VISION
EXPERIENCE
OPPORTUNITY
ENERGY

PINE CLIFF ENERGY LTD. 2011 ANNUAL REPORT

Pine Cliff Energy Ltd.

Pine Cliff Energy Ltd. is a public company actively engaged in the exploration, development and production of natural gas, crude oil and liquids.

The company will look to acquire material asset positions in the Western Canadian Sedimentary Basin to create core area(s) of production with significant reserves and drilling inventories while accelerating current oil and liquids drilling and optimization opportunities.

Pine Cliff shares are traded on the TSX Venture Exchange under the ticker symbol PNE.

ENERGY

Pine Cliff's management team is energized with the appointment of Phil Hodge as President and Chief Executive Officer in January 2012. George Fink has been appointed Executive Chairman of the Board of Directors.

OPPORTUNITY

The low natural gas pricing environment has created strong deal flow from private corporations and asset dispositions from public companies and Pine Cliff is well-positioned to capitalize on increased acquisition opportunities to maximize shareholder value.

Inside

MESSAGE TO SHAREHOLDERS

Pine Cliff Energy Ltd. (Pine Cliff) is pleased to report its operational and financial results for the fourth quarter and year ended December 31, 2011.

During 2011, Pine Cliff's senior management and Board of Directors refocused its business after successfully disposing of the South American segment of its operations in late 2010. A strategic review process was implemented with the intent of redirecting Pine Cliff's corporate strategy into a growth-oriented, Canadian based junior exploration and production company.

> "Pine Cliff does not anticipate slowing its pace for the rest of 2012. Pine Cliff's strategy is to provide above industry average returns in the near term for short-term investors and high rates of return over time for long-term investors. The company plans to take advantage of this unique time in the oil and gas industry to build a portfolio of high-return assets for future growth."

A New Direction

The strategic review process resulted in the announcement in late December 2011 that Mr. Philip Hodge would be joining the management team in January to help lead Pine Cliff into 2012 with new energy and focus. Mr. George Fink, the previous President and Chief Executive Officer, continues to play a key role in the vision, direction and operations of Pine Cliff as its Executive Chairman of the Board. Mr. Robb Thompson is remaining on as Chief Financial Officer. Mr. Randy Jarock will be resigning as Chief Operating Officer but has agreed to remain with the Pine Cliff team as a nominee to the Board of Directors at the annual general meeting on May 17, 2012.

Since the company made these changes, it has been a busy time. In February, the company completed a rights offering and private placement for gross proceeds of approximately $2.9 million. In March, it closed an asset purchase in the Carrot Creek area of Alberta for $23.5 million.

Pine Cliff is now producing approximately 1,050 barrels of oil equivalent (BOE) per day with a production profile comprised of approximately 77 percent natural gas and 23 percent oil/NGLs and proved plus probable reserves of 2,223 MBOE. The company's net debt is approximately $20 million and it has a current working capital position of approximately $3 million.

Vision and Experience

Pine Cliff's management team has a successful record in the Canadian resource industry in building companies that have created and delivered exceptional value to shareholders (including Bonterra Energy Corp. and Comaplex Minerals Corp.). Management and insiders collectively own approximately 39 percent of Pine Cliff's shares and therefore are highly motivated and aligned with shareholders to increase share value and generate above average returns.

The Opportunity in 2012

Pine Cliff does not anticipate slowing its pace for the rest of 2012. Its strategy is to provide above industry average returns in the near term for short-term investors and high rates of return over time for long-term investors. The company plans to take advantage of this unique time in the oil and gas industry to build a portfolio of high-return assets for future growth.

The AECO natural gas spot price averaged $3.63 per Mcf in 2011 and prices in 2012 have decreased further and do not show any immediate prospect of recovery. This prolonged, weak natural gas price environment has led to a significant number of junior companies trading below valuations. Many of these companies have uncomfortable levels of debt and limited access to the credit or equity markets. At the same time, there are only a limited number of potential buyers with access to capital willing to consider gas-weighted transactions or smaller corporate takeovers. Pine Cliff anticipates that it will continue to be able to act quickly on acquisition opportunities identified this year and to fund these activities from working capital, debt or equity issues.

> "Management feels this environment provides Pine Cliff with tremendous opportunities to continue to make value-adding and potentially counter-cyclical acquisitions."

As it executes this strategy, the company will:

- maintain a balance sheet that will allow for more potential acquisitions but will also provide for a sustainable cash flow model even under low natural gas prices;
- accelerate oil and liquids drilling and optimization activities on its current asset base; and
- focus on providing investors with superior growth through a combination of drilling and further acquisitions to increase its inventory of drilling locations.

There have been some recent indications that dry gas production is declining in the United States with a falling North American rig count but U.S. gas storage remains significantly above both last year's number and the five year average. These issues result in a supply glut and continued downward pressure on natural gas prices. This situation is unlikely to reverse in the short-term and it is difficult to predict when prices might recover. Management feels this environment provides Pine Cliff with tremendous opportunities to continue to make value-adding and potentially counter-cyclical acquisitions.

The Directors and staff of Pine Cliff would like to take this opportunity to personally thank shareholders for their patience and continued support as it has evolved into a Canadian focused exploration and production company. Pine Cliff looks forward to this coming year which promises to be an exciting one for both the company and its shareholders.

Respectfully submitted on behalf of the Board of Directors,

Philip B. Hodge
President, Chief Executive Officer and Director

George F. Fink
Executive Chairman of the Board

$23.5M

Recently completed the acquisition of the Carrot Creek assets, a new core area for the company. Assets include liquids rich tight gas production, a small amount of oil and liquids rich gas and oil horizontal drilling opportunities.

9,970 ACRES

Pine Cliff acquired 4,035 net hectares with an average working interest of 65 percent. Production is 95 percent operated.

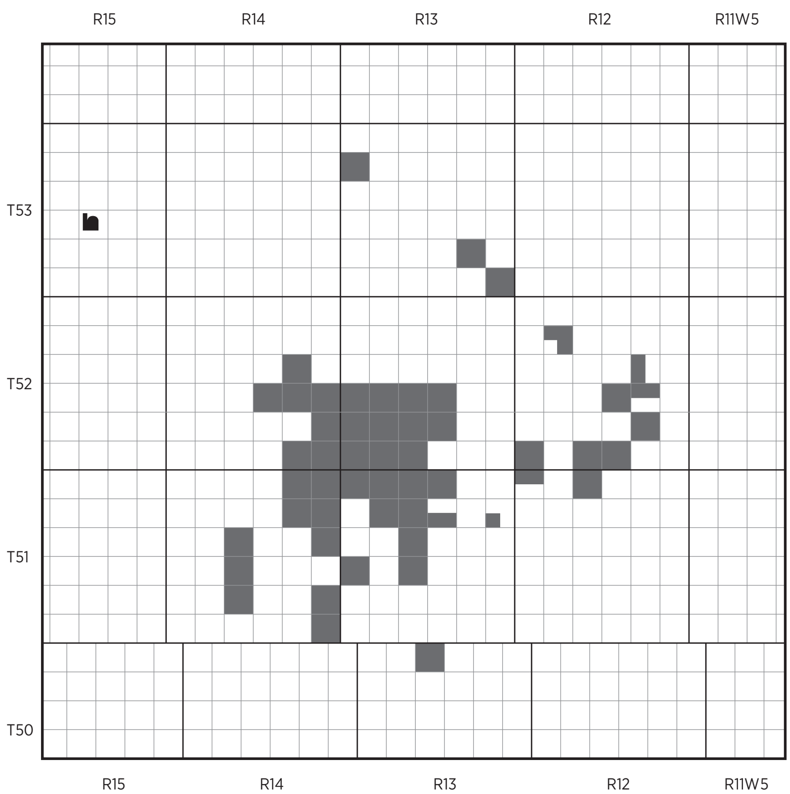
Geologist Chris Lee and President and CEO Phil Hodge

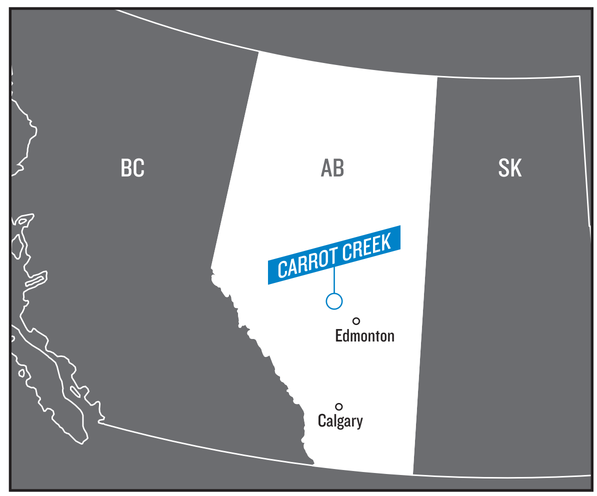
OPERATIONS REVIEW

Principal Properties

Carrot Creek Assets

The acquisition of the Carrot Creek assets in the first quarter of 2012 provided Pine Cliff with its first core area in the Western Canadian Sedimentary Basin. The Carrot Creek assets have current estimated production of 950 BOE per day, of which approximately 23 percent consists of oil and natural gas liquids and 77 percent natural gas.





Pine Cliff land

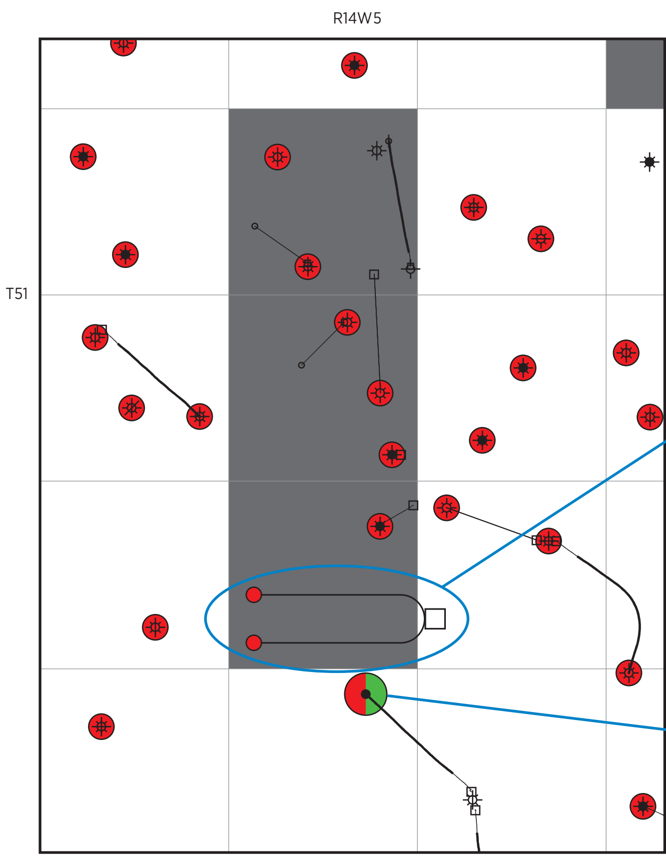
Partner operated gas plant

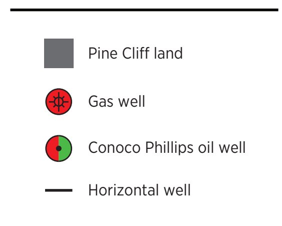
Multi-zone area	Targeting Viking, Gething/Ellerslie, Wilrich, Notikewin, Ostracod, Lower Mannville, Fernie Sand and Rock Creek
Average working interest	65 percent (95 percent of production is operated)
Land	49 gross sections
2012 capital program	Drilling at least two oil targets in the second half of 2012
Reserves	2,045 MBOE (Proved); 3,105 MBOE (Proved plus Probable)

In addition to the producing assets, Pine Cliff negotiated preferential pricing for processing a portion of its natural gas and liquids production at the Edson gas plant where most of the production flows and has also acquired 15.3 net sections of prospective land, some of which has current vertical production. Pine Cliff anticipates that this land has multi-zone potential which can be further exploited using horizontal drilling technology.

