RETIREMENT OBLIGATIONS

At December 31, 2009, the estimated total undiscounted amount required to settle the asset retirement obligations was $123,602 (December 31, 2008 - $123,602). Costs for asset retirement have been calculated assuming a two percent inflation rate for 2010 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 five percent.

Changes to asset retirement obligations were as follows:

($)	2009	2008
Asset retirement obligations, January 1	80,938	34,438
Adjustment to asset retirement obligations	(850)	44,778
Accretion	4,046	1,722
Asset retirement obligations, December 31	84,134	80,938

9. 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.

	2009		2008	
Issued	Number	Amount ($)	Number	Amount ($)
Common Shares				
Balance, beginning of year	45,275,695	14,588,722	45,275,695	14,588,722
Issued on exercise of stock options	20,000	3,000	-	-
Transfer of contributed surplus to share capital		1,838		-
Balance, end of year	45,295,695	14,593,560	45,275,695	14,588,722

The number of weighted average basic and diluted shares outstanding for the years ended December 31:

	2009	2008
Basic shares outstanding[1]	45,276,627	45,275,695
Dilutive share options	245,014	976,921
Diluted shares outstanding	45,521,641	46,252,616

[1] Basic shares outstanding is used to calculate basic and diluted loss per share when the Company is in a loss position

A summary of the changes to the Company's contributed surplus is presented as follows:

Contributed surplus

($)	2009	2008
Balance, beginning of year	722,968	341,465
Stock-based compensation expensed (non-cash)	138,490	381,503
Stock-based options exercised (non-cash)	(1,838)	-
Balance, end of year	859,620	722,968

The Company may grant options for up to 4,527,569 (2008 – 4,527,569) 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, 2009 and December 31, 2008, and changes during the years ended on those dates are presented as follows:

	December 31, 2009			December 31, 2008		
	Options		Weighted-Average Exercise Price	Options		Weighted-Average Exercise Price
Outstanding at beginning of year	3,118,000	$	0.63	3,053,000	$	0.62
Options granted	40,000		0.15	65,000		1.15
Options exercised	(20,000)		0.15	-		-
Options cancelled	(12,000)		1.15	-		-
Outstanding at end of year	3,126,000	$	0.63	3,118,000	$	0.63
Options exercisable at end of year	3,028,500	$	0.62	2,003,500	$	0.33

The following table summarizes information about stock options outstanding at December 31, 2009:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/09	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/09	Weighted-Average Exercise Price
$ 0.15	1,110,000	0.1 years	$ 0.15	1,070,000	$ 0.15
0.50 – 0.60	825,000	0.1 years	0.51	825,000	0.51
0.70 – 0.75	80,000	0.1 years	0.72	80,000	0.72
1.10 – 1.20	1,071,000	0.5 years	1.18	1,013,500	1.18
1.40 – 1.50	40,000	1.1 years	1.49	40,000	1.49
$ 0.15 - $1.50	3,126,000	0.3 years	$ 0.63	3,028,500	$ 0.62

The Company records compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. Of the unvested options as of December 31, 2009, 77,500 vest in 2010 and 20,000 vest in 2011.

The Company issued 40,000 (December 31, 2008 – 65,000) stock options with an estimated fair value of $3,350 (December 31, 2008 - $33,761) ($0.08 per option (December 31, 2008 - $0.52 per option)) using the Black-Scholes option pricing model with the following key assumptions:

	December 31, 2009	December 31, 2008
Weighted-average risk free interest rate (%)	**1.24**	2.89
Dividend yield (%)	**-**	-
Expected life (years)	**2.5**	2.5
Weighted-average volatility (%)	**96.0**	72.0

10. 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, 2009			
Revenue, gross	522,694	1,804	524,498
Loss before non-controlling interest	443,518	2,378,758	2,822,276
Capital expenditures	871,128	125,441	996,569
Property and equipment	1,944,066	12,919	1,956,985
Total assets	3,352,664	123,213	3,475,877
YEAR ENDED DECEMBER 31, 2008			
Revenue, gross	814,901	21,046	835,947
Loss before non-controlling interest	621,501	6,945,546	7,567,047
Capital expenditures	607,941	4,769,249	5,377,190
Property and equipment	1,416,693	1,391,964	2,808,657
Total assets	3,884,908	1,685,107	5,570,015

11. FINANCIAL AND CAPITAL RISK MANAGEMENT

FINANCIAL RISK FACTORS

The Company undertakes transactions in a range of financial instruments including:

- Cash deposits;
- Receivables;
- Payables;

The Company's activities result in exposure to a number of financial risks including market risk (commodity price risk, interest rate risk and foreign exchange risk) credit risk and liquidity risk. Financial risk management is carried out by senior management under the direction of the Board of Directors.

The Company does not enter into risk management contracts. The Company sells its oil and natural gas commodities at market prices at the date of sale in accordance with the Board directive.

CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital, which the Company defines to include shareholders' equity and working capital balances, are to safeguard the Company's ability to continue as a going concern, to continue providing returns to its shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue debt or new shares.

The Company monitors capital on the basis of the ratio of budgeted exploration capital requirements to current working capital. This ratio is calculated using the projected cash requirements for one year in advance and maintaining a working capital balance of at least six months to satisfy this requirement on a continuous basis.