Pine Cliff has two licensed (0.6 net) drill ready Rock Creek oil targets to be drilled in the second half of 2012. Horizontal drilling in the Rock Creek has been ongoing since 2006 and there have been significant improvements in both the drilling and completions of these wells resulting in higher reservoir contact, more effective stimulations and improved performance. The company expects that its average cost to drill a horizontal well in this area will be approximately $3.8 million. The Pine Cliff locations offset a successful well drilled recently by ConocoPhillips.

2012 Rock Creek Drilling Locations





Pine Cliff anticipates drilling these two horizontal oil locations in the second half of the year.

Recent ConocoPhillips horizontal well

Months on production	10
Cumulative oil	61,295 barrels
Cumulative gas	470,380 MCF
Current calendar day	136 barrels per day
Current calendar gas	2,200 MCF per day

The significant natural gas prospects (approximately 50 gross potential locations) on the Carrot Creek assets will be inventoried until natural gas prices recover. The upcoming oil drilling program is anticipated to offset natural production declines on existing natural gas and NGLs production and the company will also look to execute a targeted optimization and recompletions program in 2012.

Sundance Assets

Pine Cliff has minor production from non-operated properties in the Sundance area in northwest Alberta. The wells are producing natural gas from multiple cretaceous sands ranging from the Cadomin to the Belly River. Current production (February 2012) from the 10 producing wells in this area is approximately 3.7 MMcf per day gross (477 Mcf per day net to Pine Cliff).

During the second quarter of 2011, four wells (0.6 net, 15 percent working interest in each well) were licensed in the area on Pine Cliff interest lands and drilled by the operator in the third quarter of 2011. The company elected not to participate in any of these wells.

CFO Robb Thompson and Director Randy Jarock

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated April 12, 2012 is a review of the operations and current financial position for the year ended December 31, 2011 for Pine Cliff Energy Ltd. (Pine Cliff or the Company) and should be read in conjunction with the audited consolidated financial statements presented under International Financial Reporting Standards (IFRS), including the notes related thereto.

A reconciliation of the new and revised standards and interpretations for comparative purposes are outlined in Note 15 of the December 31, 2011 audited consolidated financial statements.

Transition to IFRS from Canadian GAAP

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles (GAAP) as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate IFRS as issued by the International Accounting Standards Board (IASB) and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis after applying the requirements of International Financial Reporting Standard – First-time Adoption of International Financial Reporting Standards (IFRS 1). In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

IFRS are premised on a conceptual framework similar to Canadian GAAP; however significant differences can exist in certain matters of recognition, measurement and disclosure. On adoption of IFRS, the Company experienced material changes related to its January 1, 2010 opening consolidated statement of financial position. The following discussion highlights the new standards and first-time adoption exemptions that the Company has adopted and elected to use under IFRS. It also discusses the impact on the comparative year's results of operations and financial position as previously reported under Canadian GAAP as well as possible effects going forward.

Additionally, the changes to the opening statement of financial position required that a corresponding tax asset or liability be established based on the resultant differences between the carrying amount of these fixed assets under IFRS and their associated tax bases. In aggregate, these increases and the application of various policies under IFRS that differ from Canadian GAAP increased shareholders' equity by $642,113 at January 1, 2010. Note 15 of the consolidated financial statements provides detailed reconciliations between Canadian GAAP and IFRS of shareholders' equity as at January 1 and December 31, 2010 and of comprehensive loss for the year ended December 31, 2010. These reconciliations provide explanations of each major difference.

The following discussion highlights the significant new standards that the Company has adopted under IFRS and the effect on the comparative year's results of operations and financial position as previously reported under Canadian GAAP as well as the possible effects going forward.

IFRS 5 *Non-Current Assets Held For Sale and Discontinued Operations* (IFRS 5), similar to Canadian GAAP requires the Company to reclassify assets and liabilities of a disposal group or discontinued assets in the statements of financial position, comprehensive income and cash flow. Under Canadian GAAP, the date certain assets and liabilities meet the criteria for discontinued operations, the Company retroactively restates the statements of financial position, comprehensive income and cash flow to conform to the current year presentation. Under IFRS, the discontinued operations are segregated in the statement of financial position prospectively from the date discontinued operations was determined, while the statements of comprehensive income and cash flow are retroactively restated to conform to the current period presentation. This difference under IFRS resulted in January 1, 2010 statements of financial position to be adjusted to remove the segregation of discontinued operations. This change had no effect on the Company's total assets, liabilities or shareholders' equity.

IAS 27 *Consolidated and Separate Financial Statements* (IAS 27), similar to Canadian GAAP requires the Company to record a non-controlling interest (NCI) proportionate share of comprehensive income or loss to the NCI original equity investment on the face of the statement of financial position. Under Canadian GAAP, if a NCI did not have an obligation to fund their losses, the Company would not allocate the NCI's share of comprehensive losses once the NCI equity investment was zero. Under IFRS, the Company must allocate such comprehensive losses to the NCI even though it creates an NCI deficit on the statement of financial position. The Company is required to record the NCI's share of losses on a retroactive basis from the date of acquisition. Recording the NCI's losses resulted in a NCI deficit for January 1, 2010 of $648,583 and $nil for December 31, 2010 as the Company purchased the non-controlling interest as of November 23, 2010. Total comprehensive income decreased by $727,185 on the acquisition of the NCI by the Company.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37), similar to Canadian GAAP requires the Company to recognize a decommissioning liability for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of oil and gas properties and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for the decommissioning of an asset is recognized as its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding decommissioning liability is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using the unit-of-production method. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the discount rate used, amount or timing of the underlying cash flows needed to settle the liability. Under Canadian GAAP, the discount rate used is the credit adjusted risk free rate, which is higher than the risk free rate used under IFRS. Revaluing the decommissioning liabilities under IFRS increased the decommissioning liabilities by $3,422 for continuing operations ($2,391 for discontinued operations), decreased property and equipment by $657 and shareholders' equity by $6,470 on an after-tax basis as at January 1, 2010.

The adoption of IFRS impacts the Company's assets, liabilities, shareholders' equity and net earnings for the comparative periods. A summary of the significant IFRS changes to the 2010 financial information are as follows:

Summary Net Earnings (Loss) Reconciliation

		2010			
TOTAL OPERATIONS ($)	Annual	Q4	Q3	Q2	Q1
Net earnings (loss) – Canadian GAAP	**57,797**	**(189,701)**	**613,863**	**(177,714)**	**(188,651)**
Office and administration	10	10	-	-	-
Depletion and depreciation	(548)	(279)	(91)	(205)	27
Unwinding of the fair value of decommissioning liabilities	329	86	87	82	74
Loss on acquisition of non-controlling interest	(727,195)	(727,195)	-	-	-
Net earnings from discontinued operations	2,391	-	2,280	55	56
Net earnings (loss) – IFRS	**(667,216)**	**(917,079)**	**616,139**	**(177,782)**	**(188,494)**
Basic and diluted net earnings (loss) per share – Canadian GAAP	**0.00**	**(0.00)**	**0.01**	**(0.00)**	**(0.00)**
Effects of adjustments to net earnings (loss)	(0.01)	(0.02)	0.00	(0.00)	0.00
Basic and diluted net earnings (loss) per share – IFRS	(0.01)	(0.02)	0.01	(0.00)	(0.00)

		2010			
CONTINUING OPERATIONS ($)	Annual	Q4	Q3	Q2	Q1
Net loss – Canadian GAAP	**(372,776)**	**(189,701)**	**(121,701)**	**(39,244)**	**(22,130)**
Office and administration	10	10	-	-	-
Depletion and depreciation	(548)	(279)	(91)	(205)	27
Unwinding of the fair value of decommissioning liabilities	329	86	87	82	74
Loss on acquisition of non-controlling interest	(727,195)	(727,195)	-	-	-
Net loss - IFRS	**(1,100,180)**	**(917,079)**	**(121,705)**	**(39,367)**	**(22,029)**
Basic and diluted net loss per share – Canadian GAAP	**(0.01)**	**(0.00)**	**0.00**	**(0.00)**	**(0.00)**
Effects of adjustments to net earnings (loss)	(0.01)	(0.02)	(0.00)	(0.00)	0.00
Basic and diluted net loss per share – IFRS	**(0.02)**	**(0.02)**	**(0.00)**	**(0.00)**	**(0.00)**

Summary Shareholders' Equity Reconciliation

	2010			
($)	Q4	Q3	Q2	Q1
Shareholders' Equity – Canadian GAAP	**2,554,148**	**2,743,427**	**2,129,564**	**2,305,659**
Adjustments related to:				
Non-controlling interest	-	727,185	673,279	663,908
Revaluing decommissioning liabilities	(4,298)	(4,105)	(6,381)	(6,313)
Shareholders' Equity – IFRS	**2,549,850**	**3,466,507**	**2,796,462**	**2,963,254**

Forward-looking Information

Certain statements contained in this Management's Discussion and Analysis (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.

Discontinued Operations

During the second quarter of 2010, Pine Cliff committed to a plan to dispose of its South American operations to allow the Company to focus its continuing operations on the development of Canadian oil and natural gas properties. The South American Operations were sold effective September 24, 2010. Accordingly, the South American Operations have been reclassified as discontinued operations in the Consolidated Financial Statements. This is further discussed in the MD&A section entitled "Operating Results from Discontinued Operations."

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Annual Comparison

As at and for the year ended	December 31, 2011	December 31, 2010[1]	December 31, 2009 Canadian GAAP[2]
TOTAL OPERATIONS ($)			
Revenue – oil and gas	**866,124**	1,362,570	518,401
Cash flow (deficiency) from operations	**332,866**	218,749	(613,398)
Per share basic and diluted	**0.01**	0.00	(0.01)
Net loss	**(206,103)**	(667,216)	(2,822,276)
Per share basic and diluted	**(0.00)**	(0.01)	(0.06)
Capital expenditures	**24,136**	1,323,639	996,569
Total assets	**2,387,839**	2,929,782	3,475,877
Working capital	**482,322**	309,805	491,064
Shareholders' equity	**2,207,134**	2,549,850	2,363,915
CONTINUING OPERATIONS ($) [3]			
Cash flow from operations	**332,866**	612,854	94,343
Per share basic and diluted	**0.01**	0.01	0.00
Net loss	**(206,103)**	(1,100,180)	(452,136)
Per share basic and diluted	**(0.00)**	(0.02)	(0.01)
Capital expenditures	**24,136**	1,220,300	871,128
TOTAL OPERATIONS			
Crude oil and NGLs			
- Barrels per day	**1**	2	1
- Average price ($ per barrel)	**80.93**	77.68	60.98
Natural Gas			
- MCF per day	**596**	876	315
- Average price ($ per MCF)	**3.87**	4.08	4.22
Total barrels of oil equivalent (BOE) per day [4]	**100**	148	54

(1) The comparative highlights have been restated with the adoption of International Financial Reporting Standards (IFRS).

(2) The comparative highlights for 2009 are under Canadian Generally Accepted Accounting Principles (GAAP) prior to the adoption of IFRS.

(3) Continuing operations excludes the results of operations from the South American assets which have been designated as discontinued operations. The South American assets were sold on September 24, 2010.

(4) 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.