The Company believes that maintaining approximately a six month current working capital balance to the exploration capital budget requirement is an appropriate basis to allow it to continue its future development of the Company's assets. The Company currently does not meet this requirement and is considering alternative methods of financing its upcoming capital budget program.

The following section (a) of this note provides a summary of the Company's underlying economic positions as represented by the carrying values, fair values and contractual face values of its financial assets and financial liabilities. The Company's working capital to capital expenditure requirement ratio is also provided.

The following section (b) addresses in more detail the key financial risk factors that arise from the Company's activities including its policies for managing these risks.

a) Financial assets, financial liabilities

The carrying amounts, fair value and face values of the Company's financial assets and liabilities are shown in Table 1.

Table 1

	As at December 31, 2009			As at December 31, 2008		
($ 000s)	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value	Face Value
FINANCIAL ASSETS						
Cash	1,373	1,373	1,373	2,625	2,625	2,625
Accounts receivable	130	130	199	107	107	142
FINANCIAL LIABILITIES						
Accounts payable and accrued liabilities	1,028	1,028	1,028	444	444	444

Financial instruments consisting of accounts receivable and accounts payable and accrued liabilities carried on the consolidated balance sheet are carried at amortized cost. Cash is carried at fair value. All of the fair value items are transacted in active markets. Pine Cliff classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Pine Cliff's cash has been assessed on the fair value hierarchy described above and is considered Level 1.

The budgeted capital expenditure to working capital base figures for December 31, 2009 and December 31, 2008 are presented below:

($ 000s)	December 31, 2009	December 31, 2008
Budgeted capital expenditure [1]	1,360	750
Current assets	1,519	2,761
Current liabilities	(1,028)	(444)
Working capital	491	2,317
Working capital to budgeted capital expenditure (in months)	4.3	37.1

[1] Budgeted capital expenditure represents the Company's estimated future twelve month capital expenditures.

The December 31, 2009 working capital deficiency to the budgeted capital expenditures is currently planned to be eliminated by a combination of cash flow from the newly completed gas wells, funds from the exercise of employee stock options, and the entering into of a bank facility or equity placement.

b) Risks and mitigations

Market risk is the risk that the fair value or future cash flow of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which Pine Cliff is exposed are discussed below.

Commodity price risk

The Company's principal operation is the exploration and development of oil and natural gas properties in Canada. The Company also engages in the exploration and possible development of its South American properties. Fluctuations in prices of these commodities may directly impact the Company's performance and ability to continue its operations.

The Company's management currently does not use risk management contracts to set price parameters for its production.

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flow associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that Pine Cliff uses. The principal exposure to the Company is on its cash balances which have a variable interest rate which gives rise to a cash flow interest rate risk.

Pine Cliff's cash consists of Canadian dollar, U.S. dollar and Argentinean peso investment chequing accounts on which it earns an insignificant amount of interest. Since these funds need to be accessible for the development of the Company's capital projects, management does not reduce its exposure to interest rate risk through entering into term contracts of various lengths.

Foreign exchange risk

The Company has foreign operations, but no revenue from production from the foreign properties and currently sells all of its Canadian production in Canadian currency. The Company has a U.S. cash and Argentina peso cash balance. Funds held in foreign denominated accounts are generally held for short periods of time, as the Company transfers and converts Canadian funds to foreign currency as payments for foreign currency denominated payables come due. As such, Pine Cliff does not mitigate exchange rate risk by using risk management contracts.

Credit risk

Credit risk is the risk that a contracting party will not complete its obligations under a financial instrument and cause the Company to incur a financial loss. Pine Cliff is exposed to credit risk on all financial assets included on the balance sheet. To help mitigate this risk, the Company maintains the majority of its cash balances with a major Canadian chartered bank.

Substantially all of the accounts receivable balance at December 31, 2009 ($130,000) and December 31, 2008 ($107,000) relates to product sales with Canadian oil and gas companies and crown royalty credits with the province of Alberta, all of which have consistently been received within 30 to 60 days. The Company, through its subsidiary CanAmericas, also has a receivable of $69,000 (2008 - $35,000) for Argentina Value Added Tax on non-capital expenditures. The Company has taken a full allowance on the V.A.T., as the Company has no Argentina income subject to V.A.T. against which to claim the receivable.

The Company assesses quarterly if there has been any impairment of the financial assets of the Company. The Company does not have any significant credit risk exposure to any single counterparty.

The carrying value of accounts receivable approximates their fair value due to the relatively short periods to maturity on this instrument. Currently no accounts receivable is greater than 90 days. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due.

Liquidity risk

Liquidity risk includes the risk that, as a result of Pine Cliff's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date,
- The Company will not have sufficient funds to continue with its financing of its major exploration projects,
- The Company will be forced to sell assets at a value which is less than what they are worth, or
- The Company may be unable to settle or recover a financial asset at all.

To help reduce these liquidity risks, the Company:

- Has a general capital policy of maintaining at least six months of budgeted capital requirements as its working capital base.
- Has changed its focus to its Canadian operations and minimized its requirements for its South American Properties.

12. CONTINGENT LIABILITY

The Company is currently in dispute with the operator of the Canadon Ramirez Concession for the 2008 Canon (land rental payments). It is the Company's interpretation that the operator is responsible for the 2008 Canon under the Joint Operating Agreement. Should the Company be unsuccessful, the amount of its share of the Canon is $122,000. If the disputed amount (or a portion thereof) is settled the Company will capitalize the costs.

BOARD OF DIRECTORS

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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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