Quarterly Financial and Operational Highlights

	2011			
	Q4	Q3	Q2	Q1
TOTAL OPERATIONS ($)				
Revenue oil and gas	163,979	220,398	236,229	245,518
Cash flow (deficiency) from operations	(4,070)	120,109	68,707	148,120
Per share basic and diluted	(0.00)	0.00	0.00	0.00
Net loss	(45,745)	(74,182)	(53,732)	(32,444)
Per share basic and diluted	(0.00)	(0.00)	(0.00)	(0.00)
Capital expenditures	1,816	13,223	2,942	6,155
Total assets	2,387,839	2,503,803	2,622,350	2,896,325
Working capital	482,322	487,693	510,444	482,299
Shareholders' equity	2,207,134	2,304,841	2,549,057	2,574,353
CONTINUING OPERATIONS ($)				
Cash flow (deficiency) from operations	(4,070)	120,109	68,707	148,120
Per share basic and diluted	(0.00)	0.00	0.00	0.00
Net loss	(45,745)	(74,182)	(53,732)	(32,444)
Per share basic and diluted	(0.00)	(0.00)	(0.00)	(0.00)
Capital expenditures	1,816	13,223	2,942	6,155
TOTAL OPERATIONS				
Crude oil and NGLs (barrels per day)	1	1	1	1
Natural gas (MCF per day)	522	594	614	659

	2010			
	Q4	Q3	Q2	Q1
TOTAL OPERATIONS ($)				
Revenue oil and gas	279,741	323,641	548,391	210,797
Cash flow (deficiency) from operations	38,856	(547)	229,181	(48,741)
Per share basic and diluted	0.00	(0.00)	0.00	(0.00)
Net earnings (loss)	(917,079)	616,139	(177,782)	(188,494)
Per share basic and diluted	(0.02)	0.01	(0.00)	(0.00)
Capital expenditures	81,622	63,106	165,734	1,013,177
Total assets	2,929,782	3,095,983	2,910,378	3,767,607
Working capital (deficiency)	309,805	394,482	(387,016)	(426,596)
Shareholders' equity	2,549,850	3,466,507	2,796,462	2,963,254
CONTINUING OPERATIONS ($)				
Cash flow from operations	38,856	243,335	311,063	19,600
Per share basic and diluted	0.00	0.01	0.01	0.00
Net loss	(917,079)	(121,705)	(39,367)	(22,029)
Per share basic and diluted	(0.02)	(0.00)	(0.00)	(0.00)
Capital expenditures	81,622	40,549	108,879	989,250
TOTAL OPERATIONS				
Crude oil and NGLs (barrels per day)	1	1	4	3
Natural gas (MCF per day)	768	908	1,387	435

Continuing Operations

Production

	Three months ended			Year ended	
	Dec. 31, 2011	Sept. 30, 2011	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010
Crude oil and NGLs (barrels per day)	**1**	1	1	**1**	2
Natural gas (MCF per day)	**522**	594	768	**596**	876
Total BOE per day (1)	**88**	100	129	**100**	148

(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.

Production was lower in 2011 compared to 2010 due to natural production declines and flush production in 2010 from four wells (0.6 net) that were placed on production between February and April of 2010. Production was lower in Q4 2011 compared to Q3 2011 primarily due to natural production declines.

Oil and Gas Sales, Net of Royalties

	Three months ended			Year ended	
($)	**Dec. 31, 2011**	Sept. 30, 2011	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010
Revenue – oil and gas sales	**163,979**	220,398	279,741	**866,124**	1,362,570
Less:					
Crown royalties	**1,941**	4,740	6,258	**21,083**	62,437
Gross overriding royalties	**3,415**	4,960	6,843	**14,979**	29,339
Total royalties	**5,356**	9,700	13,101	**36,062**	91,776
Oil and gas sales, net of royalties	**158,623**	210,698	266,640	**830,062**	1,270,794
Average realized prices ($):					
Crude oil and NGLs (per barrel)	**76.41**	80.45	74.91	**80.93**	77.68
Natural gas (per MCF)	**3.34**	3.91	3.86	**3.87**	4.08
Royalties – percentage of revenue	**3.3**	4.4	4.7	**4.2**	6.7
Royalties $ per BOE	**0.67**	1.06	1.10	**0.99**	1.70

Revenue from petroleum and natural gas sales decreased in 2011 compared to 2010 due to lower commodity prices for natural gas and decreased production volumes. The decrease in Q4 2011 revenue compared to Q3 2011 was primarily due to natural production declines and lower prices for natural gas. The Company did not enter into any risk management contracts in either 2011 or 2010.

Total royalties paid by the Company in 2011 were lower than 2010 primarily due to lower production volumes, lower prices for natural gas and the implementation of phase two of the Alberta Government Competitiveness Review program in May 2010. The decrease in total royalties in Q4 2011 compared to Q3 2011 was due to lower production volumes and lower natural gas prices.

Production Costs

	Three months ended			Year ended	
($)	**Dec. 31, 2011**	Sept. 30, 2011	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010
Production costs	**59,837**	66,893	78,197	**262,214**	355,140
Per BOE	**7.43**	7.28	6.59	**7.17**	6.57

Production costs were lower in 2011 compared to 2010 due to lower gas processing charges for the lower production volumes. Production costs per BOE were higher for 2011 compared to 2010 and for Q4 2011 compared to Q3 2011 due to fixed production costs spread over lower production volumes.

Office and Administrative

	Three months ended			Year ended	
($)	**Dec. 31, 2011**	Sept. 30, 2011	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010
Office and administration expense	**43,795**	61,075	70,715	**215,069**	278,067

Office and administrative expenses decreased in 2011 compared to 2010 because of a decrease in management fees (see Related Party Transactions) and higher legal fees related to the disposal of the South American operations in 2010. Office and administration expense decreased in Q4 2011 compared to Q3 2011 due to lower regulatory disclosure costs and a decrease in consulting fees.

Pine Cliff did not have any employees for the year ended December 31, 2011 and has engaged Bonterra Energy Corp. (Bonterra), a related party (see Related Party Transactions), to provide executive, administrative and technical services. Pine Cliff also engages the services of consultants on a contract or temporary basis if required.

Share-based Payments

	Three months ended			Year ended	
($)	**Dec. 31, 2011**	Sept. 30, 2011	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010
Share-based payments	**-**	-	422	**-**	4,936

The Company has an equity settled stock-based compensation plan. The Company records a share-based payment expense over the vesting period based on the fair value of options granted to certain of its officers, directors, employees and service providers in respect of the Company. No options were issued in 2011 or 2010 and no options were outstanding at December 31, 2011.

Depletion and Depreciation

	Three months ended			Year ended	
($)	**Dec. 31, 2011**	Sept. 30, 2011	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010
Depletion and depreciation	**93,527**	144,066	185,724	**536,877**	875,854

Capital costs for oil and gas properties that result in additional reserves are depleted using the unit-of-production basis by field over their proved developed reserve life. For production facility and equipment expenditures such as well equipment, the Company depreciates these assets on a straight-line basis over 10 years.

Depletion and depreciation expense in 2011 was lower versus the prior year due to increased depletion incurred in 2010 from the flush production from four wells (0.6 net) that were placed on production between February and April of 2010. Depletion and depreciation expense decreased in Q4 2011 compared to Q3 2011 due to lower production volumes.

Income Taxes

The Company has adopted the liability method of accounting for income taxes under which the deferred tax provision is based on the temporary differences between the carrying amounts and tax values of assets and liabilities using income tax rates expected to apply in the year in which the temporary differences will reverse. The Company has sufficient tax pools to ensure that no income taxes are currently payable.

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

	Rate of utilization (%)	Amount ($)
Undepreciated capital costs	20-55	256,870
Canadian oil and gas property expenditures	10	430,097
Canadian development expenditures	30	1,091,925
Canadian exploration expenditures	100	392,110
Non-capital loss carryforward (1)	100	3,482,634
Capital loss carryforward	100	829,012
		6,482,648

(1) $700,214 expires 2026, $1,114,518 expires 2027, $675,721 expires 2028, $447,500 expires in 2029, $283,173 expires in 2030 and $261,508 expires in 2031.

Net Loss

	Three months ended			Year ended	
($)	**Dec. 31, 2011**	Sept. 30, 2011	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010
Net loss	**(45,745)**	(74,182)	(917,079)	**(206,103)**	(1,100,180)
Net loss per share	**(0.00)**	(0.00)	(0.02)	**(0.00)**	(0.02)

The net loss was lower for 2011 compared to 2010 due primarily to the recording of an impairment provision on the note receivable related to the disposal of the South American Operations and a loss on acquisition of the non-controlling interest, both recorded in Q4 of 2010. As well, for 2011 compared to 2010, there was a reduction in depletion and depreciation expense, production costs, royalties and G&A, which were partially offset by a decrease in oil and gas revenues. The net loss decreased in Q4 2011 over Q3 2011 due to lower depletion and depreciation and production costs which were partially offset by lower oil and gas revenues.

Other Comprehensive Loss

Other comprehensive loss relates entirely to the decrease in the fair value of Pine Cliff's investment recorded as part of the disposal of the South American Operations (see Discontinued Operations). During 2011, the market value of the investment decreased by $156,129.

Cash Flow (Deficiency) from Operations

	Three months ended			Year ended	
($)	**Dec. 31, 2011**	Sept. 30, 2011	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010
Cash flow (deficiency) from operations	**(4,070)**	120,109	38,856	**332,866**	612,854
Cash flow from operations per share	**(0.00)**	0.00	0.00	**0.01**	0.01

Cash flow decreased in 2011 compared to 2010 due to a reduction in oil and gas revenues which was partially offset by lower production costs, royalties and G&A. The decrease in cash flow in Q4 2011 compared to Q3 2011 is primarily due to a decrease in oil and gas revenues and a decrease in non-cash working capital.

Related Party Transactions

Pine Cliff has a management agreement with Bonterra (a company with common directors at year end and some common management with Pine Cliff), to have Bonterra provide executive services (CEO, COO and CFO), technical services, accounting services, oil and gas administration and office administration. The management fee consists of a monthly fee of $5,000 (2010 - $7,500) plus minimal administrative costs. As at December 31, 2011, amounts owing to Bonterra were $3,837 (December 31, 2010 - $464). The agreement with Bonterra can be cancelled by either party by providing 90 days notice.

Geomark Exploration Ltd. (Geomark) is a publicly traded company listed on the TSX-Venture with common directors at year end and some common management with Pine Cliff. As of December 31, 2011, Geomark owns 346,250 common shares of Pine Cliff (December 31, 2010 and January 1, 2011 - 346,250) which represents less than one percent of the total issued and outstanding common shares of Pine Cliff. Subsequent to December 31, 2011, Geomark participated in Pine Cliff's rights offering and acquired an additional 86,562 common shares (see Subsequent Events Rights Offering). There were no other transactions between Pine Cliff and Geomark for the years ended December 31, 2011 and 2010.

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

Liquidity and Capital Resources

As of December 31, 2011, Pine Cliff had positive working capital of $482,322 (December 31, 2010 - $309,805).

From the disposition of the South American Operations, the Company received shares in a public company which as of December 31, 2011 were valued at $172,097 (December 31, 2010 - $328,227).

With this disposition, the Company had positive cash flow from continuing operations in 2011 and a positive working capital position. Activities for continuing operations will be financed from working capital, bank debt, equity issues or a combination thereof.

The Company is authorized to issue an unlimited number of common shares without nominal or par value. The Company is also authorized to issue in one or more series an unlimited number of Class B Preferred Shares without nominal or par value. Equity transactions during the past years are as follows:

	December 31, 2011		December 31, 2010	
Issued – common shares	**Number**	**Amount ($)**	Number	Amount ($)
Balance, January 1	**46,145,695**	**14,819,372**	45,295,695	14,593,560
Options exercised	**-**	**-**	850,000	127,500
Transfer of contributed surplus to share capital		**-**		98,312
Balance, end of year	**46,145,695**	**14,819,372**	46,145,695	14,819,372

A summary of the status of the Company's stock option plan as of December 31, 2011 and December 31, 2010, and changes during the years ended on those dates are presented as follows:

	December 31, 2011		December 31, 2010	
	Number of options	**Weighted average exercise price ($)**	Number of options	Weighted average exercise price ($)
Balance, January 1	**40,000**	**0.15**	3,126,000	0.63
Options exercised	**-**	**-**	(850,000)	0.15
Options cancelled or expired	**(40,000)**	**0.15**	(2,236,000)	0.79
Balance, end of year	**-**	**-**	40,000	0.15

The Company did not issue any options in 2011 or 2010.

Subsequent Events

Change in Management

On January 2, 2012 Philip Hodge was appointed President and Chief Executive officer of Pine Cliff. Mr. Hodge assumed the Chief Executive Officer duties from George Fink who was appointed Executive Chairman of the board of directors effective January 2, 2012 and will remain as a Director of Pine Cliff and an active advisor to the incoming management team. Randy Jarock will become a member of the board of directors at the 2012 Annual General Meeting and will be retiring as the Chief Operating Officer effective June 30, 2012. Robb Thompson will continue as Pine Cliff's Chief Financial Officer.

Rights Offering

Pine Cliff completed a four for one rights offering for all shareholders of record at the close of business on January 11, 2011. Each shareholder received one right for each common shares held. For every four rights a shareholder was entitled to purchase one Pine Cliff common share at a subscription price of $0.17 per common share. A total of 11,536,423 common shares were issued as part of the rights offering for gross proceeds of $1,961,192. The proceeds will be used for Pine Cliff's 2012 capital expenditures and for general corporate purposes.

Private Placement

On February 4, 2012, Pine Cliff completed a non-brokered private placement and issued 5,882,000 Common shares for a price of $0.17 for gross proceeds of $999,940. The proceeds of the private placement will be used for Pine Cliff's 2012 capital expenditures and for general corporate purposes. All of the common shares issued under the placement are subject to a four month holding period from the date of close.

As a result of the Rights Offering and private placement, a total of 63,564,118 common shares are issued and outstanding.

Purchase of Carrot Creek Oil and Gas Assets (Carrot Creek Assets)

On March 1, 2012, Pine Cliff acquired certain oil and natural gas assets in the Carrot Creek area in the Province of Alberta for cash considerations of $23.5 million. The acquisition was financed by: (i) a $15 million revolving demand credit facility with Alberta Treasury Branch (Credit Facility); (ii) a $7 million short-term secured loan from the executive chairman of the board of directors and a shareholder of Pine Cliff (Related Party Loan); and (iii) Pine Cliff's working capital. The Credit Facility is secured against all of the assets of Pine Cliff and is subject to review on an annual basis. The Related Party Loan has a term of six months, is subordinated to the Credit Facility and bears interest at a rate of five percent per annum and with interest payable monthly in arrears. The Carrot Creek Assets have current estimated production of 950 barrels of oil equivalent (BOE) per day, of which approximately 23 percent consists of oil and natural gas liquids and 77 percent consists of natural gas. In addition to the producing assets, Pine Cliff also acquired 15.3 net sections of prospective land, some of which has current vertical production. Pine Cliff has also negotiated preferential pricing for processing a portion of its natural gas and liquids production at a gas plant owned and operated by the vendor of the Carrot Creek Assets.

Granting of Stock Options

Subsequent to year end, Pine Cliff granted stock options to purchase 3,230,000 common shares of Pine Cliff at a weighted average exercise price of $0.40 per share to certain of its officers, directors, employees and service providers. The stock options will expire between one to five years from the date of grant. The stock options will have minimum vesting periods ranging from one to three years.

Operating Results From Discontinued Operations

The following represents results of operations from the South American properties which have been designated as discontinued operations.

Statement of Financial Position

As at ($)	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current			
Accounts receivable and other	-	-	39,094
Total assets	-	-	39,094
Liabilities			
Current			
Accounts payable and accrued liabilities	-	-	192,818
Decommissioning liability	-	-	38,227
Total liabilities	-	-	231,045

Statements of Net Earnings (Loss)

	Year ended	
($)	December 31, 2011	December 31, 2010
Expenses		
Office and administrative	-	251,400
Foreign exchange (gain) loss		(4,410)
Unwind of the discounted value of decommissioning liabilities	-	1,175
Recovery of impairment on oil and gas assets	-	(728,468)
Net earnings from discontinued operations before taxes	-	480,303
Taxes	-	47,339
Net earnings and comprehensive income from discontinued operations	-	432,964

Impairment and Disposal of South American Operations

On September 24, 2010, the Company disposed of its South American subsidiary whose assets and liabilities related primarily to the Canadon Ramirez and Laguna de Piedra Concessions (South American properties). The proceeds of disposition were $450,000 consisting of $1,000 of cash, a note receivable for $449,000 and a contingent receivable not used to calculate the impairment reversal on the disposal of oil and gas assets (see Contingent Receivable). During Q1 2011, the purchaser settled the note by issuing shares in the purchaser's publicly traded corporation. As at December 31, 2011, these shares were valued at $172,097 (December 31, 2010 - $328,227 (value of the note receivable)). At the time of disposition, the Company had a carrying value of $22,557 for the South American properties after prior period impairment provisions of $7,746,705. It also had decommissioning liabilities of $38,838 and a working capital deficiency of $342,969 that was transferred to the purchaser related to the South American property resulting in a recovery of impairment on oil and gas assets of $809,250.

Contingent Receivable

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

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.

Financial Reporting Update

Recent Accounting Pronouncements

As of January 1, 2013, Pine Cliff will be required to adopt amendments to IAS 1 "Presentation of Financial Statements" which will require companies to group together items within other comprehensive income that may be reclassified to the net earnings section of the comprehensive income statement. Pine Cliff does not expect a material impact as a result of the amendment.

Each of the new additional standards listed below is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, except for IFRS 9 "Financial Instruments" which is effective for annual periods beginning on or after January 1, 2015. The Company has not yet assessed the impact, if any, that the newly amended standards will have on its financial statements or whether to early adopt any of the new requirements.

IFRS 9 "Financial Instruments"
The result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

IFRS 10 "Consolidated Financial Statements"
Replaces Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27 "Consolidated and Separate Financial Statements". The new standard replaces the existing risk and rewards based approaches and establish control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements.

IFRS 11 "Joint Arrangements"
Replaces IAS 31 "Interests in Joint Ventures" along with amending IAS 28 "Investment in Associates". The new standard focuses on the rights and obligations of an arrangement, rather than its legal form. The standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted.

IFRS 12 "Disclosure of Interests in Other Entities"
Provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates and special purpose vehicles. The new disclosure requires information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity's interest in subsidiaries and joint arrangements.

IFRS 13 "Fair Value Measurement"
Provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when IFRS requires or permits the item to be measured at fair value, with limited exceptions. This standard does not determine when an item is measured at fair value and as such does not require new fair value measurements.

Additional information

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

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 auditor's report. The audit committee has reviewed these 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 in this annual report.

Philip B. Hodge
President, Chief Executive Officer and Director

Robb D. Thompson
Chief Financial Officer

April 12, 2012

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pine Cliff Energy Ltd.

We have audited the accompanying consolidated financial statements of Pine Cliff Energy Ltd., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity, and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pine Cliff Energy Ltd. as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte Touche LLP

Chartered Accountants
April 12, 2012

Calgary, Alberta

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at ($)	Note	December 31, 2011	December 31, 2010 (Note 15)	January 1, 2010 (Note 15)
ASSETS				
Current				
Cash		**277,072**	108,039	1,333,553
Accounts receivable		**109,547**	155,945	168,994
Prepaid expenses		**22,760**	26,402	16,345
Note receivable	4	**-**	328,227	-
Investment	4	**172,097**	-	-
		581,476	618,613	1,518,892
Property and equipment	5	**1,806,363**	2,311,169	1,956,328
		2,387,839	2,929,782	3,475,220
LIABILITIES				
Current				
Accounts payable and accrued liabilities	7	**99,154**	308,808	1,027,828
Decommissioning liabilities	8	**81,551**	71,124	89,947
		180,705	379,932	1,117,775
Subsequent events	14			
Shareholders' equity				
Share capital	10	**14,819,372**	14,819,372	14,593,560
Contributed surplus		**766,244**	766,244	859,620
Accumulated other comprehensive loss		**(136,613)**	-	-
Deficit		**(13,241,869)**	(13,035,766)	(12,447,152)
Total shareholders' equity		**2,207,134**	2,549,850	3,006,028
Non-controlling interest (deficit)	9	**-**	-	(648,583)
Total equity		**2,207,134**	2,549,850	2,357,445
		2,387,839	2,929,782	3,475,220

See the accompanying notes to these consolidated financial statements

On behalf of the Board:

George F. Fink
Director

Bill Woodward
Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the year ended December 31 ($)	Note	2011	2010 (Note 15)
REVENUE			
Oil and gas sales, net of royalties	11	**830,062**	1,270,794
EXPENSES			
Production costs		**262,214**	355,140
Office and administration	12	**215,069**	278,067
Depletion and depreciation	5	**536,877**	875,854
Unwinding of the fair value of decommissioning liabilities	8	**2,489**	2,553
Share-based payments		**-**	4,936
Impairment of note receivable	4	**-**	120,773
Loss on acquisition of non-controlling interest	9	**-**	727,195
Loss on disposal of property and equipment	5	**-**	6,456
		1,016,649	2,370,974
Loss before income taxes		**(186,587)**	(1,100,180)
Deferred taxes	6	**19,516**	-
Net loss from continuing operations		**(206,103)**	(1,100,180)
Net earnings from discontinued operations, net of tax	4	**-**	432,964
Net loss for the year		**(206,103)**	(667,216)
Other comprehensive income			
Unrealized loss on investments		**(156,129)**	-
Deferred taxes on unrealized loss on investments	6	**19,516**	-
		(136,613)	-
Total comprehensive loss		**(342,716)**	(667,216)
Net loss attributable to:			
Common shareholders of the Company		**(206,103)**	(588,614)
Non-controlling interest		**-**	(78,602)
Comprehensive loss attributable to:			
Common shareholders of the Company		**(342,716)**	(588,614)
Non-controlling interest		**-**	(78,602)
Net loss per share from continuing operations			
Basic and diluted	10	**(0.00)**	(0.02)
Net earnings per share from discontinued operations			
Basic and diluted	10	**0.00**	0.01
Net loss per share			
Basic and diluted	10	**(0.00)**	(0.01)
Comprehensive loss per share			
Basic and diluted	10	**(0.01)**	(0.01)

See the accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31 ($)	2011	2010
OPERATING ACTIVITIES		
Loss before income taxes	**(186,587)**	(1,100,180)
Items not affecting cash		
Share-based payments	**-**	4,936
Depletion and depreciation	**536,877**	875,854
Unwinding of the fair value of decommissioning liabilities	**2,489**	2,553
Loss on disposal of property and equipment	**-**	6,456
Impairment of note receivable	**-**	120,773
Loss on acquisition of non-controlling interest	**-**	727,195
Change in non-cash working capital		
Change in accounts receivable	**34,849**	(74,492)
Change in prepaid expenses	**3,642**	(10,057)
Change in accounts payable and accrued liabilities	**(58,404)**	59,816
Cash provided by continuing operations	**332,866**	612,854
Cash used in discontinued operations	**-**	(394,105)
Cash provided by operating activities	**332,866**	218,749
Financing activities		
Stock option proceeds	**-**	127,500
Cash provided by financing activities	**-**	127,500
Investing activities		
Property and equipment expenditures	**(24,136)**	(1,220,300)
Acquisition of non-controlling interest	**-**	(10)
Change in non-cash working capital		
Change in accounts receivable	**11,553**	48,447
Change in accounts payable and accrued liabilities	**(151,250)**	(586,018)
Cash used in continuing operations	**(163,833)**	(1,757,881)
Cash provided by discontinued operations	**-**	186,118
Cash used in investing activities	**(163,833)**	(1,571,763)
Net cash inflow (outflow)	**169,033**	(1,225,514)
Cash, beginning of the year	**108,039**	1,333,553
Cash, end of the year	**277,072**	108,039
Cash taxes paid by discontinued operations	**-**	55,169

See the accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended ($, except for number of common shares)

	Number of common shares (Note 10)	Share capital (Note 10)	Contributed surplus (1)	Accumulated other comprehensive (loss) (2)	Deficit	Total Shareholders' equity	Non-controlling interest	Total equity
January 1, 2010	**45,295,695**	**14,593,560**	**859,620**	**-**	**(12,447,152)**	**3,006,028**	**(648,583)**	**2,357,445**
Exercise of options	850,000	127,500	-	-	-	127,500	-	127,500
Share-based payments	-	-	4,936	-	-	4,936	-	4,936
Transfer to share capital on exercise of options	-	98,312	(98,312)	-	-	-	-	-
Acquisition of non-controlling interest	-	-	-	-	-	-	727,185	727,185
Comprehensive loss	-	-	-	-	(588,614)	(588,614)	(78,602)	(667,216)
December 31, 2010	**46,145,695**	**14,819,372**	**766,244**	**-**	**(13,035,766)**	**2,549,850**	**-**	**2,549,850**
Comprehensive loss	-	-	-	(136,613)	(206,103)	(342,716)	-	(342,716)
December 31, 2011	**46,145,695**	**14,819,372**	**766,244**	**(136,613)**	**(13,241,869)**	**2,207,134**	**-**	**2,207,134**

(1) Contributed surplus comprises of share-based payments.

(2) Accumulated other comprehensive income comprises of unrealized gains and losses on available-for-sale investments.

See accompanying notes to these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2011, 2010, and as at January 1, 2010.

1. NATURE OF BUSINESS

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

Pine Cliff's continuing operations are in the development and production of oil and natural gas in the Western Canadian Sedimentary Basin.

These consolidated financial statements were authorized for issue by the Company's Board of Directors on April 12, 2012.

2. BASIS OF PREPARATION

a) Statement of Compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). In 2010, the Canadian Institute of Chartered Accountants Handbook (CICA Handbook) was revised to incorporate IFRS as issued by the International Accounting Standards Board (IASB) and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis after applying the requirements of International Financial Reporting Standard – First-time Adoption of International Financial Reporting Standards (IFRS 1). In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The December 31, 2011 annual financial statements are the Company's first annual financial statements prepared in compliance with IFRS using the policies as presented in these statements, having an adoption date of January 1, 2011 and a transition date of January 1, 2010. Consequently, the comparative figures for 2010 and the Company's statement of financial position as at January 1, 2010 have been restated from accounting principles generally accepted under Canadian GAAP to comply with IFRS.

The reconciliations to IFRS from the previously published Canadian GAAP consolidated financial statements are summarized in Note 15. In addition, IFRS 1 requires certain exceptions and allows certain exemptions from retrospective application of IFRS in the opening statement of financial position. Where these have been applied they are explained in Note 15.

b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments and share-based payment transactions which are measured at fair value.

c) Use of Judgments and Estimates

The timely preparation of 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 as at the date of the statement of financial position 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.

Exploration and evaluation assets and property and equipment, are aggregated into cash generating units (CGUs) based on their ability to generate largely independent cash flows and are used for impairment assessment. The determination of the Company's CGUs is subject to management's judgment.

Amounts recorded for depletion and depreciation are based on estimates of crude oil and natural gas reserves. Amounts used for impairment calculations are also based on estimates of crude oil and natural gas reserves and future costs required to develop those reserves. Share-based payments are based upon expected volatility and option life estimates. Provisions for decommissioning liabilities are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates. The provision for income taxes is based on judgments 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. Further details regarding judgments are discussed in Note 3.

d) Presentation Currency

The Company's functional and presentation currency is the Canadian dollar.

Monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the reporting date. Non-monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the transaction dates. Exchange gains and losses are recorded as income or expense in the period in which they occur.

e) Recent Pronouncements Issued

As of January 1, 2013, Pine Cliff will be required to adopt amendments to IAS 1 "Presentation of Financial Statements" which will require companies to group together items within other comprehensive income that may be reclassified to the net earnings section of the comprehensive income statement. Pine Cliff does not expect a material impact as a result of the amendment.

Each of the additional new standards listed below is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, except for IFRS 9 "Financial Instruments´' which is effective for annual periods beginning on or after January 1, 2015. The Company has not yet assessed the impact, if any, that the new amended standards will have on its financial statements or whether to early adopt any of the new requirements.

IFRS 9 "Financial Instruments"
The result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

IFRS 10 "Consolidated Financial Statements"
Replaces Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27 "Consolidated and Separate Financial Statements". The new standard replaces the existing risk and rewards based approaches and establish control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements.

IFRS 11 "Joint Arrangements"
Replaces IAS 31 "Interests in Joint Ventures" along with amending IAS 28 "Investment in Associates". The new standard focuses on the rights and obligations of an arrangement, rather than its legal form. The standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted.

IFRS 12 "Disclosure of Interests in Other Entities"
Provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosure requires information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity's interest in subsidiaries and joint arrangements.

IFRS 13 "Fair Value Measurement"
Provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when IFRS requires or permits the item to be measured at fair value, with limited exceptions. This standard does not determine when an item is measured at fair value and as such does not require new fair value measurements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Consolidation

The Company had an incorporated subsidiary company, CanAmericas Energy Ltd. (CanAmericas). CanAmericas was owned 93 percent by the Company and seven percent by a foreign private corporation (Non-Controlling Interest). CanAmericas through its wholly owned subsidiary CanAmericas (Argentina) Energy Ltd. (CanAmericas Argentina) was formed to explore and develop oil and gas properties primarily in South America (South American Operations).

On September 24, 2010 CanAmericas Argentina was sold and the South American Operations are presented as discontinued operations (see Note 4). With the sale of CanAmericas Argentina, the Company acquired the seven percent interest in CanAmericas from the Non-Controlling Interest for $10 on November 23, 2010. On January 1, 2011, CanAmericas was amalgamated with Pine Cliff.

For the 2010 comparative year, these consolidated financial statements include the accounts of the Company and its previously owned subsidiaries CanAmericas and CanAmericas Argentina until its disposition. The financial statements of the subsidiaries were prepared for the same reporting periods as the parent using consistent accounting policies. Inter-company transactions and balances were eliminated upon consolidation.

b) Revenue Recognition

Revenues from the sale of petroleum and natural gas are recorded when the significant risks and rewards of ownership have been transferred to the customer. This generally occurs when product is physically transferred into a third-party pipeline or when the delivery truck arrives at a customer's receiving location. Items such as crown and gross overriding royalties are netted against revenue. These items are netted to reflect the deduction for other parties' proportionate share of the revenue.

c) Foreign Currency Translation

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statement of comprehensive loss.

d) Jointly Controlled Operations and Jointly Controlled Assets

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.

e) Investments

Investments consist of equity securities classified on initial recognition as available-for-sale and are carried at fair value. Fair value is determined by multiplying the period end trading price of the investments by the number of common shares held as at period end. Unrealized holding gains and losses are recognized in other comprehensive income. Net gains and losses arising on disposal are recognized in net earnings.

f) Exploration and Evaluation Assets

General exploration or evaluation (E&E) expenditures incurred prior to acquiring the legal right to explore are charged to expense as incurred.

E&E expenditures represent undeveloped land costs and license and exploration well costs. Undeveloped land costs, licenses and exploration well costs are initially capitalized and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to expense. E&E assets continue to be capitalized as long as sufficient progress is being made to assess the reserves and economic viability of the well and/or related project. Once technical feasibility and commercial viability has been established, E&E assets are transferred to property and equipment (P&E). E&E assets are assessed for impairment either annually, upon transfer to P&E or where indicators arise to ensure they are not carried above their recoverable amounts. The Company currently has no E&E assets.

g) Property and Equipment

P&E assets include transferred-in E&E costs, development drilling and other subsurface expenditures. P&E assets are carried at cost less depletion and depreciation of all development expenditures and include all other expenditures associated with P&E assets.

When commercial production has commenced in an area, P&E properties, excluding surface costs are depleted using the unit-of-production method over their proved developed reserve life. Proved developed reserves are determined annually by qualified independent reserve engineers. Changes in factors, such as estimates of proved developed reserves that affect unit-of-production calculations, are accounted for on a prospective basis. Surface costs such as production facilities and furniture, fixtures and other equipment are depreciated over their estimated useful lives.

Oil and Gas Properties

The initial cost of an asset is comprised of its purchase price or construction cost, including expenditures such as drilling costs, the present value of the initial and changes in the estimate of any decommissioning obligation associated with the asset and finance charges on qualifying assets, that are directly attributable to bringing the asset into operation and to its present location.

Production Facilities

Production facilities are comprised of costs related to petroleum and natural gas production equipment.

Depletion and Depreciation

Depletion and depreciation is recognized in the statement of comprehensive loss. Production facilities, furniture, fixtures and other equipment are depreciated over the individual assets' estimated economic lives. These assets are depreciated on a straight-line method as follows:

Production facilities	10 years
Furniture, fixtures and other equipment	5 to 10 years

h) Impairment of Assets

Impairment of Financial Assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

All impairment losses are recognized in net earnings. An impairment loss is reversed if there is an indicator that the impairment reversal can be related objectively to an event occurring after the impairment loss was recognized. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is reversed through other comprehensive loss instead of net earnings. For financial assets measured at amortized cost, the reversal is recognized in net earnings.

Impairment of Non-financial Assets

The carrying amounts of the Company's non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If such indication exists, then the asset's carrying amounts are assessed for impairment.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets (the cash-generating unit or CGU). The recoverable amount of an asset or a CGU is the greater of its value-in-use (VIU) and its fair value less costs to sell (FVLCS).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss. Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets of the CGU on a pro-rata basis.

An impairment loss in respect of goodwill cannot be reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

i) Decommissioning Liabilities

The fair value of the statutory, contractual, constructive or legal liabilities associated with the retirement and reclamation of oil and gas properties is recorded when incurred, with a corresponding increase to the carrying amount of the related P&E. The amount recognized is the estimated cost of decommissioning, discounted to its present value using the Company's risk free rate. Changes in the estimated timing of decommissioning or decommissioning cost estimates and changes to the risk free rates, are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to property and equipment. The unwinding of the discount on the decommissioning provision is charged to net earnings or loss.

The Company recognizes a decommissioning liability 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 and if there are any, will be applied prospectively. The fair value of the estimated provision 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 proved developed 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. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent of the liability recorded and the remaining balance of the actual costs is recorded in the consolidated statement of comprehensive loss.

j) Income Taxes

Tax expense comprises current and deferred taxes. Tax is recognized in the statement of comprehensive loss or directly in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that are substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized using the liability method, providing for unused tax losses, unused tax credits and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they are unlikely to reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which unused tax losses, unused tax credits and temporary differences can be utilized. Deferred tax assets are reviewed at each balance date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

k) Share-based Payments

The Company accounts for share-based payments using the fair-value method of accounting for stock options granted to Officers, Directors, employees and service providers using the Black-Scholes option pricing model. Share-based payments are recognized through the statement of comprehensive loss over the vesting period with a corresponding amount reflected in contributed surplus in equity. For awards issued in tranches that vest at different times, the fair value of each tranche is recognized over its respective vesting period.

At the grant date and at the end of each reporting period, the Company assesses and re-assesses for subsequent periods its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the statement of comprehensive loss. Upon exercise of share-based options, the proceeds received net of any transaction costs and the fair value of the exercised share-based options is credited to share capital.

l) Financial Instruments

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

Subsequent measurement of financial instruments is based on their initial classification. Fair-value through profit or loss financial instruments is measured at fair value and changes in fair value are recognized in the consolidated statement of comprehensive loss. 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 fair-value through profit or loss. Accounts receivable and note receivables are classified as loans and receivables which are measured at amortized cost. Investments are classified as available-for-sale which is measured at fair value and any gains or losses are recognized in other comprehensive loss in the period they occur. Accounts payable and accrued liabilities are classified as financial liabilities at amortized cost.

m) Net Earnings (Loss) and Comprehensive Income (Loss) Per Share

Per share amounts are calculated by dividing the net earnings (loss) or comprehensive income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period.

Diluted per share amounts are calculated similar to basic per share amounts except that the weighted average common shares outstanding are increased to include additional common shares from the assumed exercise of dilutive share options. The number of additional outstanding common shares is calculated by assuming that the outstanding in-the-money share options were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

4. DISCONTINUED OPERATIONS

On September 24, 2010, Pine Cliff sold its South American subsidiary CanAmericas (Argentina) Energy Ltd. to an unrelated party.

The assets and liabilities of the South American Operations have been presented as discontinued operations in the consolidated statements of financial position since June 1, 2010, the date South American Operations met the criteria for discontinued operations. Operating results related to these assets and liabilities have been included in net earnings (loss) from discontinued operations in the consolidated statements of comprehensive loss.

Statements of Financial Position

As at ($)	**December 31, 2011**	December 31, 2010	January 1, 2010
ASSETS			
Current			
Accounts receivable and other	**-**	-	39,094
Total assets	**-**	-	39,094
Liabilities			
Current			
Accounts payable and accrued liabilities	**-**	-	192,818
Decommissioning liabilities	**-**	-	38,227
Total liabilities	**-**	-	231,045

Statements of Comprehensive Loss

	Year ended	
($)	**December 31, 2011**	December 31, 2010
EXPENSES		
Office and administration	**-**	251,400
Foreign exchange (gain) loss		(4,410)
Unwinding of the fair value of decommissioning liabilities	**-**	1,175
Recovery of impairment on oil and gas assets	**-**	(728,468)
Net earnings from discontinued operations before taxes	**-**	480,303
Taxes	**-**	47,339
Net earnings and comprehensive income from discontinued operations	**-**	432,964

Impairment and Disposal of Oil and Gas Assets

On September 24, 2010, the Company disposed of its South American subsidiary, whose assets and liabilities related primarily to the Canadon Ramirez and Laguna de Piedra Concessions (South American properties). The proceeds of disposition were $450,000 consisting of $1,000 of cash, a note receivable for $449,000 and a contingent receivable not used to calculate the impairment reversal on the disposal of oil and gas assets. In 2010, the Company recorded an impairment provision of $120,773 on the note receivable. During the first quarter of 2011, the purchaser settled the note by issuing shares in the purchaser's publicly traded corporation. As at December 31, 2011, these shares were valued at $172,097 (December 31, 2010 - $328,227 (value of the note receivable)). At the time of disposition, the Company had a carrying value of $22,557 for the South American properties after prior period impairment provisions of $7,746,705. It also had decommissioning liabilities of $38,838 and a working capital deficiency of $342,969 that was transferred to the purchaser related to the South American property resulting in a recovery of impairment on oil and gas assets of $809,250.

For the year ended December 31, 2010, the Company recorded an impairment provision of $34,626 on the exploration costs related to the Canadon Ramirez Concession and an impairment provision of $46,156 on the Laguna de Piedra Concession prior to the disposal of the South American properties.

Contingent Receivable

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

Taxes

The Company accrued a $47,399 current tax expense related to Argentina capital tax for the year ended December 31, 2010. A one percent Argentina capital tax is payable in respect of the exploration costs for the Canadon Ramirez and the Laguna de Piedra Concessions. This liability was transferred to the purchaser on the disposal of its South American subsidiary.

5. PROPERTY AND EQUIPMENT

Cost ($)	Oil and gas properties	Production facilities	Furniture, fixtures and other equipment	Total property and equipment
Balance at January 1, 2010	**2,943,509**	**389,630**	**45,957**	**3,379,096**
Additions	1,020,976	216,176	-	1,237,152
Disposals	-	-	(45,957)	(45,957)
Balance at December 31, 2010	**3,964,485**	**605,806**	**-**	**4,570,291**
Additions	13,731	16,175	2,165	32,071
Balance at December 31, 2011	**3,978,216**	**621,981**	**2,165**	**4,602,362**

Accumulated Depletion and Depreciation ($)	Oil and gas properties	Production facilities	Furniture, fixtures and other equipment	Total property and equipment
Balance at January 1, 2010	**1,229,337**	**160,393**	**33,038**	**1,422,768**
Depletion and depreciation	808,812	60,580	6,462	875,854
Disposals	-	-	(39,500)	(39,500)
Balance at December 31, 2010	**2,038,149**	**220,973**	**-**	**2,259,122**
Depletion and depreciation	474,464	62,197	216	536,877
Balance at December 31, 2011	**2,512,613**	**283,170**	**216**	**2,795,999**

Carrying amounts as at: ($)				
January 1, 2010	1,714,172	229,237	12,919	1,956,328
December 31, 2010	1,926,336	384,833	-	2,311,169
December 31, 2011	**1,465,603**	**338,811**	**1,949**	**1,806,363**

Impairment

Management has determined that Alberta, Canada is the only cash generating unit (CGU) of the Company.

This CGU is the Company's only producing field. As part of its annual impairment analysis, the Company assessed its property and equipment assets of this CGU for possible impairment.

The assessment for impairment has been determined based on the value-in-use (VIU) method. VIU was determined on the basis of the discounted expected future cash flows based on the Company's plans to continue to produce proved plus probable reserves.

At December 31, 2011, a Canadian-based, independent reserves evaluator's report confirmed that the Company does not require a reduction in total proved plus probable reserve estimates. Expected future cash flows from the sale of these volumes are calculated based on the Company's best estimate of future oil and natural gas prices. Prices for oil and natural gas used for future cash flow projections are based on quality and Edmonton PAR for oil and AECO for natural gas forward prices. Management used past experience to estimate the required capital and operating expenditures to extract oil and natural gas and adjusted the costs for inflation at 2.0 percent per annum.

Projected estimates of cash flows from the CGU have been determined based on the economic life of the reserves. For the CGU, the projection is based on the expected life ending December 2031. The impairment testing undertaken concluded that the value in use is greater than the carrying amount of the CGU and no impairment provision has been recorded for the years ended December 31, 2011 and 2010.

In 2010, the Company disposed of its furniture, equipment and other for $nil proceeds. At the time of disposition the assets had a book value of $6,456.

6. DEFERRED TAXES

The Company has not recorded a deferred tax asset related to the benefit of tax pools as it has been determined that at present, it is not probable that they will be recovered.

($)	**December 31, 2011**	December 31, 2010	January 1, 2010
Deferred tax assets (liabilities):			
Note receivable	**-**	15,097	-
Investment	**19,516**	-	-
Property and equipment	**91,160**	108,581	100,531
Decommissioning liabilities	**20,388**	17,781	12,930
Share issue costs	**-**	3,916	8,231
Non-capital loss carry-forward	**870,658**	805,272	734,488
Capital loss carry-forward	**103,627**	75,252	-
Unrecorded benefit of tax pools	**(1,105,349)**	(1,025,899)	(856,180)
	-	-	-

Income tax expense varies from the amount that would be computed by applying Canadian and provincial income tax rates as follows:

	December 31, 2011	December 31, 2010
Loss before income taxes	**(186,587)**	(1,100,180)
Combined federal and provincial income tax rates	**26.5%**	28%
Income tax provision (recovery) calculated using statutory tax rates	**(49,446)**	(308,051)
Increase (decrease) in taxes resulting from:		
Stock-based compensation	**-**	1,382
Loss on acquisition of non-controlling interest	**-**	203,615
Non-taxable portion of losses	**16,002**	16,908
Amounts allocated to discontinued operations	**-**	(117,426)
Unrecorded benefit of tax pools	**79,450**	170,719
Change in tax rates	**(22,251)**	34,247
Other	**(4,239)**	(1,394)
Income tax expense (recovery)	**19,516**	-

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	20-55	256,870
Canadian oil and gas property expenditures	10	430,097
Canadian development expenditures	30	1,091,925
Canadian exploration expenditures	100	392,110
Non-capital loss carryforward (1)	100	3,482,634
Capital loss carryforward	100	829,012
		6,482,648

(1) $700,214 expires 2026, $1,114,518 expires 2027, $675,721 expires 2028, $447,500 expires in 2029, $283,173 expires in 2030 and $261,508 expires in 2031.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Total accounts payable and accrued liabilities comprises the following categories:

($)	December 31, 2011	December 31, 2010	January 1, 2010 (1)
Accounts payable	**12,244**	110,254	882,877
Accrued liabilities	**86,910**	198,554	144,951
	99,154	308,808	1,027,828

(1) As at January 1, 2010, $111,048 of the accounts payable and $81,770 of the accrued liabilities relates to discontinued operations.

8. DECOMMISSIONING LIABILITIES

At December 31, 2011, the estimated total undiscounted amount required to settle the decommissioning liabilities was $103,465 (December 31, 2010 - $95,032, January 1, 2010 – $98,932). The provision has been calculated assuming a 2.0 percent inflation rate (December 31, 2010 – 1.5 percent inflation rate, January 1, 2010 – 2.0 percent inflation rate). These obligations will be settled based on the useful lives of the underlying assets which extend up to 19 years into the future. This amount has been discounted using a risk-free interest rate of 2.5 percent (December 31, 2010 and January 1, 2010 – 4.1 percent).

Changes to decommissioning liabilities were as follows:

($)	December 31, 2011	December 31, 2010
Decommissioning liabilities, January 1	**71,124**	89,947
Opening amount relating to discontinued operations	**-**	(38,227)
Adjustment to decommissioning liabilities	**7,938**	16,851
Unwinding of the fair value of decommissioning liabilities	**2,489**	2,553
Decommissioning liabilities, end of year	**81,551**	71,124

9. NON-CONTROLLING INTEREST (NCI)

The Company incorporated a subsidiary company CanAmericas to explore and develop oil and gas properties primarily in South America. CanAmericas was owned 93 percent by the Company and seven percent by a foreign private corporation (NCI). CanAmericas was initially financed by investments of U.S. $1,400,000 for 5,600,000 common shares from the Company and U.S. $100,000 for 400,000 common shares from NCI.

On November 23, 2010, NCI sold its interest in CanAmericas to Pine Cliff for $10. NCI at the acquisition date had a deficit balance of $727,185, which resulted on a loss on acquisition of the non-controlling interest of $727,195.

10. SHARE CAPITAL

Authorized

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

	December 31, 2011		December 31, 2010	
Issued – Common shares	**Number**	**Amount ($)**	Number	Amount ($)
Balance, January 1	**46,145,695**	**14,819,372**	45,295,695	14,593,560
Options exercised	**-**	**-**	850,000	127,500
Transfer of contributed surplus to share capital		**-**		98,312
Balance, end of year	**46,145,695**	**14,819,372**	46,145,695	14,819,372

The weighted average common shares used to calculate basic and diluted net loss per share for the years ended December 31 are as follows:

	2011	2010
Basic shares outstanding	46,145,695	46,095,805
Dilutive effect of share options	-	-
Diluted shares outstanding	46,145,695	46,095,805

The Company provides an equity settled stock option plan for certain of its officers, directors, employees and service providers. Under the plan, the Company may grant options for up to 4,527,569 (December 31, 2010 – 4,527,569) common shares. The exercise price of each option granted cannot be lower than the market price of the Company's stock on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as of December 31, 2011 and December 31, 2010 is as follows:

	December 31, 2011		December 31, 2010	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance, January 1	40,000	0.15	3,126,000	0.63
Options exercised	-	-	(850,000)	0.15
Options cancelled or expired	(40,000)	0.15	(2,236,000)	0.79
Balance, end of year	-	-	40,000	0.15

The Company did not issue any stock options in 2011 or 2010.

11. OIL AND GAS SALES, NET OF ROYALTIES

($)	December 31, 2011	December 31, 2010
Oil and gas sales	866,124	1,362,570
Less:		
Crown royalties	21,083	62,437
Gross overriding royalties	14,979	29,339
Oil and gas sales, net of royalties	830,062	1,270,794

12. TRANSACTIONS WITH RELATED PARTIES

Pine Cliff has a management agreement with Bonterra Energy Corp. (Bonterra), an oil and gas corporation that is publicly traded on the Toronto Stock Exchange with common directors at year end and some common management, to provide executive services, technical services, accounting services, oil and gas administration and office administration for Pine Cliff. Total fees for the year were $60,000 (2010 - $90,000) plus minimal administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As of December 31, 2011, Pine Cliff owed Bonterra $3,837 (December 31, 2010 – $464, January 1, 2010 – $448).

Geomark Exploration Ltd. (Geomark) is a publicly traded company listed on the TSX-Venture with some common directors at year end and some common management with Pine Cliff. As of December 31, 2011, Geomark owns 346,250 common shares of Pine Cliff (December 31, 2010 and January 1, 2011 – 346,250) which represents less than one percent of the total issued and outstanding common shares of Pine Cliff. Subsequent to December 31, 2011, Geomark participated in Pine Cliff's rights offering and acquired an additional 86,562 common shares (see Note 14). There were no other transactions between Pine Cliff and Geomark for the years ended December 31, 2011 and 2010.

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

Compensation of Key Management Personnel

($)	December 31, 2011	December 31, 2010
Director fees	31,400	27,400

Key management personnel are those persons, including all directors, having authority and responsibility for planning, directing and controlling the activities of the Company. Compensation represents director fees paid through Pine Cliff. Other key management personnel are not paid through Pine Cliff as their services are included in the management fee charged by Bonterra.

13. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial Risk Factors

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

- Cash
- Accounts receivable
- Investment
- Accounts payable and accrued liabilities

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, liquidity risk and equity risk. Financial risk management is carried out by senior management under the direction of the Board of Directors.

Currently the Company does not enter into risk management contracts to sell its oil and gas commodities. Commodities are sold at market prices at the date of sale.

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, new shares or a combination thereof.

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 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 below:

	As at December 31, 2011			As at December 31, 2010			As at January 1, 2010		
($ 000s)	Carrying value	Fair value	Face value	Carrying value	Fair value	Face value	Carrying value	Fair value	Face value
Financial assets									
Cash	277	277	277	108	108	108	1,334	1,334	1,334
Accounts receivable	109	109	109	156	156	156	169	169	169
Investment	172	172	N/A	-	-	-	-	-	-
Note receivable	-	-	-	328	328	449	-	-	-
Financial liabilities									
Accounts payable and accrued liabilities	99	99	99	309	309	309	1,028	1,028	1,028

Financial instruments, consisting of accounts receivable and accounts payable and accrued liabilities included in the statement of financial position, are carried at amortized cost. Cash and investment are 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 and investment have been assessed on the fair value hierarchy described above and are considered Level 1.

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 western Canada. 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 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.

Equity Price Risk
Equity price risk refers to the risk that the fair value of the investment will fluctuate due to changes in equity markets. Equity price risk arises from the realizable value of investments the company holds which are subject to variable equity prices which on disposition gives rise to a cash flow equity price risk. The Company will assume full risk in respect of equity price fluctuations.

Foreign Exchange Risk
The Company has disposed of its foreign operations. The Company's domestic or continuing operations currently sells all of its Canadian production in Canadian currency. The Company has a Canadian dollar denominated cash balance and as such, Pine Cliff does not have exchange rate risk.

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, 2011 ($109,547), December 31, 2010 ($155,945) and January 1, 2010 ($168,994) relates to product sales with Canadian oil and gas companies and crown royalty credits with the province of Alberta, all of which have generally been received within 30 to 60 days.

Pine Cliff assesses its financial assets quarterly to determine if there has been any impairment. No impairment provision was required on the Company's financial assets. Pine Cliff does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The maximum exposure to credit risk is represented by the carrying amount of cash and accounts receivable on the statement of financial position. There are no material financial assets that Pine Cliff 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;
- will not have sufficient funds to continue with its financing of its major exploration projects;
- will be forced to sell assets at a value which is less than what they are worth, or
- may be unable to settle or recover financial assets.

To help reduce these liquidity risks, the Company:

- may arrange short-term financing at a reasonable interest rate with its CEO and directors;
- may negotiate a bank loan, or
- may do an equity issue.

14. SUBSEQUENT EVENTS

Change in Management

On January 2, 2012, Philip Hodge was appointed President and Chief Executive officer of Pine Cliff. Mr. Hodge assumed the Chief Executive Officer duties from George Fink who was appointed Executive Chairman of the Board of Directors effective January 2, 2012 and will remain as a Director of Pine Cliff and an active advisor to the incoming management team. Randy Jarock will become a member of the Board of Directors at the 2012 Annual General Meeting and will be retiring as Chief Operating Officer effective June 30, 2012. Robb Thompson will continue as Pine Cliff's Chief Financial Officer.

Rights Offering

Pine Cliff completed a four for one Rights Offering for all shareholders of record at the close of business on January 11, 2011. Each shareholder received one right for each common share held. For every four rights, a shareholder was entitled to purchase one Pine Cliff common share at a subscription price of $0.17. A total of 11,536,423 common shares were issued as part of the Offering for gross proceeds of $1,961,192.

Private Placement

On February 4, 2012, Pine Cliff completed a non-brokered private placement and issued 5,882,000 common shares for a price per common share of $0.17 for gross proceeds of $999,940. The proceeds of the private placement will be used for Pine Cliff's 2012 capital expenditures and for general corporate purposes. All of the common shares issued under the placement are subject to a four month holding period from the date of close.

Purchase of Carrot Creek Oil and Gas Assets (Carrot Creek Assets)

On March 1, 2012, Pine Cliff acquired certain oil and natural gas assets in the Carrot Creek area in the Province of Alberta for cash considerations of $23.5 million. The Acquisition was financed by: (i) a $15 million revolving demand credit facility with Alberta Treasury Branches (Credit Facility); (ii) a $7 million short-term secured loan from the Executive Chairman of the board of directors and shareholder of Pine Cliff (Related Party Loan); and (iii) Pine Cliff's working capital. The Credit Facility is secured against all of the assets of Pine Cliff and is subject to review on an annual basis. The Related Party Loan has a term of six months, is subordinated to the Credit Facility and bears interest at a rate of five percent per annum and with interest payable monthly in arrears. The Carrot Creek Assets have current estimated production of 950 barrels of oil equivalent (BOE) per day, of which approximately 23 percent consists of oil and natural gas liquids and 77 percent consists of natural gas. In addition to the producing assets, Pine Cliff also acquired 15.3 net sections of prospective land, some of which has current vertical production.

Granting of Stock Options

Subsequent to year end, Pine Cliff granted stock options to purchase 3,230,000 common shares of Pine Cliff at a weighted average exercise price of $0.40 per share to certain of its officers, directors, employees and service providers. The stock options will expire between one to five years from the date of grant. The stock options will have minimum vesting periods ranging from one to three years.

15. EXPLANATION OF TRANSITION TO IFRS

As stated in Note 2, these financial statements are prepared in accordance with IFRS. For all accounting periods prior to January 1, 2011, the Company prepared its financial statements under Canadian GAAP. An explanation of how the transition from previous GAAP to IFRS has affected the Company's consolidated statements of financial position and consolidated statements of comprehensive income is set out in this note.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

IFRS 1 "First-time Adoption of International Financial Reporting Standards" (IFRS 1)
IFRS 1 generally requires that first-time adopters retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions to this general principle.

Initial Elections Upon Adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

- Business combinations (IFRS 3) – provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date or an earlier date chosen by management. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.
- Share-based payments (IFRS 2) – encourages the application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date. Further, the Company applied IFRS 2 for all liabilities arising from share-based payment transactions that existed at its Transition Date. This election has no material effect on the Company.
- Borrowing Costs (IAS 23) – requires an entity to capitalize the borrowing costs related to all qualifying assets for which the commencement date for capitalization is on or after January 1, 2010 or earlier if elected by management. Due to the Company having no debt, this election has no effect on the Company.
- Leases (IAS 17) – requires an entity to assess arrangements outstanding at the Transition Date. It also requires a determination of the appropriate lease classification in accordance with IAS 17, should an arrangement containing a lease be identified as part of the application of International Financial Reporting Interpretations Committee (IFRIC) 4, "Determining Whether an Arrangement Contains a Lease". This election has no effect on the Company.

15.1 Reconciliation of the Consolidated Statements of Financial Position

	Notes	As at January 1, 2010 Canadian GAAP	IFRS adjustments	IFRS	As at December 31, 2010 Canadian GAAP	IFRS adjustments	IFRS
ASSETS							
Current							
Cash		1,333,553	-	**1,333,553**	108,039	-	**108,039**
Account receivable	(a)	129,900	39,094	**168,994**	155,945	-	**155,945**
Prepaid expenses		16,345	-	**16,345**	26,402	-	**26,402**
Note receivable		-	-	**-**	328,227	-	**328,227**
Discontinued operations	(a)	39,094	(39,094)	**-**	-	-	**-**
		1,518,892	-	**1,518,892**	618,613	-	**618,613**
Property and equipment	(b)	1,956,985	(657)	**1,956,328**	2,307,900	3,269	**2,311,169**
		3,475,877	(657)	**3,475,220**	2,926,513	3,269	**2,929,782**
LIABILITIES							
Current							
Accounts payable and accrued liabilities	(a)	835,010	192,818	**1,027,828**	308,808	-	**308,808**
Discontinued operations	(a)	192,818	(192,818)	**-**	-	-	**-**
		1,027,828	-	**1,027,828**	308,808	-	**308,808**
Decommissioning liabilities	(a),(b)	48,298	41,649	**89,947**	63,557	7,567	**71,124**
Discontinued operations	(a),(b)	35,836	(35,836)	**-**	-	-	**-**
		1,111,962	5,813	**1,117,775**	372,365	7,567	**379,932**
Shareholders' equity							
Share capital		14,593,560	-	**14,593,560**	14,819,372	-	**14,819,372**
Contributed surplus		859,620	-	**859,620**	766,244	-	**766,244**
Accumulated other comprehensive income		-	-	**-**	-	-	**-**
Deficit	(d)	(13,089,265)	642,113	**(12,447,152)**	(13,031,468)	(4,298)	**(13,035,766)**
Total shareholder's equity		2,363,915	642,113	**3,006,028**	2,554,148	(4,298)	**2,549,850**
Non-controlling interest (deficit)	(c)	-	(648,583)	**(648,583)**	-	-	**-**
Total equity		2,363,915	(6,470)	**2,357,445**	2,554,148	(4,298)	**2,549,850**
		3,475,877	(657)	**3,475,220**	2,926,513	3,269	**2,929,782**

IFRS has many similarities with Canadian GAAP as it is based on a similar conceptual framework. However, there are important differences with regard to recognition, measurement and disclosure. Adoption of IFRS resulted in changes to Pine Cliff's consolidated statements of financial position and consolidated statements of comprehensive loss as set out below:

a) Discontinued Operations

As at June 1, 2010, the South American Operations met the criteria for reporting as discontinued operations. Under Canadian GAAP, for the comparative periods, the statement of financial position, the statement of comprehensive income and the statement of cash flow are restated to conform to the current period presentation. Under IFRS, only the statements of comprehensive income and cash flow are retroactively restated to conform to the current presentation. The changes for the consolidated statements of financial position are as follows:

($)	January 1, 2010	December 31, 2010
Increase in accounts receivable	39,094	-
Decrease in discontinued operations' current assets	(39,094)	-
Increase in accounts payable and accrued liabilities	192,818	-
Decrease in discontinued operations' current liabilities	(192,818)	-
Increase in decommissioning liabilities	35,836	-
Decrease in discontinued operations' long-term liabilities	(35,836)	-

b) Decommissioning Liabilities

The discounted value of the decommissioning liabilities has increased due to a change in the discount rate used to calculate the present value of future oil and gas well reclamation and abandonments. Under Canadian GAAP, a credit risk adjusted discount rate was used. Under IFRS, a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation has been used. In accordance with IFRS 1, the Company has elected to recognize the $3,422 increase in the decommissioning obligation from continuing operations and $2,391 from discontinued operations along with an increase to related property and equipment assets and an increase in deficit (see 15.1 (d)) at the transition date.

Decommissioning liabilities for continuing operations increased for the year ended December 31, 2010 by $7,567 and $nil for discontinued operations.

c) Non-Controlling Interest (NCI)

Under Canadian GAAP, when the non-controlling interest is not obligated to fund its share of losses, the Company does not attribute losses to the non-controlling interest once the interest has been reduced to nil. Under IFRS, the Company is required to allocate comprehensive losses to the non-controlling interest based on their effective interest, even if this results in a non-controlling deficit balance. The impact of the change was to decrease deficit and increase non-controlling deficit by $648,583 at January 1, 2010. The NCI had a deficit balance under IFRS of $727,185 on November 23, 2010 (acquisition date of the NCI) resulting in a $nil balance for December 31, 2010.

Under IFRS, the Company includes the NCI as a component of equity on the face of the statement of financial position. Under Canadian GAAP, the NCI would be presented on the face of the statement of financial position as neither a liability nor an equity component.

d) Retained Earnings

The following tables represent the cumulative effect on the above transitional adjustments on retained earnings for the respective periods covered under this reconciliation:

($)	January 1, 2010
Property and equipment (see 15.1 (b))	(657)
Decommissioning liabilities (see 15.1 (b))	(3,422)
Discontinued operations (see 15.1 (b))	(2,391)
Non-controlling interests (NCI) (see 15.1 (c))	648,583
Net effect – increase in retained earnings	642,113

($)	December 31, 2010
Property and equipment (see 15.1 (b))	3,269
Decommissioning liabilities (see 15.1 (b))	(7,567)
Discontinued operations (see 15.1 (b))	-
NCI (see 15.1 (c))	-
Net effect – decrease in retained earnings	(4,298)

15.2 Reconciliation of the Consolidated Statement of Comprehensive Income (Loss)

		Year ended December 31, 2010		
($)	Notes	Canadian GAAP	IFRS adjustments	IFRS
Revenues				
Oil and gas sales, net of royalties		1,270,794	-	**1,270,794**
Expenses				
Production costs		355,140	-	**355,140**
Office and administration	(a)	278,077	(10)	**278,067**
Depletion and depreciation	(b)	878,188	(2,334)	**875,854**
Unwinding of the fair value of decommissioning liabilities	(c)	-	2,553	**2,553**
Share-based payments		4,936	-	**4,936**
Impairment of note receivable		120,773	-	**120,773**
Loss on acquisition of non-controlling interest	(a)	-	727,195	**727,195**
Loss on disposal of property and equipment		6,456	-	**6,456**
		1,643,570	727,404	**2,370,974**
Net loss from continuing operations		(372,776)	(727,404)	**(1,100,180)**
Net earnings from discontinued operations, net of tax	(d)	430,573	2,391	**432,964**
Net earnings (loss) and comprehensive income (loss)		57,797	(725,013)	**(667,216)**
Net earnings (loss) and comprehensive income (loss) attributable to:				
Common shareholders of the Company		57,797	(646,411)	**(588,614)**
Non-controlling interest	(a)	-	(78,602)	**(78,602)**
Net loss and comprehensive loss per share from continuing operations				
Basic and diluted		(0.01)	(0.01)	**(0.02)**
Net earnings (loss) and comprehensive income (loss) per share				
Basic and diluted		0.00	(0.01)	**(0.01)**

The nature of the adjustments is explained as follows:

a) Loss on Acquisition of Non-Controlling Interest (NCI)

Under Canadian GAAP, no losses would be attributed to the NCI once the NCI was reduced to nil. When the Company purchased the non-controlling interest for $10 this amount was recorded to office and administration. Under IFRS, the Company retroactively recorded the NCI's share of losses from inception for the year ended December 31, 2010 of $78,602. When the Company purchased the NCI it recorded a loss on acquisition of $727,195, which consisted of the NCI's accumulated losses plus the purchase price.

b) Depletion and Depreciation

($)	Year ended December 31, 2010
Reclassification of the unwinding of the fair value of decommissioning liabilities previously grouped with depletion and depreciation under Canadian GAAP	(2,882)
Increase (decrease) in depletion and depreciation due to the decommissioning liabilities transition adjustment (see 15.1 (b))	548
	(2,334)

c) Unwinding of the Fair Value of Decommissioning Liabilities

($)	Year ended December 31, 2010
Reclassification of the unwinding of the fair value of decommissioning liabilities previously grouped with depletion and depreciation under Canadian GAAP	2,882
Decrease in the unwinding of the fair value of decommissioning liabilities due to the transition adjustment (see 15.1 (b))	(329)
	2,553

d) Net Earnings (Loss) from Discontinued Operations, Net of Tax

($)	Year ended December 31, 2010
Decrease in the unwinding of the fair value of decommissioning liabilities due to the transition adjustment (see 15.1 (b))	169
Increase in net earnings on the disposal of discontinued operations due to the increase of decommissioning liabilities (see 15.1 (b))	2,222
	2,391

CORPORATE INFORMATION

BOARD OF DIRECTORS

G. J. Drummond, Nassau, Bahamas

G. F. Fink, Calgary, Alberta

P. B. Hodge, Calgary, Alberta

C. R. Jonsson, Vancouver, British Columbia

F. W. Woodward, Calgary, Alberta

OFFICERS

G. F. Fink – Executive Chairman of the Board

P. B. Hodge – President and Chief Executive Officer

R. M. Jarock – Chief Operating Officer

R. D. Thompson – Chief Financial Officer and Secretary

REGISTRAR AND TRANSFER AGENT

Olympia Trust Company, Calgary, Alberta

AUDITORS

Deloitte and Touche LLP, Calgary, Alberta

SOLICITORS

Borden Ladner Gervais LLP, Calgary, Alberta

BANKERS

Alberta Treasury Branch, Calgary, Alberta

STOCK LISTING

TSX Venture Exchange, Toronto, Ontario
Trading Symbol: **PNE**

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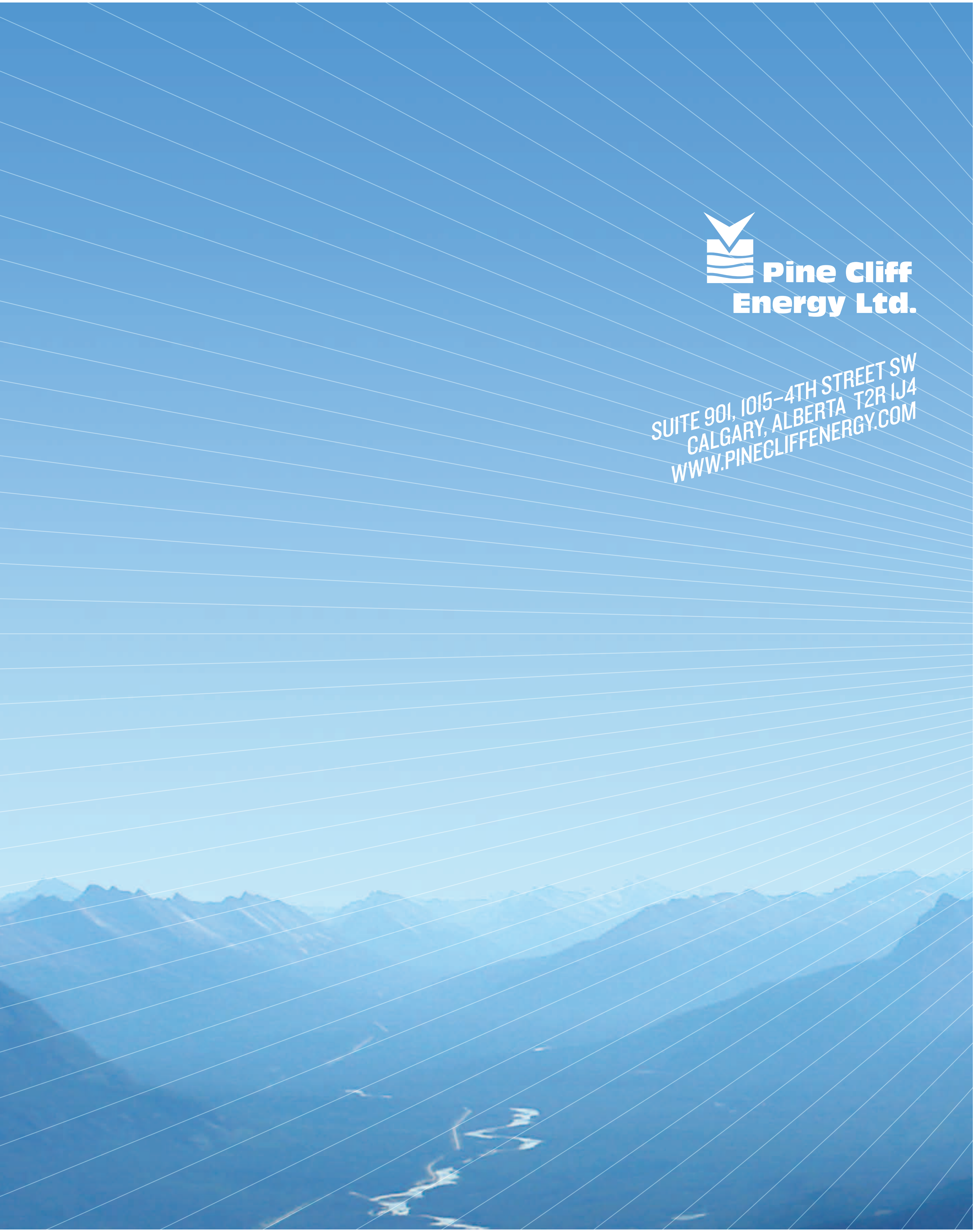
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